

DAILY JOURNAL CORP
Form 10-K
December 14, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended September 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

Commission File No. 0-14665
DAILY JOURNAL CORPORATION
(Exact name of registrant as specified in its charter)

South Carolina
(State or other jurisdiction of
incorporation or organization)

95-4133299
(IRS Employer
Identification No.)

915 East First Street
Los Angeles, California
(Address of principal executive offices)

90012
(Zip Code)

Registrant's telephone number, including area code: (213) 229-5300

Securities registered pursuant to Section 12(b) of the Act: Common Stock, The NASDAQ Stock Market.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

Edgar Filing: DAILY JOURNAL CORP - Form 10-K

the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

As of the last business day of Daily Journal Corporation's most recently completed second fiscal quarter, the aggregate market value of Daily Journal Corporation's voting stock held by non-affiliates was approximately \$65,573,000.

As of December 14, 2012 there were outstanding 1,380,746 shares of Common Stock of Daily Journal Corporation.

Documents incorporated by reference: Portions of the Proxy Statement for the Annual Meeting of shareholders to be held during February 2013 are incorporated by reference into Part III.

Disclosure Regarding Forward-Looking Statements

This Form 10-K includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Certain statements contained in this document, including but not limited to those in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, are “forward-looking” statements that involve risks and uncertainties that may cause actual future events or results to differ materially from those described in the forward-looking statements. Words such as “expects,” “intends,” “anticipates,” “should,” “believes,” “will,” “plans,” “estimates,” “may,” variations of such words expressions are intended to identify such forward-looking statements. We disclaim any intention or obligation to revise any forward-looking statements whether as a result of new information, future developments, or otherwise. There are many factors that could cause actual results to differ materially from those contained in the forward-looking statements. These factors include, among others: risks associated with Sustain’s internal software development sales efforts; Sustain’s and New Dawn’s reliance on professional services engagements with justice agencies, including California courts, for a substantial portion of their revenues; material changes in the costs of postage and paper; possible changes in the law, particularly changes limiting or eliminating the requirements for public notice advertising; possible loss of the adjudicated status of the Company’s newspapers and their legal authority to publish public notice advertising; a decline in public notice advertising revenues because of fewer foreclosures; a further decline in subscriber and commercial advertising revenues; collectibility of accounts receivable; the Company’s reliance on its president and chief executive officer; changes in accounting guidance; and declines in the market prices of the Company’s investments. In addition, such statements could be affected by general industry and market conditions, general economic conditions (particularly in California) and other factors. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in this Form 10-K, including in conjunction with the forward-looking statements themselves, and in other documents filed by the Company with the Securities and Exchange Commission.

PART I

Item 1. Business

The Company publishes newspapers and web sites covering California and Arizona, as well as the California Lawyer magazine, and produces several specialized information services. It also serves as a newspaper representative specializing in public notice advertising. Sustain Technologies, Inc. ("Sustain"), a wholly-owned subsidiary, supplies case management software systems and related products to courts and other justice agencies, including administrative law organizations. These courts and agencies use the Sustain family of products to help manage cases and information electronically and to interface with other critical justice partners. Sustain's products are designed to help users manage electronic case files from inception to disposition, including calendaring and accounting, report and notice generation, the implementation of time standards and business rules and other corollary functions, and to enable justice agencies to extend electronic services to the public and bar members. In December 2012, the Company purchased all of the outstanding stock of New Dawn Technologies, Inc. ("New Dawn") based in Logan, Utah, which provides products and services similar to those of Sustain to more than 350 justice agencies in 39 states, three U.S. territories and two countries. Essentially all of the Company's operations are based in California, Arizona, Utah and Colorado. Financial information of the Company and Sustain is set forth in Item 8 ("Financial Statements and Supplementary Data").

