

Dolan Co.
Form 10-Q
August 01, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended: June 30, 2012

OR

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

For the Transition Period From to .

Commission File Number: 001-33603

The Dolan Company

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

43-2004527
(I.R.S. Employer
Identification No.)

**222 South Ninth Street, Suite 2300,
Minneapolis, Minnesota 55402**

(Address, including zip code, of registrant's principal executive offices)

(612) 317-9420

(Registrant's telephone number, including area code)

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 (§232.405 of this chapter) during 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer 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

On July 27, 2012, there were 30,980,345 shares of the registrant's common stock outstanding.

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(in thousands, except share data)

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,156	\$ 752
Accounts receivable, including unbilled services (net of allowances for doubtful accounts of \$1,447 and \$1,416 as of June 30, 2012, and December 31, 2011, respectively)	64,927	72,117
Unbilled pass-through costs	3,946	4,317
Prepaid expenses and other current assets	3,940	3,976
Income tax receivable	733	1,968
Assets held for sale	269	257
Total current assets	74,971	83,387
Accounts receivable, long-term	2,251	2,500
Investments	11,462	11,901
Property and equipment, net	18,278	19,263
Finite-lived intangible assets, net	203,022	212,950
Indefinite-lived intangible assets	283,039	283,039
Other assets	2,632	2,563
Total assets	\$ 595,655	\$ 615,603
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 7,831	\$ 7,667
Accounts payable	17,071	18,759
Accrued pass-through liabilities	8,407	8,820
Accrued compensation	6,298	5,189
Accrued liabilities	6,195	5,588
Due to sellers of acquired businesses	8,050	20,403
Deferred revenue	18,944	20,290
Total current liabilities	72,796	86,716
Long-term debt, less current portion	164,251	168,724
Deferred income taxes	25,941	20,739
Due to sellers of acquired businesses		12,687
Other liabilities	7,362	7,319
Total liabilities	270,350	296,185
Redeemable noncontrolling interest	9,174	12,726

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Commitments and contingencies (Note 15)		
Stockholders' equity		
Common stock, \$0.001 par value; authorized: 70,000,000 shares; outstanding: 30,983,477 and 30,576,597 shares as of June 30, 2012, and December 31, 2011, respectively	30	30
Preferred stock, \$0.001 par value; authorized: 5,000,000 shares; designated: 5,000 shares of Series A Junior Participating Preferred Stock; no shares outstanding		
Other comprehensive loss (net of tax)	(1,151)	(1,285)
Additional paid-in capital	298,695	294,476
Retained earnings	18,557	13,471
Total stockholders' equity	316,131	306,692
Total liabilities and stockholders' equity	\$ 595,655	\$ 615,603

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

Table of Contents**The Dolan Company****Unaudited Condensed Consolidated Statements of Operations**

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues				
Professional Services	\$ 44,310	\$ 48,416	\$ 92,215	\$ 100,372
Business Information	19,453	19,971	38,270	39,767
Total revenues	63,763	68,387	130,485	140,139
Operating expenses				
Direct operating: Professional Services	21,643	22,936	45,060	46,438
Direct operating: Business Information	7,284	7,789	14,452	15,598
Selling, general and administrative	26,904	26,179	54,547	52,998
Amortization	4,958	4,326	9,929	8,815
Depreciation	1,998	1,785	4,099	3,701
Fair value and other adjustments on earnout liabilities	(10,403)	28	(10,472)	358
Total operating expenses	52,384	63,043	117,615	127,908
Equity in earnings of affiliates	599	441	1,024	1,189
Operating income	11,978	5,785	13,894	13,420
Non-operating income (expense)				
Interest expense, net of interest income	(1,991)	(1,365)	(3,995)	(2,973)
Non-cash interest income related to interest rate swaps				286
Other income		394		394
Total non-operating expense	(1,991)	(971)	(3,995)	(2,293)
Income from continuing operations before income taxes	9,987	4,814	9,899	11,127
Income tax expense	(4,416)	(1,950)	(4,345)	(4,319)
Income from continuing operations	5,571	2,864	5,554	6,808
Discontinued operations, net of tax	(28)	(124)	(188)	(374)
Net income	5,543	2,740	5,366	6,434
Less: Net income attributable to redeemable noncontrolling interests	(626)	(168)	(280)	(387)
Net income attributable to The Dolan Company	\$ 4,917	\$ 2,572	\$ 5,086	\$ 6,047
Earnings per share basic and diluted:				
Income from continuing operations attributable to The Dolan Company	\$ 0.16	\$ 0.09	\$ 0.18	\$ 0.21
Discontinued operations attributable to The Dolan Company			(0.01)	(0.01)
Net income attributable to The Dolan Company	0.16	0.09	0.17	0.20
Decrease in redeemable noncontrolling interest in NDeX		0.05		0.08

