DAILY JOURNAL CORPORATION

> **"The Company is not a smaller version of Berkshire Hathaway Inc. Instead, it hopes to be a significant software company while it also operates its Traditional Business."** [1]

Daily Journal Corporation provides software and consulting services to courts, prosecutors, and other justice agencies. The company's software business is characterized by a long sales cycle followed by complex implementations that can take months or years to complete. The challenging nature of the sales cycle and software implementation process has the potential to result in durable customer relationships that generate software and consulting revenue for very long periods of time.

The company also publishes ten long established newspapers with a special focus on the legal and real estate professions. The newspapers have been in decline over the past quarter century but experienced a brief reprieve thanks to foreclosure notice advertising following the financial crisis of 2008.

Charlie Munger served as Daily Journal's Chairman for decades until stepping down in 2022. He continues to manage the company's investment portfolio. However, at age 99, Mr. Munger cannot be expected to manage investments in the long run and the end result of the company's software venture is highly uncertain. This report examines the current state of the company and its future prospects.

 January 24, 2023

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The Rational Walk was founded in 2009 by Ravi Nagarajan who is the author of all content on the website. Over a thousand articles have been published over the past fourteen years primarily on topics related to investing and personal finance. The Rational Walk's extensive coverage of Berkshire Hathaway has been mentioned in several news articles.

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- **Business Profiles** aim to provide readers with a comprehensive overview of high quality companies.

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Table of Contents

Introduction

Vigorous competition is one of the cornerstones of a healthy economy. Companies rise and fall based on the value proposition they offer to customers. Industries exhibiting a high degree of competition tend to have a large number of rational buyers. Sellers are often forced to operate in an environment where there are few barriers to entry. While perfect competition has many benefits for the economy as a whole, intensely competitive industries typically fail to provide attractive economics for providers of capital.

In order to capture favorable economics, investors look for industries where the threat of new entry is limited, products and services can be differentiated, and other factors exist that allow for attractive returns on invested capital. Great companies in attractive industries usually sell at premium prices, but in certain economic environments, disciplined investors with a long term mindset have been able to generate superior returns.

From today's vantage point, it is hard to think of an activity that is more competitive than news publishing. The internet has made it possible for anyone to publish online. While there are some exceptions, most newspapers have transformed from businesses with durable economic moats to struggling mightily to provide even a minimal return on capital. The decline of the newspaper industry has been a slow, grinding process that eroded moats over a quarter century. Traditional newspapers, for the most part, are victims of creative destruction.[2]

The competitive landscape facing newspapers was far more favorable in the late 1970s when Charlie Munger heard that a small Los Angeles newspaper was for sale. The Daily Journal has long had a specific focus on topics of interest to the legal and real estate professions. As an attorney and a real estate developer in Southern California, Mr. Munger was familiar with the Daily Journal's publications and jumped at the opportunity to acquire the business when its former owners were forced to sell it as part of an antitrust settlement.[3]

Daily Journal was purchased for $2.5 million in 1977 by the New America Fund which was controlled by Charlie Munger and Rick Guerin. When the New America Fund was liquidated in 1986, Daily Journal became a publicly traded company. Reflecting on his purchase of Daily Journal decades later, Charlie Munger had no regrets:

> *"I don't think it was a mistake to buy the Daily Journal when we did ... We paid $2.5 million for it, we got a dividend of $2.5 million shortly thereafter. Everything you see here is profit."* [4]

In contrast with general circulation newspapers, specialized publications command premium pricing. In 1995, the San Francisco and Los Angeles Daily Journals charged a subscription price of $389, far in excess of the cost of subscribing to a newspaper such as the Los Angeles Times. Despite a circulation decline of 73% since 1995, the cost of a subscription increased to $887 by 2022, representing substantial pricing power *in real terms*.[5]

The favored position of Daily Journal's newspapers has been due to the company's reputation and dominance of a highly specialized niche market. However, greater *resilience* to the onslaught of the internet does not imply *immunity*. Over the past quarter century, the company's newspapers have suffered a continuous decline in circulation and even large price increases have not been able to completely offset the decline. In an age of information abundance, Daily Journal is simply destined to suffer along with other newspapers in the long run.

Relying on good fortune does not represent a solid business plan, but luck should be seized when it does appear. Starting in 2007, the United States suffered a severe housing crash that contributed to a major financial crisis. For several years, Daily Journal benefited from legal notices related to home foreclosures. Public notice advertising is required by law to be published in newspapers approved by the court system. Charlie Munger estimates that Daily Journal earned over $30 million in extra after-tax profits as a result of the public notice boom.[6] The company could have earned far more but Mr. Munger decided not to raise prices during a crisis:

> *"When the foreclosure boom came, we had 80% of the foreclosure business in our area. It's a big area, Southern California and Northern California too. It would have been very easy for us to raise the prices and make, I don't know, $50 million more or something like that, when all these people are losing their houses. A lot of them are very decent people. It didn't ever … the idea that just right in the middle of that we'd make all the money we could? Which some of our competitors did by the way. We just didn't do it. I don't think capitalism requires that you make all the money that you can. I think there are times when you should be satisfied based on ... just ideas of decency."* [7]

When a business in a declining industry is lucky enough to generate an unusual amount of cash for clearly transitory reasons, it makes little sense to reinvest the funds in the same industry. In most cases, excess cash should be returned to shareholders rather than retained in the business. It is better to return cash to shareholders rather than sink it into a dying industry unlikely to provide attractive returns on invested capital.

Daily Journal opted to retain all of the additional profits generated during the foreclosure boom. By the late 2000s, the company had a ten year history in a software business that management believed had prospects for attractive returns in the future. In addition, Charlie Munger was serving as the company's Chairman and had a long proven successful track record as an investor. Rather than simply retaining cash on the balance sheet for a potential future software acquisition, Mr. Munger deployed the cash into marketable securities during the bear market for 2008-09. He was extremely aggressive and, in retrospect, he had nearly perfect timing.

> *"Some great investment success once said, 'You make your money by the waiting.' Now that doesn't mean sitting around for the next depression, you can't do that, but a fair amount of patience is required in some of these good investment records. Patience followed by pretty aggressive conduct when the time comes. Imagine sitting there, we're having all of this money rolling in with the foreclosure boom, and then deploying it in like one day. At the bottom tick for some of those stocks. Now that was luck. And it was luck that we had caught the bottom tick. It wasn't luck that we had the money on hand when other people didn't and were willing to deploy it when other people were running for cover."* [8]

While most investors were in a panic, Charlie Munger deployed $20.4 million into marketable securities during Daily Journal's 2009 fiscal year (ending on September 30). At the end of the fiscal year, the securities portfolio was valued at $54.1 million and the company had an unrealized gain of $33.7 million! This was clearly a situation where decades of preparation combined with luck to produce a massive *double windfall* for Daily Journal. The foreclosure boom generated extra profits in the newspaper business and then Mr. Munger deployed that cash and more than doubled the money in a matter of a few months by being aggressive at precisely the right time.