Products

Newspapers and related online publications. The Company publishes 10 newspapers of general circulation. Each newspaper, in addition to news of interest to the general public, has a particular area of in-depth focus with regard to its news coverage, thereby attracting readers interested in obtaining information about that area through a newspaper format. During October 2012, the Company discontinued publishing its smallest newspaper -- Sonoma County Herald Recorder. The publications are based in the following cities:

Newspaper publications	Base of publication
Los Angeles Daily Journal	Los Angeles, California
Daily Commerce	Los Angeles, California
San Francisco Daily Journal	San Francisco, California
The Daily Recorder	Sacramento, California
The Inter-City Express	Oakland, California
San Jose Post-Record	San Jose, California
Orange County Reporter	Santa Ana, California
San Diego Commerce	San Diego, California
Business Journal	Riverside, California
The Record Reporter	Phoenix, Arizona

The Daily Journals. The Los Angeles Daily Journal and the San Francisco Daily Journal are each published every weekday except certain holidays and were established in 1888 and 1893, respectively. In addition to covering state and local news of general interest, these newspapers focus particular coverage on law and its impact on society. (The Los Angeles Daily Journal and the San Francisco Daily Journal are referred to collectively herein as "The Daily Journals".) Generally The Daily Journals seek to be of special utility to lawyers and judges and to gain wide multiple readership of newspapers sent to law firm subscribers.

The Daily Journals contain much material and render many services in a common endeavor. The Los Angeles Daily Journal is the largest newspaper published by the Company, both in terms of revenues and circulation. At September 30, 2012, the Los Angeles Daily Journal had approximately 6,000 paid subscribers and the San Francisco Daily Journal had approximately 2,900 paid subscribers as compared with total paid subscriptions for both of The Daily Journals of 9,200 at September 30, 2011. The Daily Journals carry commercial advertising (display and classified) and public notice advertising required or permitted by law to be published in a newspaper of general circulation. The main source of commercial advertising revenue has been local advertisers, law firms and businesses in or wishing to reach the legal professional community. The gross revenues generated directly by The Daily Journals are attributable approximately 60% to subscriptions and 40% to the sale of advertising and other revenues. Revenues from The Daily Journals constituted approximately 28% of the Company's total revenues during fiscal 2012 and 27% during fiscal 2011.

It is the policy of The Daily Journals (1) to take no editorial position on the legal and political controversies of the day but instead to publish well-written editorial views of others on many sides of a controversy and (2) to try to report on factual events with technical competence and with objectivity and accuracy. It is believed that this policy suits a professional readership of exceptional intelligence and education, which is the target readership for the newspapers. Moreover, The Daily Journals believe that they bear a duty to their readership, particularly judges and justices, as a self-imposed public trust, regardless, within reason, of short-term income penalties. The Company believes that this policy of The Daily Journals is in the long-term interest of the Company's shareholders.

The Daily Journals contain the Daily Appellate Report which provides the full text and case summaries of all opinions certified for publication by the California Supreme Court, the California Courts of Appeal, the U.S. Supreme Court, the U.S. Court of Appeals for the Ninth Circuit, the U.S. Bankruptcy Appellate Panel for the Ninth Circuit, the State Bar Court and selected opinions of the U.S. District Courts in California and the Federal Circuit Court of Appeals. The Daily Journals also include a monthly court directory in booklet form. This directory includes a comprehensive list of sitting judges in all California courts as well as courtroom assignments, phone numbers and courthouse addresses, plus "Judicial Transitions" which lists judicial appointments, elevations, confirmations, resignations, retirements and deaths.

The Company publishes the California Directory of Attorneys (the "Directory"), which is updated and published semi-annually, in January and July. The Directory includes in a single volume names, addresses, fax and telephone numbers of California lawyers and many informational sections including listings of corporate counsel, private judges, arbitrators and mediators, and federal and state courts and governmental offices. In addition, the Directory includes commercial advertising and specialty listings. The Directory is provided as part of normal newspaper service to subscribers of The Daily Journals, and some are sold primarily to law firms.

The Daily Journals are distributed by mail and hand delivery, with subscribers in the Los Angeles and San Francisco areas usually receiving copies the same day. Certain subscribers in Los Angeles, San Francisco, Santa Clara, Alameda, Orange, San Diego, Riverside and San Bernardino counties receive copies by hand delivery, and additional copies are distributed for microfilm subscriptions. The regular yearly subscription rate for each of The Daily Journals is \$735.

Much of the information contained in The Daily Journals is available to subscribers online at www.dailyjournal.com.

Daily Commerce. Published since 1917, the Daily Commerce, based in Los Angeles, in addition to covering news of general interest, devotes substantial coverage to items designed to serve real estate investors and brokers, particularly those interested in Southern California distressed properties. The nature of the news coverage enhances the effectiveness of public notice advertising in distributing information about foreclosures to potential buyers at foreclosures. The features of the paper include default listings and probate estate sales. The Daily Commerce carries both public notice and commercial advertising and is published in the afternoon each business day.