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Net income attributable to The Dolan Company common stockholders	\$	0.16	\$	0.14	\$	0.17	\$	0.28
Weighted average shares outstanding:								
Basic		30,276		30,107		30,226		30,118
Diluted		30,356		30,211		30,307		30,252
Amounts attributable to The Dolan Company and to The Dolan Company common stockholders:								
Income from continuing operations, net of tax, attributable to The Dolan Company	\$	4,945	\$	2,696	\$	5,274	\$	6,421
Discontinued operations, net of tax, attributable to The Dolan Company		(28)		(124)		(188)		(374)
Net Income attributable to The Dolan Company		4,917		2,572		5,086		6,047
Decrease in redeemable noncontrolling interest in NDeX, net of tax				1,558				2,522
Net income attributable to The Dolan Company common stockholders	\$	4,917	\$	4,130	\$	5,086	\$	8,569

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

Table of Contents**The Dolan Company****Unaudited Condensed Consolidated Statements of Comprehensive Income****(in thousands)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income attributable to The Dolan Company	\$ 4,917	\$ 2,572	\$ 5,086	\$ 6,047
Other comprehensive income:				
Unrealized gain (loss) on interest rate swap, net of tax	98	(248)	134	(48)
Comprehensive income attributable to The Dolan Company	\$ 5,015	\$ 2,324	\$ 5,220	\$ 5,999

Table of Contents**The Dolan Company****Unaudited Condensed Consolidated Statements of Stockholders Equity**

(in thousands, except share data)

	Common Stock		Additional	Retained	Other	Total
	Shares	Amount	Paid-In	(Accumulated	Comprehensive	
			Capital	Deficit)	Loss	
Balance at December 31, 2010	30,511,408	\$ 30	\$ 286,148	\$ (6,022)	\$ (1,298)	\$ 278,858
Net income attributable to The Dolan Company				19,493		19,493
Decrease in redeemable noncontrolling interest in NDeX, net of tax			7,487			7,487
Unrealized gain on interest rate swap, net of tax					13	13
Issuance of common stock pursuant to the exercise of stock options	4,000		9			9
Share-based compensation expense, including issuance of restricted stock (shares are net of forfeitures)	198,689		3,861			3,861
Repurchase of common stock	(137,500)		(1,691)			(1,691)
Increase in redeemable noncontrolling interest in DiscoverReady, net of tax			(1,261)			(1,261)
Other			(77)			(77)
Balance at December 31, 2011	30,576,597	\$ 30	\$ 294,476	\$ 13,471	\$ (1,285)	\$ 306,692
Net income attributable to The Dolan Company				5,086		5,086
Increase in redeemable noncontrolling interest in NDeX, net of tax			(2,511)			(2,511)
Unrealized gain on interest rate swap, net of tax					134	134
Issuance of common stock pursuant to the exercise of stock options	13,500		30			30
Share-based compensation expense, including issuance of restricted stock (shares are net of forfeitures)	393,380		1,908			1,908
Decrease in redeemable noncontrolling interest in DiscoverReady, net of tax			4,792			4,792
Balance at June 30, 2012	30,983,477	\$ 30	\$ 298,695	\$ 18,557	\$ (1,151)	\$ 316,131

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

Table of Contents**The Dolan Company****Unaudited Condensed Consolidated Statements of Cash Flows**