Charlie Munger's astute investing skills have continued to benefit Daily Journal over the years. As of September 30, 2022, the securities portfolio was valued at $275.5 million. Over the past fourteen years, Daily Journal earned a cumulative total of $46.6 million in interest and dividends and realized $63.5 million of capital gains. In addition, the company had $120.7 million of unrealized gains on the balance sheet as of September 30, 2022.

Due to Mr. Munger's role as Vice Chairman of Berkshire Hathaway and his long association with Warren Buffett, investors closely follow his activities and many observers have speculated that the company is morphing into Mr. Munger's primary investment vehicle.[9] In 2013, the Securities and Exchange Commission took notice of the high percentage of assets held in marketable securities and inquired about whether Daily Journal should be considered an investment company as defined by the Investment Company Act of 1940.[10]

Charlie Munger has made it very clear that Daily Journal is *not* a smaller version of Berkshire Hathaway and Daily Journal's annual reports have contained language to that effect for the past three years. Mr. Munger refers to Daily Journal's large securities portfolio as an "accident" brought about by the foreclosure boom and the fact that he preferred to allocate the windfall to securities rather than keep it in cash. In 2022, Mr. Munger stepped down as Chairman of Daily Journal but continues to manage the securities portfolio at the age of 99.[11]

The stated goal of Daily Journal is to become a large player in the software industry. Having a large amount of excess cash and securities on the balance sheet represents optionality that could be used for further investments in software and also bolsters the company's reputation as it competes for business. The court systems and other public agencies in the market for software prefer to establish long term relationships with vendors with proven financial stability and staying power. Daily Journal's wealth inspires confidence.

Daily Journal initially entered the software business in 1999 when it acquired Sustain, a provider of case management software solutions for courts and other justice agencies. In fiscal 2013, Daily Journal used the proceeds of a margin loan against the securities portfolio to acquire New Dawn and ISD. In fiscal 2022, software represented over 70% of Daily Journal's operating revenues. Mr. Munger, not known for displays of excessive enthusiasm, has characterized the future of the software business as "especially interesting".[12]

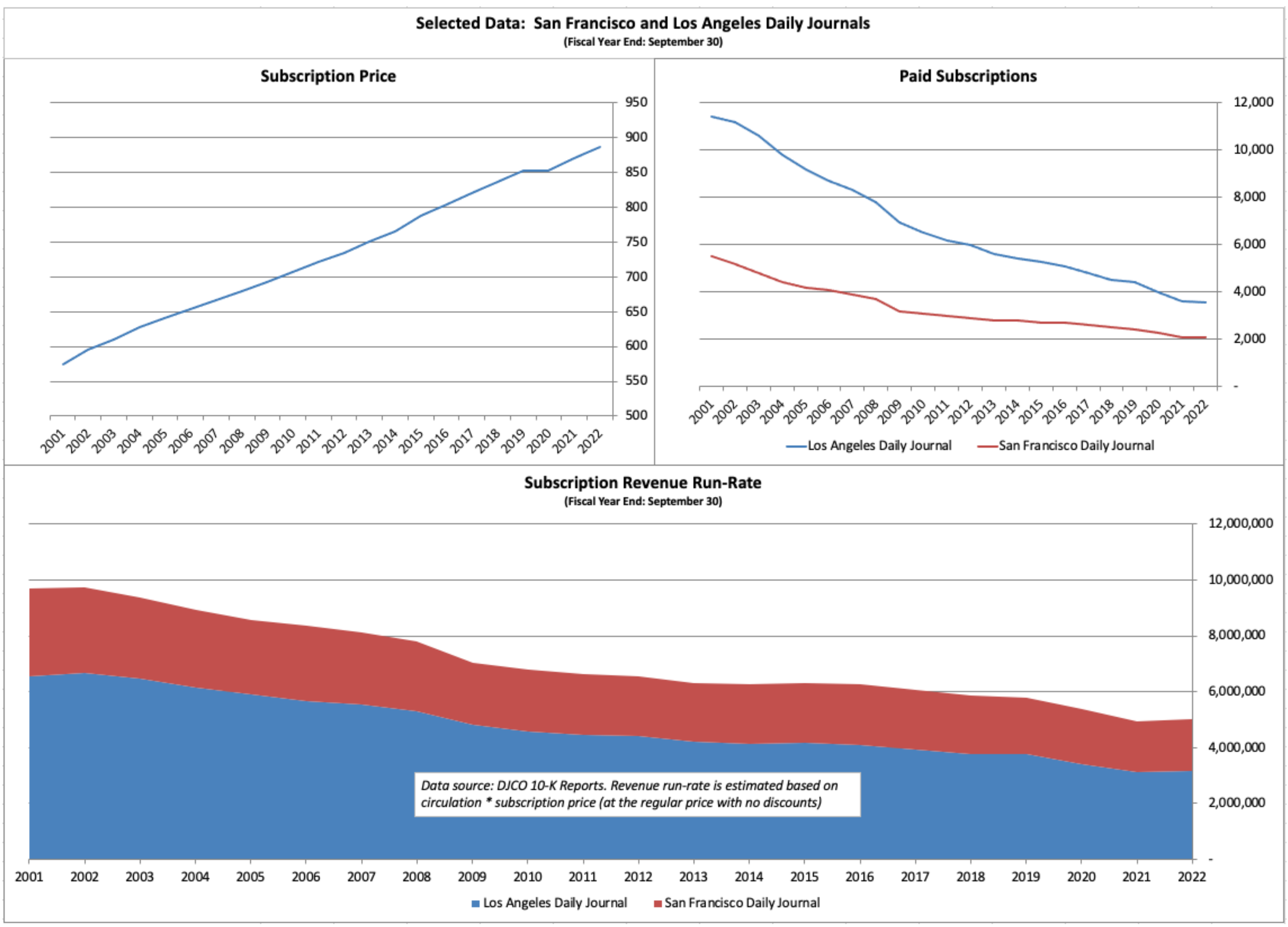
Daily Journal is an interesting business to study for many reasons. We have the opportunity to simultaneously examine the economics of a newspaper business destined to decline along with a venture capital style investment in the software industry that management hopes will become a dominant competitor in the future. In addition, we have the fascinating situation of a brilliant investor *entering his one hundredth year* who continues to manage a highly concentrated portfolio of securities with the intent of solidifying the long term legacy of a company he acquired nearly a half century ago.

The Newspaper Business

Daily Journal Corporation publishes nine newspapers in California and one newspaper in Arizona. The Los Angeles Daily Journal, established in 1888, has long been the company's largest newspaper in terms of revenue and paid circulation. The San Francisco Daily Journal, established in 1893, shares a great deal of content with the Los Angeles Daily Journal. In combination, these two newspapers are referred to as The Daily Journals.