The Daily Recorder. The Daily Recorder, based in Sacramento, began operations in 1911. It is published each business day. In addition to general news items, it focuses on the Sacramento legal and real estate communities and on California state government and activities ancillary to it. Among the regular features of The Daily Recorder are news about government leaders and lobbyists, as well as the Daily Appellate Report for those who request it. Advertising in The Daily Recorder consists of both commercial and public notice advertising.

The Inter-City Express. The Inter-City Express (the "Express") has been published since 1909. It covers general news of local interest and focuses its coverage on news about the real estate and legal communities in the Oakland/San Francisco area. The Express carries both commercial and public notice advertising. It is published each business day.

San Jose Post-Record. The San Jose Post-Record (the "Post-Record") has been published since 1910. In addition to general news of local interest, the Post-Record, which is published each business day, focuses on legal and real estate news and carries commercial and public notice advertising.

Orange County Reporter. The Orange County Reporter ("Orange Reporter") has been an adjudicated newspaper of general circulation since 1922. In addition to general news of local interest, the Orange Reporter reports local and state legal, business and real estate news, and carries primarily public notice advertising. The Orange Reporter is published three days a week.

San Diego Commerce. The San Diego Commerce is a thrice-weekly newspaper which carries general news of local interest and public notice advertising and has been an adjudicated newspaper of general circulation since 1970. The San Diego Commerce also serves legal and real estate professionals in San Diego County.

Business Journal. The Business Journal, established in 1991, publishes news of general interest and provides coverage of the business and professional communities in Riverside County. It also carries public notice advertising and is published each business day.

The Record Reporter (Arizona). The Record Reporter has been in existence since 1914. In addition to general news of local interest, The Record Reporter, which is published three days a week, focuses on real estate news and public record information and carries primarily public notice advertising.

California Lawyer Magazine. Since 1988, the Company has published the California Lawyer, a legal affairs magazine formerly produced by the State Bar of California (the "State Bar"). The magazine was published by the Company in cooperation with the State Bar until 1993 when the agreement was terminated and the State Bar commenced publishing its own monthly newspaper. The magazine is either mailed or provided in a digital version free to active members of the State Bar and other paid subscribers.

Information Services. The specialized information services offered by the Company have grown out of its newspaper operations or have evolved in response to a desire for such services primarily from its newspaper subscribers.

The Company has several court rules services. One is Court Rules, a multi-volume, loose-leaf set. Court Rules reproduces court rules for certain state and federal courts in California. The Court Rules appear in two versions, one of which covers Northern California courts (nine volumes) and one of which covers Southern California courts (eight volumes). The Company updates Court Rules on a monthly basis. In addition, the Company publishes a single volume of rules known as Local Rules for major counties of California. Six versions are published for Southern California, each a single bound volume for the rules of: (1) Los Angeles County; (2) Orange County; (3) San Diego County; (4) San Bernardino County; (5) Riverside County; and (6) Ventura, Santa Barbara and San Luis Obispo counties. Also, the Company publishes single-volume rules for the Federal District Court in the Central District of California and California Probate Rules. In Northern California, three versions of the Local Rules appear in loose-leaf books for Santa Clara/San Mateo, Alameda/Contra Costa and San Francisco counties. The single volumes are normally updated or replaced whenever there are substantial rule changes.

The Judicial Profiles services contain information concerning nearly all active and retired judges in California. Many retired judges are available for private judging. Most of the profiles have previously appeared in The Daily Journals as part of a regular feature. The Judicial Profiles include biographical data and financial disclosure statements on judges and information supplied by each judge regarding the judge's policies and views on various trial and appellate procedures and the manner in which appearances are conducted in his or her courtroom. Subscribers may purchase either the ten-volume set for Southern California or the eight-volume set for Northern California.

The Company also provides online foreclosure information to about 60 customers. This service primarily provides distressed property information, some of which also appears in some of the Company's newspapers, as well as expanded features. Consolidation of both newspapers and online products more effectively utilizes the costs of gathering such information.

Advertising and Newspaper Representative. The Company's publications carry commercial advertising, and most also contain public notice advertising. Commercial advertising consists of display and classified advertising and constituted about 15% of the Company's total revenues in fiscal 2012 and 14% in fiscal 2011. Classified advertising declined in fiscal 2012 primarily due to the continued downturn in the employment advertising marketplace and competition from online employment web sites.