(in thousands)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities		
Net income	\$ 5,366	\$ 6,434
Loss from discontinued operations	188	374
Income from continuing operations	5,554	6,808
Distributions received from The Detroit Legal News Publishing, LLC	1,463	2,100
Distributions paid to holders of noncontrolling interests		(474)
Gain on sale of investment		(394)
Non-cash operating activities:		
Amortization	9,929	8,815
Depreciation	4,099	3,701
Equity in earnings of affiliates	(1,024)	(1,189)
Share-based compensation expense	1,901	2,024
Deferred income taxes	3,713	28
Change in value of interest rate swap		(286)
Amortization of debt issuance costs	213	186
Non-cash fair value adjustment on earnouts recorded in connection with acquisitions	(9,952)	358
Changes in operating assets and liabilities:		
Accounts receivable and unbilled pass-through costs	8,225	(4,984)
Prepaid expenses and other current assets	1,273	3,200
Other assets	31	
Accounts payable and accrued liabilities	(75)	(5,179)
Deferred revenue and other liabilities	(1,079)	(686)
Cash provided by operating activities - continuing operations	24,271	14,028
Cash used in operating activities - discontinued operations	(231)	(212)
Net cash provided by operating activities	24,040	13,816
Cash flows from investing activities		
Acquisitions and investments	(145)	(5,071)
Capital expenditures	(2,770)	(3,904)
Escrow payment received on sale of investment		394
Cash used in investing activities - continuing operations	(2,915)	(8,581)
Cash used in investing activities - discontinued operations	122	(7)
Net cash used in investing activities	(2,793)	(8,588)
Cash flows from financing activities		
Net payments on senior revolving note	(2,200)	(1,300)
Payments on senior long-term debt	(2,500)	(2,500)
Payments on unsecured notes payable	(1,247)	(1,193)
Payments on capital leases	(183)	(101)
Net payments of deferred acquisition costs and earnouts	(14,400)	

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Payments for repurchase of common stock		(1,691)
Payments of deferred financing costs	(313)	
Net cash used in financing activities	(20,843)	(6,785)
Net change in cash and cash equivalents	404	(1,557)
Cash and cash equivalents at beginning of the period	752	4,862
Cash and cash equivalents at end of the period	\$ 1,156	\$ 3,305

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

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Notes to Unaudited Condensed Consolidated Interim Financial Statements

Note 1. Basis of Presentation

Basis of Presentation: The condensed consolidated balance sheet as of December 31, 2011, which has been derived from audited financial statements, and the unaudited condensed consolidated interim financial statements of The Dolan Company (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to the quarterly report on Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to these rules and regulations. Accordingly, these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2011, included in the Company's annual report on Form 10-K filed on March 9, 2012, with the Securities and Exchange Commission.

In the opinion of management, these unaudited condensed consolidated interim financial statements reflect all adjustments necessary for a fair presentation of the Company's interim financial results. All such adjustments are of a normal and recurring nature. The results of operations for any interim period are not necessarily indicative of results for the full calendar year.

The accompanying unaudited condensed consolidated interim financial statements include the accounts of the Company, its wholly-owned subsidiaries and its majority ownership interests in American Processing Company, LLC d/b/a NDeX (NDeX), DiscoverReady LLC (DiscoverReady) and Legislative Information Services of America (LISA). The Company accounts for the percentage interests in NDeX, DiscoverReady and LISA that it does not own as noncontrolling interest.

All significant intercompany accounts and transactions have been eliminated in consolidation.

When the Company refers to Albertelli sellers in these notes, it means James E. Albertelli, P.A., The Albertelli Firm, P.C., Albertelli Title, Inc. and James E. Albertelli, as a group.

In 2011, the Company committed to a plan of action to sell two of its stand-alone businesses within the Business Information segment. Accordingly the Company has removed from its operating results for the three and six months ended June 30, 2012 and 2011, the results of these businesses and presented them within discontinued operations. The assets of these operations, net of related liabilities, are included in assets held for sale. See Note 8 for further information on businesses held for sale.

New Accounting Pronouncements: In June 2011, the Federal Accounting Standards Board (FASB) amended its accounting guidance to increase the prominence of items reported in other comprehensive income (OCI). The guidance requires the presentation of the components of net income, the components of OCI and total OCI either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance was effective for the Company beginning with its March 31, 2012, financial statements. The Company has elected presentation of two separate but consecutive statements.

Note 2. Basic and Diluted Income Per Share

Basic per share amounts are computed, generally, by dividing net income attributable to The Dolan Company by the weighted-average number of common shares outstanding. The Company has employed the two-class method to calculate earnings per share, as it relates to the redeemable noncontrolling interest in NDeX, based on net income attributable to its common stockholders. At June 30, 2012, and December 31, 2011, there were no shares of preferred stock issued and outstanding. Diluted per share amounts assume the conversion, exercise, or issuance of all potential common stock instruments (see Note 14 for information on stock options and restricted stock) unless their effect is anti-dilutive, thereby reducing the loss per share or increasing the income per share.

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The following table computes basic and diluted net income attributable to The Dolan Company per share (in thousands except for per share amounts):

	Three Months Ended June 30,	Six Months Ended June 30,
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