With a subscription rate of $887, The Daily Journals remain highly valued by many judges, lawyers, and other legal professionals. However, subscriptions have declined precipitously over the past two decades. At the end of fiscal 2002, combined circulation was 16,400 compared to 5,640 at the end of fiscal 2022. Although the subscription rate has steadily increased, this has not been enough to prevent declining circulation revenue.[13]

The exhibit below shows the annual regular subscription price and number of paid subscribers over the past two decades. In addition, a rough estimate of the circulation revenue run rate is calculated by multiplying the subscription price by the combined year end circulation of The Daily Journals. While imprecise due to apparent discounting, the economic trajectory of the company's most important newspapers is unmistakable.[14]



Source: Daily Journal 10-K Reports, Author's estimates and calculations

In addition to The Daily Journals, the company publishes eight smaller newspapers. The Daily Commerce, Orange County Reporter, The Daily Transcript, and Business Journal are based in Southern California. The Daily Recorder, The Inter-City Express, and the San Jose Post-Record are based in Northern California. The only publication not based in California is The Record Reporter which is based in Phoenix. These papers have specific areas of focus in real estate, law, or general business news. All of the papers carry public notice advertising.

When Charlie Munger took control of Daily Journal in 1977, the publishing business had a strong economic moat and that remained the case for many years. During the 1980s and 1990s, there were several acquisitions of small newspapers that resulted in a chain of nineteen publications by the turn of the century. In a biography of Charlie Munger published in 2000, Janet Lowe explained that in some of the acquisitions were opportunities to expand while others were more defensive in nature. The end result was a "small regional empire." [15] In order to fully understand the company's newspaper business, we should briefly examine its results over a long period of time.

1993 – 1998

Prior to 1999, Daily Journal's only operations were in newspaper publishing. We begin our analysis in 1993 which is the first year of data available in the company's filings on the SEC's website. The following exhibit shows the company's income statements from fiscal 1993 to fiscal 1998:

	For Fiscal Year Ending					
	9/30/98	**9/30/97**	**9/30/96**	**9/30/95**	**9/30/94**	**9/30/93**
Revenues:						
Advertising	21,109,000	21,454,000	21,423,000	20,254,000	18,801,000	17,364,000
Circulation	11,449,000	11,506,000	10,951,000	10,686,000	10,031,000	9,413,000
Advertising service fees and other	3,547,000	3,436,000	3,595,000	3,638,000	4,502,000	4,546,000
Total revenues	**36,105,000**	**36,396,000**	**35,969,000**	**34,578,000**	**33,334,000**	**31,323,000**
Operating Expenses:						
Salaries and Employee Benefits	15,551,000	14,749,000	14,438,000	14,202,000	13,539,000	13,631,000
Newsprint and printing expenses	3,377,000	3,424,000	3,886,000	4,084,000	3,362,000	3,278,000
Outside Services	4,254,000	4,299,000	4,793,000	4,553,000	4,197,000	3,874,000
Postage and Delivery Expenses	2,266,000	2,316,000	2,364,000	2,461,000	2,314,000	2,408,000
Depreciation and Amortization	1,696,000	1,897,000	1,837,000	2,078,000	2,325,000	1,799,000
Other general & administrative expenses	3,553,000	4,693,000	4,286,000	3,759,000	3,921,000	3,922,000
Total Operating Expenses	**30,697,000**	**31,378,000**	**31,604,000**	**31,137,000**	**29,658,000**	**28,912,000**
Income From Operations	**5,408,000**	**5,018,000**	**4,365,000**	**3,441,000**	**3,676,000**	**2,411,000**
Total other income (expense)	-	-	-	-	-	-
Income Before Taxes	**5,408,000**	**5,018,000**	**4,365,000**	**3,441,000**	**3,676,000**	**2,411,000**
(Provision for) benefit from income taxes	(2,150,000)	(2,000,000)	(1,800,000)	(1,400,000)	(1,500,000)	(1,200,000)
Net Income	**3,258,000**	**3,018,000**	**2,565,000**	**2,041,000**	**2,176,000**	**1,211,000**
Weighted average number of common shares outstanding	1,589,971	1,596,825	1,613,208	1,619,841	1,623,881	1,658,904
Earnings Per Share	**2.05**	**1.89**	**1.59**	**1.26**	**1.34**	**0.73**
Revenue by type as a % of total:						
Advertising	58%	59%	60%	59%	56%	55%
Circulation	32%	32%	30%	31%	30%	30%
Advertising service fees & other	10%	9%	10%	11%	14%	15%
Total Revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Daily Journal 10-K Reports

During the mid-1990s, advertising and service fees accounted for ~ 70% of revenue with circulation revenue making up the balance. The company's annual filings during this period indicate generally favorable economics. Although revenue grew just 15.3% from 1993 to 1998, operating income more than doubled due to an expansion of operating margin from 7.7% in 1993 to 15% in 1998. Net income grew faster than operating income due to a lower tax rate at the end of the period and repurchases resulted in even faster growth of earnings per share. On September 29, 1998, Daily Journal's shares closed at $35 giving the company a market capitalization of $55.6 million. The company had shareholders' equity of $16.3 million and was debt free.[16]

1999 – 2012

By the late 1990s, the potential for the internet to cause long term disruption in the industry was apparent and Daily Journal began 1999 by entering the software business with the acquisition of Sustain which will be covered in detail in the next section. Although it is unlikely that management knew it at the time, 1998 proved to be the peak year for revenue in the company's newspaper business. Starting in 1999, the newspapers began posting annual revenue declines that would persist until the late 2000s when the foreclosure crisis provided a temporary reprieve. The exhibit below shows the results of the newspaper business from 1999 to 2012:

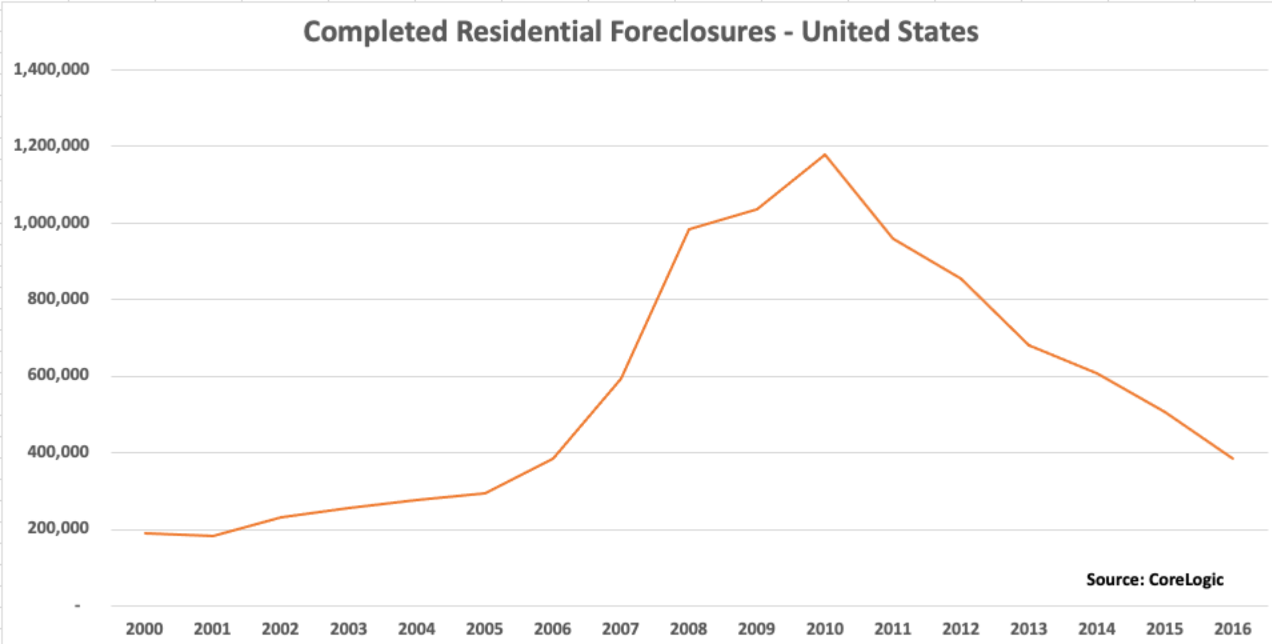
Traditional Business	For Fiscal Year Ending													
	9/30/12	9/30/11	9/30/10	9/30/09	9/30/08	9/30/07	9/30/06	9/30/05	9/30/04	9/30/03	9/30/02	9/30/01	9/30/00	9/30/99
Revenues														
Advertising	19,221,000	21,337,000	23,185,000	23,586,000	23,771,000	19,004,000	17,107,000	16,475,000	16,049,000	16,969,000	17,359,000	18,868,000	19,992,000	20,267,000
Circulation	6,530,000	6,767,000	7,071,000	7,831,000	8,538,000	8,910,000	9,142,000	9,588,000	10,149,000	10,375,000	11,044,000	11,346,000	11,651,000	11,675,000
Advertising service fees and other	3,205,000	3,428,000	3,987,000	4,064,000	3,519,000	3,279,000	2,996,000	2,976,000	3,002,000	2,906,000	3,137,000	2,955,000	3,373,000	3,180,000
Gain of sale of property	-	-	-	-	-	-	-	-	-	-	274,000	-	-	-
Total Revenues	**28,956,000**	**31,532,000**	**34,243,000**	**35,481,000**	**35,828,000**	**31,193,000**	**29,245,000**	**29,039,000**	**29,200,000**	**30,250,000**	**31,814,000**	**33,169,000**	**35,016,000**	**35,122,000**
Pre-tax income (loss)	10,089,000	13,622,000	13,204,000	12,931,000	11,532,000	7,132,000	5,823,000	4,727,000	4,285,000	4,599,000	5,072,000	3,616,000	5,663,000	4,864,000
Income tax benefit (expense)	(3,340,000)	(4,735,000)	(4,950,000)	(4,917,000)	(4,455,000)	(3,440,000)	(2,435,000)	(605,000)	(1,850,000)	(1,800,000)	(2,000,000)	(1,390,000)	(1,930,000)	(1,945,000)
Net income (loss)	**6,749,000**	**8,887,000**	**8,254,000**	**8,014,000**	**7,077,000**	**3,692,000**	**3,388,000**	**4,122,000**	**2,435,000**	**2,799,000**	**3,072,000**	**2,226,000**	**3,733,000**	**2,919,000**
Total assets	119,833,000	89,797,000	88,135,000	82,981,000	44,550,000	38,579,000	33,252,000	30,694,000	27,170,000	21,001,000	19,131,000	18,423,000	19,104,000	23,771,000
Capital expenditures	320,000	105,000	232,000	218,000	332,000	291,000	893,000	607,000	2,810,000	3,226,000	1,327,000	1,635,000	1,647,000	1,959,000
Depreciation and amortization	470,000	504,000	566,000	743,000	934,000	952,000	856,000	758,000	1,097,000	1,511,000	1,714,000	1,641,000	1,355,000	1,147,000
Pre-tax margin	35%	43%	39%	36%	32%	23%	20%	16%	15%	15%	16%	11%	16%	14%
Net margin	23%	28%	24%	23%	20%	12%	12%	14%	8%	9%	10%	7%	11%	8%

Source: Daily Journal 10-K Reports

It comes as no surprise that circulation revenues continued to decline over the fourteen years shown in the exhibit. As discussed at the start of this section, the severity of the paid circulation decline of Los Angeles and San Francisco Daily Journals could not be fully offset by subscription price increases. Under normal conditions, one would expect advertising revenues to decline commensurately with declining circulation, or perhaps even more rapidly given the potential for advertisers to leverage new forms of media made possible by the internet. In combination, lower circulation and advertising revenues have doomed many newspapers to oblivion, but the onset of bad news for real estate in the mid 2000s ended up being temporary good news for Daily Journal.

Advertising revenue began to increase in 2006 before dramatically rising the following year. This was a direct result of increased foreclosure activity that led to public notice advertising required by law. Many investors will recall that the stock market hit bottom in March 2009 when it began to rapidly recover. However, the hangover for the housing market lasted much longer. Foreclosures remained at elevated levels for well over a decade.

According to CoreLogic, from 2007 to 2016, there were nearly 7.8 million residential foreclosures in the United States. California alone accounted for 1.1 million foreclosures, with the state's peak foreclosure activity occurring in October 2009. Home prices hit bottom in March 2011 and mortgage rates dropped to 3.3% by late 2012. As home prices rose in 2013, foreclosures still remained stubbornly high before finally approaching pre-crisis levels in 2016. The exhibit on the following page shows the severity of the foreclosure crisis.[17]



[Source: United States Residential Foreclosure Crisis: Ten Years Later]

Daily Journal made the following comments about the boom in foreclosure notice advertising in fiscal 2009:

> *"The Company continued to benefit from the large number of foreclosure notices in California and Arizona, for which public notice advertising is required by law. The Company's smaller newspapers, those other than the Los Angeles and San Francisco Daily Journals ("The Daily Journals"), accounted for about 96% of the total public notice advertising revenues. Public notice advertising revenues and related advertising and other service fees constituted about 54% of the Company's total revenues."*

Although management warned investors that fiscal 2009 was an exceptional year due to the public notice advertising boom and to not expect a continuation of the trend in the long run, the drawn out nature of the foreclosure crisis resulted in elevated advertising revenues for several years. By fiscal 2013, the boom had mostly run its course with management reporting a year-over-year decline of 51% in foreclosure notices.

During the five year period from fiscal 2008 through fiscal 2012, the newspaper segment reported aggregate net income of $38,981,000 compared to $16,436,000 of net income for fiscal 2003 to fiscal 2007. However, the magnitude of the boom was even more pronounced given that results would have almost certainly continued to decline in the absence of public notice advertising driven by foreclosure activity.

Charlie Munger has estimated that the foreclosure boom resulted in approximately $30 million of incremental net income for Daily Journal which could have been even greater if management had not exercised pricing restraint throughout this period.[18] Rather than reinvesting the $30 million windfall in a newspaper industry certain to decline or return the capital to shareholders, the funds were wisely invested in marketable securities with almost perfect timing. The marketable securities portfolio will be discussed later in this report.