Public notice advertising consists of many different types of legal notices required by law to be published in an adjudicated newspaper of general circulation, including notices of death, fictitious business names, trustee sale notices and notices of governmental hearings. The major types of public notice advertisers are real estate-related businesses and trustees, governmental agencies, attorneys and businesses or individuals filing fictitious business name statements. Many government agencies use the Company's Internet-based advertising system to produce and send their notices to the Company. A fictitious business name web site enables individuals to send their statements to the Company for filing and publication. Additionally, a new web site was launched this year for attorneys and individuals to send probate, civil, corporate, public sale and other types of public notices. California Newspaper Service Bureau ("CNSB"), a division of the Company, is a statewide newspaper representative (commission-earning selling agent) specializing since 1934 in public notice advertising. CNSB places notices and other forms of advertising with adjudicated newspapers of general circulation, most of which are not owned by the Company.

Public notice advertising revenues and related advertising and other service fees, including trustee sales legal advertising revenues, constituted about 56% of the Company's total revenues in fiscal 2012 and 58% in fiscal 2011. Most of these revenues were generated by (i) notices published in the Company's newspapers, (ii) commissions and similar fees received from other publications in which the advertising was placed and (iii) service fees generated when filing notices with government agencies.

Trustee sales legal advertising revenues alone represented about 34% of the Company's total revenues in fiscal 2012 and 37% in fiscal 2011. These revenues were driven by the large number of foreclosures in California and Arizona, for which public notice advertising is required by law. Recent fiscal years have been exceptional, and the Company does not expect public notice advertising revenues to continue at the same pace over the long term. In addition, in many states, including California and Arizona, legislatures have considered various proposals which would result in the elimination or reduction of the amount of public notice advertising required by statute. There is a risk that such laws could change in a manner that would have a significant adverse impact on the Company's public notice advertising revenues.

Other revenues are attributable to service fees from users of an online foreclosure/fictitious business name database, service fees for public record searches, fees from attorneys taking continuing legal education "courses" published in the Company's publications and other miscellaneous fees.

Information Systems and Services. In 1999, the Company purchased 80% of the capital stock of Sustain from Sustain and certain of its shareholders, and in 2008 Sustain became a wholly-owned subsidiary after additional purchases from certain of its shareholders. Sustain software products are licensed in thirteen states and three Canadian provinces, and many of its clients have more than a decade of experience with the Sustain product line. The Company's revenues derived from Sustain's operations constituted about 9% of the Company's total revenues in both fiscal 2012 and fiscal 2011. Budget constraints, especially during stressful economic times, could force governmental agencies to defer or forgo consulting services or even to stop paying their annual software maintenance fees. In recent fiscal years, Sustain has experienced a reduction in its consulting revenues at least in part due to governmental budget constraints. In fiscal 2012, approximately 22% of Sustain's revenues came from consulting or installation projects, and approximately 78% came from license, maintenance and other service fees.

As a technology based company, Sustain's success depends on the continued development and improvement of its products. The Company's expenditures in support of the Sustain software are significant and will continue to be necessary at least through the foreseeable future to maintain and grow Sustain's business, as customers demand additional functionality. Sustain expensed personnel costs of \$4,415,000 and \$3,877,000 for the development and implementation of its case management systems during fiscal 2012 and 2011, respectively.

On December 4, 2012, the Company purchased all of the outstanding stock of New Dawn which provides products and services similar to those of Sustain to more than 350 justice agencies in 39 states, three U.S. territories and two countries. The acquisition expands the Company's position in the marketplace.

Printing. The Company's main printing facilities are located in Los Angeles and currently are used primarily to print the Daily Journals and its supplements and some of the other publications. The Company installed computer-to-plate production equipment in Los Angeles in 2003 and digital copiers and other equipment for the printing of the Judicial Profiles, the Court Rules and items such as legal advertising and office forms, promotional flyers and other materials for its publications and for a few other customers in 2004. The California Lawyer magazine, the Directory and some of the other publications are printed by outside contractors.

Materials and Postage

After personnel and software development costs (included in "Salaries and employee benefits" and in "Outside services" in the consolidated statements of income), postage and paper costs are typically the Company's next two largest expenses. Paper and postage accounted for approximately 6% of our publishing segment's operating costs in both fiscal 2012 and fiscal 2011. Paper prices may fluctuate substantially in the future, and periodic postal rate increases could significantly impact income from operations. Further, we may not be able to pass on such increases to our customers.