2013 – 2022

With the benefits of the foreclosure boom mostly in the rear view mirror by fiscal 2013, the newspaper business resumed its long, drawn out decline. Segment disclosures changed in fiscal 2015 with the introduction of a corporate segment that segregated the effects of the marketable securities portfolio from the newspaper segment. Data for the new segment reporting structure was provided back to fiscal 2013. The exhibit below shows results for the newspaper segment over the past decade:

Traditional Business	For Fiscal Year Ending									
	9/30/22	9/30/21	9/30/20	9/30/19	9/30/18	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13
Revenues:										
Advertising	8,591,000	8,171,000	7,104,000	9,132,000	9,112,000	9,104,000	9,854,000	10,502,000	11,435,000	14,472,000
Circulation	4,394,000	4,576,000	5,090,000	5,249,000	5,401,000	5,654,000	5,912,000	5,915,000	6,038,000	6,346,000
Advertising service fees and other	2,937,000	2,684,000	2,501,000	2,712,000	2,659,000	2,812,000	2,651,000	2,703,000	2,800,000	3,012,000
Total revenue	**15,922,000**	**15,431,000**	**14,695,000**	**17,093,000**	**17,172,000**	**17,570,000**	**18,417,000**	**19,120,000**	**20,273,000**	**23,830,000**
Operating expenses:										
Salaries and employee benefits	9,618,000	8,226,000	10,420,000	10,637,000	10,381,000	10,548,000	9,997,000	9,750,000	9,526,000	15,856,000
Increase to long-term supplemental compensation accrual	1,130,000	1,795,000	-	-	-	-	-	-	-	
Amortization of intangible assets	-	-	-	-	-	-	142,000	12,000	-	
Other	4,472,000	4,967,000	4,787,000	6,344,000	6,459,000	7,304,000	7,101,000	8,276,000	7,628,000	
Total operating expenses	15,220,000	14,988,000	15,207,000	16,981,000	16,840,000	17,852,000	17,240,000	18,038,000	17,154,000	15,856,000
Income (loss) from operations	702,000	443,000	(512,000)	112,000	332,000	(282,000)	1,177,000	1,082,000	3,119,000	7,974,000
Other income	-	-	-	-	-	22,000	52,000	-	-	-
Interest collateralized by real estate	-	-	-	(93,000)	(95,000)	(100,000)	(88,000)	-	-	-
Pre-tax income (loss)	702,000	443,000	(512,000)	19,000	237,000	(360,000)	1,141,000	1,082,000	3,119,000	7,974,000
Income tax benefit (expense)	(185,000)	(115,000)	100,000	(5,000)	490,000	(2,000)	(530,000)	(70,000)	(1,460,000)	(3,301,000)
Net income (loss)	**517,000**	**328,000**	**(412,000)**	**14,000**	**727,000**	**(362,000)**	**611,000**	**1,012,000**	**1,659,000**	**4,673,000**
Total assets	22,743,000	22,412,000	35,896,000	17,176,000	19,602,000	16,606,000	19,026,000	15,047,000	18,228,000	18,458,000
Capital expenditures	3,000	22,000	121,000	132,000	212,000	160,000	3,662,000	425,000	110,000	96,000
Amortization of intangible assets	-	-	-	-	-	-	142,000	12,000	-	-
Operating margin	4%	3%	-3%	1%	2%	-2%	6%	6%	15%	33%
Net margin	3%	2%	-3%	0%	4%	-2%	3%	5%	8%	20%

Source: Daily Journal 10-K Reports

Despite constantly declining revenue, the newspaper business has continued to post profits in most years. In fiscal 2021 and 2022, a rise in foreclosure activity boosted advertising revenues as pandemic-related foreclosure moratoriums were lifted. Circulation revenue has continued to relentlessly decline, with increases in subscription rates insufficient to offset fewer subscribers. Charlie Munger has made it very clear that the "glory days" of the newspaper business are in the past. Although the newspapers have maintained very modest profitability, there is a risk that editorial quality could decline leading to further circulation declines in the future:

> *"Well, of course the place has downsized, it had to because the traditional newspaper business is shrinking. And of course, Gerry being a sound thinker, did the very unpleasant work of shrinking it appropriately and without bothering me or Rick, showing how wise we were to putting there in the first place. Has the quality gone down? Well, I don't think the quality and publishing public notice advertising has gone down, but I hardly think the editorial quality could go way up while employees were going down. My guess is that we have suffered some editorial quality."* [19]

With the writing on the wall for newspapers in the long run, Mr. Munger could have decided to apply the "cigar butt" approach and gracefully wind down the business. In principle, there is nothing wrong with winding down a company that no longer offers acceptable economics. However, Mr. Munger has made a firm commitment to transform Daily Journal into a software company serving courts and justice systems. Newspapers represent Daily Journal's past and we now turn our attention to a more detailed assessment of future prospects in software.

Journal Technologies

Financial manias always seem crazy when viewed in retrospect. Bubbles are born at times when unbridled enthusiasm among investors results in allocations of capital driven by hopes and dreams than reality. Some bubbles, such as the meme stock mania, are driven purely by a greater fool theory rather than belief in any underlying fundamentals.[20] However, other bubbles occur when real underlying changes in the economy cause investors to become overenthusiastic about real industries. Such was the case during the late 1990s when the dot com bubble resulted in stratospheric valuations for any company perceived to be involved with the internet.

More than a decade after the collapse of the dot com bubble, Marc Andreessen wrote *Why Software Is Eating the World*, a landmark essay published in 2011 that explained how software has revolutionized industries and present major opportunities for investors.[21] Hardly any industry is immune from the transformations resulting from greater adoption of software. Companies that leverage software and technology might gain a competitive advantage, but it seems like more often adopting software is a necessity that is required just to remain a viable enterprise. Of course, companies that provide software solutions have the potential to generate attractive returns for investors. If adopting software is not optional, software providers are in a favored position.

As we have seen, Daily Journal Corporation in the mid to late 1990s was a well-established media business with a focus on legal and real estate industry news. The internet presented a clear risk for many industries, especially those centered on providing information. Publications began to respond by creating websites and taking other measures to protect their moats. Successful newspapers were already differentiated and had a loyal base of readers unlikely to switch to free online sources very quickly, and this was true for Daily Journal's publications.

From fiscal 1993 to 1998, Daily Journal posted cumulative net income of $14.3 million, cash flows from operations of $25.8 million, and estimated free cash flow of $16.3 million. During those six years, the company returned $1.5 million to shareholders through stock repurchases. By the end of fiscal 1998, the company had $13.1 million of cash and treasury bills on the balance sheet.[22] The company was flush with cash.

Sustain Technologies

In January 1999, Daily Journal acquired 80% of Choice Information Systems, subsequently renamed as Sustain, for $6.67 million.[23] In 2000 and 2001 an additional 13% interest in Sustain was purchased for a total of $7 million and the remaining 7% was purchased in 2008 for a "nominal amount".[24] Sustain's business was to provide software to enable justice agencies to automate their operations. The flagship product was a Windows-based application called eCourt which facilitated case management and filing of court documents electronically.

Why did Daily Journal decide to acquire Sustain rather than some other small private software company or one of many publicly traded software companies? It is no accident that Sustain happened to be in the business of selling software to justice agencies. Through its publishing business, Daily Journal had deep ties to the legal profession and was a highly trusted source of news for attorneys and judges. There is no doubt that the company's ties to the legal profession inspired the idea of getting into a software business that served the legal profession and management likely anticipated that the company's reputation in legal circles could help Sustain penetrate more court systems in California, Arizona, and other states where the company had a presence.

In recent years, Charlie Munger has repeatedly referred to Daily Journal's activities in software as a "venture capital" style investment. At the 2017 annual meeting, he had the following to say about "accidentally" getting into the software business in the late 1990s:

> *"A lot of you people came into this because Berkshire was successful and Guerin was successful and for various odd reasons of history, and most of you are accidentally in the software business, and I am too because Guerin did it when I wasn't paying much attention. I don't do this kind of venture capital stuff. And he doesn't either, but he did it here. So if there's anything wrong with what happens in our software business, you're looking at a man who caused it all over here. (laughter) I'll take credit for any successes. But if there's failure you're looking at the man here who got us into this."* [25]

There is limited information available regarding the rationale for paying $6.67 million for 80% of Sustain in 1999 which would imply a valuation of the company of $8.3 million. The subsequent purchases of 13% of Sustain in 2000 and 2001 for $7 million imply a valuation of $53.8 million. Sustain posted revenue of $2.3 million in fiscal 2000, was not profitable, and required significant additional investments in R&D. The acquisition certainly had venture capital characteristics given the price paid and the heavy ongoing investments that were involved.

In addition to capitalized costs of $3 million recognized at the time of the acquisition, Daily Journal invested $6.9 million in fiscal 2000 to develop the software product. In fiscal 2001, an additional $8.1 million was invested in software development. In April 2001, management discovered that the software was not functioning properly. In the fiscal 2001 10-K, management reported "the software development project was both seriously flawed and seriously behind schedule … and was, therefore, of virtually zero commercial value. As a result, the company wrote off and expensed in fiscal 2001 capitalized software development costs aggregating $15,048,000." [26]

Clearly, Daily Journal's initial entry into the software business did not work out as planned and burned a great deal of cash. Sustain's internal staff was expanded to replace outside contractors and further software development costs were expensed as incurred rather than capitalized. Management warned that costs were expected to be high and materially impact earnings through fiscal 2002 and "very likely much longer."

Sustain Technologies	For Fiscal Year Ending 9/30/08	9/30/07	9/30/06	9/30/05	9/30/04	9/30/03	9/30/02	9/30/01	9/30/00	9/30/99
Revenues										
Licensing and maintenance fees										
Consulting fees	4,777,000	3,920,000	3,128,000	4,233,000	4,662,000	3,979,000	2,491,000	2,055,000	2,328,000	1,213,000
Other public service fees										
Total Revenues	**4,777,000**	**3,920,000**	**3,128,000**	**4,233,000**	**4,662,000**	**3,979,000**	**2,491,000**	**2,055,000**	**2,328,000**	**1,213,000**
Pre-tax income (loss)	56,000	2,444,000	(1,585,000)	(230,000)	(444,000)	(2,196,000)	(4,026,000)	(18,989,000)	(3,125,000)	(1,191,000)
Income tax benefit (expense)	(20,000)	(820,000)	635,000	395,000	1,740,000	1,800,000	2,180,000	3,390,000	1,230,000	395,000
Net income (loss)	**36,000**	**1,624,000**	**(950,000)**	**165,000**	**1,296,000**	**(396,000)**	**(1,846,000)**	**(15,599,000)**	**(1,895,000)**	**(796,000)**
Total assets	1,547,000	1,343,000	2,451,000	3,142,000	3,429,000	3,175,000	2,302,000	2,744,000	15,946,000	7,754,000
Capital expenditures	45,000	103,000	50,000	35,000	40,000	55,000	111,000	8,266,000	7,525,000	182,000
Depreciation and amortization	56,000	38,000	43,000	63,000	243,000	845,000	830,000	2,236,000	1,162,000	620,000

Source: Daily Journal 10-K Reports

The exhibit on the previous page shows segment data for Sustain for the first decade of Daily Journal's ownership. Although the business managed to grow revenue over the course of the decade, profits were nonexistent. In fiscal 2007, Sustain did post a pre-tax profit but this was due entirely to the reversal of a $3 million reserve that was established in 2001 with respect to potential lawsuits with the outside service provider.

With software development costs being expensed as incurred, there was minimal capex after fiscal 2001. Sustain's net income benefited from substantial tax loss carryforwards. In fiscal 2008, Sustain had twenty employees, up slightly from the fifteen employees on Sustain's payroll at the time it was acquired in 1999.

After two years of marginal profitability, Sustain's red ink resumed in fiscal 2010 with revenue declines continuing through fiscal 2012. In the fiscal 2012 10-K, management reported that Sustain was investing heavily "for the foreseeable future" to satisfy customer demand for additional functionality. In fiscal 2011 and 2012, the company expensed $8.3 million of personnel costs for development of a web based case management system. The exhibit below shows Sustain's segment results for fiscal 2008 to 2012:

	For Fiscal Year Ending				
Sustain Technologies	**9/30/12**	**9/30/11**	**9/30/10**	**9/30/09**	**9/30/08**
Revenues					
Licensing and maintenance fees	2,205,000				
Consulting fees	713,000	2,981,000	3,337,000	4,943,000	4,777,000
Other public service fees	-				
Total Revenues	**2,918,000**	**2,981,000**	**3,337,000**	**4,943,000**	**4,777,000**
Pre-tax income (loss)	(2,188,000)	(1,622,000)	(932,000)	17,000	56,000
Income tax benefit (expense)	980,000	575,000	350,000	(5,000)	(20,000)
Net income (loss)	**(1,208,000)**	**(1,047,000)**	**(582,000)**	**12,000**	**36,000**
Total assets	1,131,000	1,019,000	786,000	1,768,000	1,547,000
Capital expenditures	52,000	24,000	13,000	20,000	45,000
Depreciation and amortization	33,000	31,000	47,000	54,000	56,000

Source: Daily Journal 10-K Reports

As noted previously, when Sustain was acquired, it initially capitalized purchased software costs and subsequent software development costs in fiscal 2000 and 2001. Purchased and capitalized software development costs were intended to be amortized into expenses over five years. To the extent that software development costs confer benefits to the company over a long period of time in the form of proprietary products that can be sold to customers, it makes sense to treat such spending as capex to be amortized over the estimated useful life of the software. However, after the large write-off in fiscal 2001, software development costs were expensed as incurred. This is important to note when we look at years such as fiscal 2011 and 2012 with heavy software development costs that are expensed. Presumably, some portion of these costs resulted in software products with the potential to generate revenue in future fiscal years.