An adequate supply of newsprint and other paper is important to the Company's operations. The Company currently does not have a contract with any paper supplier. The Company has always been able to obtain sufficient newsprint for its operations, although in the past, shortages of newsprint have sometimes resulted in higher prices. The price of paper remained unchanged during fiscal 2012. We anticipate the price of paper will rise in fiscal 2013.

We use the U.S. Postal Service for distribution of a majority of our newspapers and magazines. During the past several years, the Company has instituted changes in an attempt to mitigate higher postage costs. These changes have included contracting for hand delivery in selected sections of the San Francisco Bay area and in Santa Clara, Alameda, San Diego, Riverside, San Bernardino, Orange and Los Angeles counties, delivering pre-sorted newspapers to the post office on pallets, which facilitates delivery and improves service, and implementing a method of bundling newspapers which reduces the per piece charges. In addition, the Company has an ink jet labeler which eliminates paper labels and enables the Company to receive bar code discounts from the postal service on some of its newspapers.

Postal rates are dependent on the operating efficiency of the U.S. Postal Service and on legislative mandates imposed upon the U.S. Postal Service. During the past several years, the U.S. Postal Service increased rates and added new pallet/sack/tray fees. There were decreases in the Company's postage costs during fiscal 2012 primarily due to fewer subscribers.

Marketing

The Company actively promotes its individual newspapers and its multiple newspaper network as well as its other publications. The Company's staff includes a number of employees whose primary responsibilities include attracting new subscribers and advertisers. The specialization of each publication creates both target subscribers and target advertisers. Subscribers are likely to be attracted because of the nature of the information carried by the particular publication, and likely advertisers are those interested in reaching such consumer groups. In marketing products, the Company also focuses on its ancillary products which can be of service to subscribers, such as its specialized information services.

The Company receives, on a non-exclusive basis, public notice advertising from a number of agencies. Such agencies ordinarily receive a commission of 15% to 25% on their sales of advertising in Company publications. Commercial advertising agencies also place advertising in Company publications and receive commissions for advertising sales.

Sustain's staff includes employees who provide marketing and consulting services which may also result in additional consulting projects and the licensing of Sustain products.

Competition

Competition for readers and advertisers is very intense, both by established publications and by new entries into the market. The Daily Journals face aggressive competition, including amazingly low prices for multiple copy subscriptions, from law-oriented newspapers in Los Angeles, San Francisco and San Diego. All of the Company's business publications and products face strong competition from other publications and service companies. Readers of specialized newspapers focus on the amount and quality of general and specialized news, amount and type of advertising, timely delivery and price. The Company designs its newspapers to fill niches in the news marketplace that are not covered as well by major metropolitan dailies. The in-depth news coverage which the Company's newspapers provide along with general news coverage attracts readers who, for personal or professional reasons, desire to keep abreast of topics to which a major newspaper cannot devote significant news space. Other newspapers do provide some of the same subject coverage as does the Company, but the Company believes its coverage, particularly that of The Daily Journals, is more complete and therefore attracts more readers. The Company believes that The Daily Journals are the most important newspapers serving California lawyers on a daily basis.

The Company's court rules publications face competition in both the Southern California market as well as in Northern California from online court rules services and the courts themselves. Subscriptions to the multi-volume Court Rules and Local Rules volumes continued to decline during fiscal 2012. The Company's Judicial Profile services have direct competition and also indirect competition, because some of the same information is available through other sources, including the courts.

The steady decline in recent years in the number of subscriptions to The Daily Journals and the Company's court rule publications is likely to continue and will certainly impact the Company's future revenues. The pricing of the Company's products is reviewed every year. Subscription price increases have in recent years exceeded inflation, as have advertising rate increases.

In attracting commercial advertisers, the Company competes with other newspapers and magazines, television, radio and other media, including electronic network systems for employment-related classified advertising. Factors which may affect competition for advertisers are the cost for such advertising compared with other media, and the size and characteristics of the readership of the Company's publications.

In an expanding economy, classified advertising and fictitious business name legal advertising normally increase while trustee sale legal notice advertising declines. The reverse is normally also true, as experienced in recent fiscal years. Because the Company's business is concentrated in California, our advertising revenues are particularly susceptible to trends affecting California and the Western United States.

Recently, Internet sites devoted to recruitment have become significant competitors of our newspapers and web sites for classified advertising. In addition, there has been a steady consolidation of companies serving the legal marketplace, resulting in an ever-smaller group of companies placing display advertising. Consequently, retaining advertising revenues remains a challenge.