From the vantage point of 2012, Daily Journal's move into the software industry in 1999 had proven to be quite painful. The investment had yet to bear fruit financially and carried a significant opportunity cost. From reading the company's disclosures during this period, one gets the impression that the business might have suffered from the effects of very small scale. It is difficult for a software business with very limited revenue to fund the product development necessary to succeed in a competitive industry.

The type of software Sustain develops is known as “vertical market software”, a topic that is discussed in greater detail in Appendix I. Vertical market software serves organizations that operate in an industry with highly specialized requirements. In the case of Sustain, the software was designed to handle the needs of the justice system. In addition to high development costs relative to revenue, Sustain also had to deal with a long and complicated sales cycle involving the inevitable bureaucracy of government agencies.

Given Sustain’s small size, would it be able to successfully scale up and fund the technology needed to compete with larger firms? Tyler Technologies, discussed in more detail in Appendix II, was no doubt a formidable competitor for a very small software company like Sustain. Whether through more internal investment or acquisitions, Daily Journal needed to obtain more of a critical mass that would allow the company to better compete with larger public companies like Tyler Technologies.

New Dawn and ISD

In Fiscal 2013, Daily Journal made two moves to expand the scope of the company’s activities in software. In December 2012, New Dawn was acquired for $14 million in cash and in September 2013, ISD was acquired for $16 million in cash. The combined outlay for the two businesses, net of cash acquired, was $25.3 million.

At the time of acquisition, New Dawn provided case management systems to more than 350 justice agencies in 39 states, three United States territories, and two foreign countries. ISD provided case management software to California court systems and government agencies and also provided a secure website for the general public to pay traffic citations. The funds required for these acquisitions were raised by taking a margin loan against Daily Journal’s securities portfolio, a subject that will be discussed in detail in the next section of this report.

The exhibit below shows segment data for Journal Technologies from fiscal 2013 through fiscal 2022. Fiscal 2013 includes approximately ten months of results from New Dawn and one month of results for ISD. Fiscal 2014 includes the effect of both acquisitions for a full fiscal year.

Journal Technologies	For Fiscal Year Ending									
	9/30/22	9/30/21	9/30/20	9/30/19	9/30/18	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13
Revenues:										
Licensing and maintenance fees	19,192,000	21,044,000	21,647,000	20,179,000	17,225,000	16,037,000	14,758,000	13,984,000	12,987,000	9,942,000
Consulting fees	11,865,000	6,319,000	7,718,000	5,539,000	2,832,000	4,476,000	4,085,000	4,704,000	4,002,000	3,406,000
Other public service fees	7,030,000	7,131,000	5,882,000	5,844,000	3,474,000	3,301,000	4,352,000	6,170,000	6,161,000	498,000
Total revenue	**38,087,000**	**34,494,000**	**35,247,000**	**31,562,000**	**23,531,000**	**23,814,000**	**23,195,000**	**24,858,000**	**23,150,000**	**13,846,000**
Operating expenses:										
Salaries and employee benefits	27,317,000	26,004,000	27,382,000	24,377,000	23,451,000	21,201,000	17,384,000	16,260,000	15,736,000	
Increase to long-term supplemental compensation accrual	115,000	40,000	-	-	-	-	-	-	-	
Amortization of intangible assets	-	-	-	-	3,058,000	4,895,000	4,895,000	4,895,000	4,866,000	18,031,000
Goodwill impairment	-	-	-	13,400,000	-	-	-	-	-	
Other	9,368,000	6,741,000	8,636,000	12,121,000	11,414,000	10,603,000	8,733,000	8,297,000	7,857,000	
Total operating expenses	36,800,000	32,785,000	36,018,000	49,898,000	37,923,000	36,699,000	31,012,000	29,452,000	28,459,000	18,031,000
Income (loss) from operations	1,287,000	1,709,000	(771,000)	(18,336,000)	(14,392,000)	(12,885,000)	(7,817,000)	(4,594,000)	(5,309,000)	(4,185,000)
Other income	-	-	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	743,000	(112,000)	(96,000)	(537,000)	-
Pre-tax income (loss)	1,287,000	1,709,000	(771,000)	(18,336,000)	(14,392,000)	(12,142,000)	(7,929,000)	(4,690,000)	(5,846,000)	(4,185,000)
Income tax benefit (expense)	(205,000)	(425,000)	100,000	2,450,000	695,000	7,910,000	3,140,000	1,580,000	2,350,000	2,263,000
Net income (loss)	**1,082,000**	**1,284,000**	**(671,000)**	**(15,886,000)**	**(13,697,000)**	**(4,232,000)**	**(4,789,000)**	**(3,110,000)**	**(3,496,000)**	**(1,922,000)**
Total assets	27,868,000	20,480,000	22,277,000	22,741,000	29,885,000	33,461,000	39,786,000	47,108,000	51,973,000	47,611,000
Capital expenditures	33,000	7,000	63,000	33,000	-	93,000	117,000	140,000	325,000	184,000
Amortization of intangible assets	-	-	-	-	3,058,000	4,895,000	4,895,000	4,895,000	4,866,000	1,865,000

Source: Daily Journal 10-K Reports

The accounting for the New Dawn and ISD acquisitions allocated $13.4 million toward goodwill and $26.2 million toward identifiable intangible assets. Intangible assets were amortized over a five year period. Although goodwill is not subject to amortization, management wrote off the entire $13.4 million of goodwill in fiscal 2019 when plans were put in place to phase out the New Dawn and ISD legacy software products.[27]

Goodwill impairments and amortization of intangibles are not cash expenses, but even if we exclude the effect of those items, Journal Technologies has been unprofitable in aggregate over the past decade. Costs to update and upgrade software products are expensed as incurred even though the software products should have a useful life spanning multiple years, so to some extent, employee costs related to R&D should be considered an investment. However, from the disclosures provided by Daily Journal, it is challenging to come up with estimates for what portion of expenses might be best regarded as capital expenditures in software.

It is also important to note that Journal Technologies has conservative revenue recognition practices with respect to consulting revenue which is only considered earned when a client begins using the software in production. Since implementations can take months or even years and employee costs related to consulting are recorded as incurred, this can have the effect of understating results. As of September 30, 2022, Daily Journal had a deferred consulting fee liability of $6.4 million. This represents cash received from customers toward implementation work that was still in progress at the end of fiscal 2022 and should be recognized as revenue as customers go-live with the software. Charlie Munger had the following to say about Journal Technology's revenue recognition practices at the 2018 Daily Journal annual meeting:

> *"There are two things that shareholders should know about our software business. One is that our system is more configurable than that offered by many of our competitors. That is a hugely good idea on our part. And the other thing is that we're slower to recognize revenue when somebody hires us than most of our competitors, and that is also a good thing because if you agree to give somebody selling computer software a lot of pay for developing a system, you can spend a lot of money and get nothing back. Buyers are very wary. And we are playing to that by...one of the advantages of being very rich is that we can behave better than other people.*
>
> *Not only are we very rich, we don't give a damn about what we report in any given quarter, and that gives us an advantage in saying to these government agencies, 'You're not going to take a big risk with us because you're not going to pay us until the system is working.' And I think it's a very good idea that we're using conservative accounting and have that attitude towards dealing with our customers. We want the customers to be right when they trust us. It's rather interesting the way it has happened."* [28]

Future Prospects

Charlie Munger has characterized Journal Technology's business as a "long, long slog" which seems appropriate given the heavy investments made by Daily Journal since 1999 and the lack of aggregate profitability so far.[29] However, based on statements made by Mr. Munger at recent annual meetings and improving reported financial results over the past two fiscal years, there may be signs for optimism. Most importantly, Mr. Munger has made it very clear that Daily Journal aspires to be a significant software company while also operating its traditional newspaper business as well as possible.