The Company competes with anywhere from one serious competitor to many competing newspapers for public notice advertising revenue in all of its markets. Large metropolitan general interest newspapers normally do not carry a significant amount of legal advertising, although recently they too have solicited certain types of public notice advertising. CNSB, a commission-earning selling agent and a division of the Company, faces competition from a number of companies based in California, some of which specialize in placing certain types of notices.

There is significant competition among a limited number of companies to provide services and software to the courts, and some of these companies are much larger and have greater access to capital and other resources than Sustain and New Dawn. Others provide services for a limited number of courts. Normally, the vendor is selected through a bidding process, and often the courts will express a preference for, or even require, larger vendors. Many courts now desire Internet-based solutions to centralize operations, facilitate electronic filing and other interfaces with justice partners and the public, and publish certain information from case management systems. The Sustain and New Dawn product lines provide versions of these services, but there are many uncertainties in the process of courts migrating to newer electronic based systems, including whether Sustain's and New Dawn's versions of case management systems will find general acceptance and whether the development and modification of such systems can be done in a cost effective manner.

Employees

The Company has approximately 190 full-time employees and contractors and about 15 part-time employees, including about 40 employees and contractors at Sustain for development and consulting projects as of yearend. New Dawn has approximately 80 additional employees. The Company is not a party to any collective bargaining agreements. Certain benefits, including medical insurance, are provided to all full-time employees. Management considers its employee relations to be good.

The Company relies heavily on Gerald Salzman, who serves as president, chief executive officer, chief financial officer, treasurer and assistant secretary. If Mr. Salzman's services were no longer available to the Company, it is unlikely that the Company could find a single replacement to perform all of the duties now handled by him, and it could have a significant adverse affect on the Company's business. The Company does not carry key man life insurance, nor has it entered into an employment agreement with Mr. Salzman.

Working Capital

Traditionally, the Company has generated sufficient cash flow from operations to cover all its needs without significant borrowing. To a very considerable extent, the Company benefits in this regard from the fact that both subscriptions and Sustain software maintenance and license fees are generally paid a year in advance. The Company used approximately \$11 million in 2011 and \$21 million in 2012 to acquire common stocks of other companies, in hopes of generating a better return than that offered by U.S. Treasury Notes and Bills. The aggregate market value of the securities has increased significantly, providing the Company with even more working capital, subject, of course, to the normal risks associated with owning stocks and bonds. In December 2012, the Company borrowed \$14 million to purchase all of the outstanding stock of New Dawn and pledged its marketable securities to obtain favorable financing. The Company believes it has all of the cash that it needs for the foreseeable future. If the Company's overall cash needs exceed cash flow from operations and its current working capital, the Company continues to have the ability to borrow against its marketable securities on favorable terms as it did for the New Dawn acquisition, or it may attempt to secure additional financing which may or may not be available on acceptable terms.

The Company extends unsecured credit to most of its advertising customers. The Company maintains a reserve account for estimated losses resulting from the inability of these customers to make required payments, but if the financial conditions of these customers were to deteriorate or the Company's judgments about their abilities to pay are incorrect, additional allowances might be required, and the Company's cash flows and results of operations could be materially affected.

Inflation

The effects of inflation are not significantly any more or less adverse on the Company's businesses than they are on other publishing companies. The Company has experienced the effects of inflation primarily through increases in costs of personnel, newsprint, postage and services. These costs have generally been offset by periodic price increases for advertising and subscription rates, but with frequent exceptions during several years when the Company has experienced substantial increases in postage and newsprint expenses and additional costs related to acquisitions.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company owns office and printing facilities in Los Angeles and leases space for its other offices under operating leases which expire at various dates through 2015.

The main Los Angeles property is comprised of a two-story, 34,000 square foot building constructed in 1990, which is fully occupied by the Company. Approximately 75% of the building is devoted to office space and the remainder to printing and production equipment and facilities. In 2003, the Company finished building an adjacent 37,000 square foot building and parking facilities on properties it acquired in 1996 and 1998. This building provides additional office, production and storage space, and thus the Company no longer leases certain adjacent space from a third party. The Company occupies a major portion of this building's first floor and will complete the build-out of the second floor as needed.

The Company leases in San Francisco approximately 6,200 square feet of office space (expiring in March 2014) and about 30,200 square feet of office space and a parking lot (expiring in December 2015) in Logan, Utah. In addition, the Company rents facilities in each of the remaining cities where its staff is located on a month-to-month basis or pursuant to leases generally of no longer than three years' duration.

See Note 4 of Notes to Consolidated Financial Statements for information concerning rents payable under leases.

Item 3. Legal Proceedings

From time to time, the Company is subject to litigation arising in the normal course of its business. While it is not possible to predict the results of such litigation, management does not believe the ultimate outcome of these types of matters will have a material adverse effect on the Company's financial position or results of operations.

Item 4. Mine Safety Disclosures

None.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The following table sets forth the sales prices of the Company's common stock for the periods indicated. Quotations are as reported by the NASDAQ Capital Market.

	High	Low
Fiscal 2012		
Quarter ended December 31, 2011	\$ 69.50	\$ 62.54
Quarter ended March 31, 2012	80.00	64.15
Quarter ended June 30, 2012	94.50	73.00
Quarter ended September 30, 2012	98.01	87.72
Fiscal 2011		
Quarter ended December 31, 2010	\$ 74.00	\$ 69.04
Quarter ended March 31, 2011	73.90	69.00
Quarter ended June 30, 2011	79.95	70.18
Quarter ended September 30, 2011	74.00	64.57

As of December 14, 2012, there were approximately 700 holders of record of the Company's common stock, and the last trade was at \$88.93 per share.

The Company did not declare or pay any dividends during fiscal 2012 or 2011. A determination by the Company whether or not to pay dividends in the future will depend on numerous factors, including the Company's earnings, cash flow, financial condition, capital requirements, future prospects, acquisition opportunities, and other relevant factors. The Board of Directors does not expect that the Company will pay any dividends or other distributions to shareholders in the foreseeable future.

The Company does not have any equity compensation plans, and it did not sell any securities, whether or not registered under the Securities Act of 1933, during the past three fiscal years.

From time to time, the Company has repurchased shares of its common stock and may continue to do so. See Note 2 of Notes to Consolidated Financial Statements for more information. The Company maintains a common stock repurchase program that was implemented in 1987 in combination with the Company's Management Incentive Plan. The Company's stock repurchase program remains in effect, but the Company did not purchase any shares during fiscal 2012.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The Company continues to operate as two different businesses: (1) The “traditional business”, being the business of newspaper and magazine publishing and related services that the Company had before 1999 when it purchased Sustain, and (2) the Sustain and New Dawn software businesses, which supply case management software systems and related products to courts and other justice agencies, including administrative law organizations. In December 2012, the Company purchased all of the outstanding stock of New Dawn based in Logan, Utah, which provides products and services similar to those of Sustain to more than 350 justice agencies in 39 states, three U.S. territories and two countries. The acquisition expands the Company’s position in the marketplace.

During fiscal 2012, consolidated pretax income decreased by \$4,099,000 (34%) to \$7,901,000 from \$12,000,000 in the prior year, primarily resulting from the recording of the other-than-temporary impairment losses on investments of \$2,855,000 and a reduction in trustee sale notice and its related service fee revenues of \$2,216,000, partially offset by a reduction in operating costs and expenses of \$519,000 and an increase in dividends and interest income of \$734,000. The write-down on the investment does not necessarily indicate the loss in value is permanent. Security prices may remain below cost for a period of time that may be deemed excessive from the standpoint of interpreting existing accounting rules, even though other factors suggest that the prices will eventually recover. As a result, accounting regulations require that the Company recognize other-than-temporary impairment losses like these in earnings rather than in accumulated comprehensive income even in instances where the Company may strongly believe that the market price of the impaired security will recover to at least its original cost and where the Company possesses the ability and intent to hold the security until at least that time.

The Company’s traditional business segment income from operations decreased by \$1,547,000 (12%) to \$10,877,000 from \$12,424,000 primarily because of the reduction in trustee sale notice and its related service fee revenues of \$2,216,000 partially offset by the reduction in operating costs and expenses of \$1,029,000. Sustain’s business segment had a pretax loss of \$2,188,000 compared to \$1,622,000 in the prior year period primarily due to an increase in personnel costs and a decrease in consulting and support revenues from governmental agencies, reflecting in part continuing governmental budget constraints.

Comprehensive income includes net income and net unrealized gains on investments, net of taxes.

Comprehensive Income

Fiscal ended September 30
2012