Part of the optimism seems to be driven by a recognition of how *difficult* Journal Technology's business is when compared to other types of software enterprises. The difficulty of dealing with government agencies and the lengthy sales cycle and the risk associated with expending resources for consulting engagements for long periods of time before being able to recognize revenue are aspects of the business that are likely to limit new entry. It is also the difficulty of properly implementing enterprise software that creates a moat for software vendors. Once software is implemented in an arduous process that takes months or even years, the client is highly motivated to stick with the solution for a long time.

Appendix I goes into further detail regarding the favorable economics of software-as-a-service (SAAS). Once a software solution is implemented, Daily Journal will be in a position to collect annual subscription fees from the client as long as the software remains in production use. Like subscription revenue from newspapers, SAAS revenue is collected in advance of providing the actual service which provides the company with float and reduces working capital needs. The question is whether Daily Journal has the technology needed to win deals, the consulting talent required to successfully implement the software, and the ability to retain clients over long periods of time.

Charlie Munger has never been known for displays of excessive displays of enthusiasm and normally makes a great effort to reduce expectations. Despite these natural inclinations, he has characterized the future of the software business as "especially interesting" and he clearly believes that Journal Technologies has a technological edge over Tyler Technologies and other competitors.[30] From an outsider's perspective, it is difficult to assess the quality of the software or the internal capabilities of Journal Technologies. It stands to reason, however, that Mr. Munger has not made the statements he has about future prospects in the software industry without carefully considering the company's competitive position.

Investment Portfolio

"In fields of observation, chance only favors the mind which is prepared."

— Louis Pasteur [31]

Prior to the global financial crisis, Daily Journal Corporation was clearly an operating company engaged in newspaper publishing and software development. When excess capital accumulated on the balance sheet during the 1990s, it was invested in treasury bills and cash equivalents. In the late 1990s, management decided to enter the software industry and took a venture capital approach. The software industry is hardly free of risk as we can see from the initial outcome of the investment in Sustain and its subsequent financial results. However, this was a risk taken in acquiring an operating subsidiary, not securities in financial markets.

When the foreclosure boom resulted in a windfall for the newspaper business, cash accumulated on the balance sheet and was invested in treasury bills. At the end of the tumultuous month of September 2008, Daily Journal had $20.7 million in treasury securities and $1 million in cash equivalents. As 2008 drew to a close, the company had $19.4 million in treasury securities and $2.6 million in cash.[32] Charlie Munger was waiting patiently and observing the chaos in financial markets but had yet to take any action other than to repurchase $1.55 million of Daily Journal common stock. Starting in the first quarter of 2009, he began to swing aggressively at pitches:

- During the first quarter of 2009, Daily Journal invested $15.5 million in stocks and by March 31, 2009, the securities had an unrealized gain of $9.3 million. On March 31, 2009, Daily Journal had a portfolio of stocks valued at $24.7 million, $7.7 million in treasury securities, and $2.8 million in cash.[33]

- During the second quarter of 2009, $4.9 million was invested in bonds. On June 30, 2009, Daily Journal had a marketable securities portfolio of $46.3 million with $25.8 million of unrealized gains. In addition, the company had $3.3 million in treasury securities and $3 million in cash equivalents.[34]

- By September 30, 2009, the end of Daily Journal's fiscal year, the marketable securities portfolio had appreciated to $54.1 million with an unrealized gain of $33.7 million. In addition, the company had $6.6 million in treasury securities and $1.4 million in cash equivalents.[35]

The following exhibit from the company's fiscal 2009 10-K shows the results of Charlie Munger's well timed investments during the first half of calendar 2009:

Investment of Financial Instruments

	September 30, 2009		
	Amortized cost basis	Aggregate fair value	Pretax unrealized gains
U.S. Treasury Notes and Bills	$ 6,601,000	$ 6,627,000	$ 26,000
Marketable securities			
Common stocks	15,501,000	47,917,000	32,416,000
Bonds	4,923,000	6,158,000	1,235,000
Total	$ 27,025,000	$ 60,702,000	$ 33,677,000

Source: Daily Journal's fiscal 2009 10-K

Daily Journal provided very little information regarding the securities portfolio in its fiscal 2009 10-K. The first filing that contains any details regarding the nature of the investment appeared in Daily Journal's fiscal Q2 2010 report when investors were told that stock of two Fortune 200 companies were purchased along with bonds of a third Fortune 200 company.[36] From subsequent statements and 13-F disclosures that Daily Journal started to file in 2014, we now know that the initial stock investments were in Bank of America and Wells Fargo purchased near the "bottom tick" for the stocks in early 2009. As Charlie Munger has said, the nearly immediate success of the investments was due to a combination of a prepared mind and some luck:

> *"Imagine sitting there, we're having all of this money rolling in with the foreclosure boom, and then deploying it in like one day. At the bottom tick for some of those stocks. Now that was luck. And it was luck that we had caught the bottom tick. It wasn't luck that we had the money on hand when other people didn't and were willing to deploy it when other people were running for cover."* [37]

This situation is all the more fascinating because the man who swung for the fences in early 2009 was already 85 years old at the time and was highly motivated to improve the financial outcome of a small public company that only comprised a small percentage of his net worth. Rather than deploying the excess cash in financial markets, it could have remained in treasury bills or have been used to repurchase Daily Journal stock or returned to shareholders as dividends. However, when a clear opportunity came knocking, Charlie Munger saw an opportunity to achieve significant returns. He has made it clear that the intent was not to turn Daily Journal into an investment company, but to provide it with financial resources that could be used in the future to continue investing in the software industry and to solidify the company's legacy business in newspapers.

Daily Journal is not an investment company or a miniature version of Berkshire Hathaway, but followers of Charlie Munger are naturally interested in the logic behind his investment decisions so the marketable securities portfolio has received a great deal of attention. As of September 30, 2022, Daily Journal had a marketable securities portfolio of $243.4 million net of deferred tax liabilities. With a market capitalization of approximately $400 million in late January 2023, the securities portfolio accounts for a majority of the market value of the company, so it is necessary to examine both the evolution of the portfolio and its current composition.

Following the initial purchases in 2009, no actions were taken in fiscal 2010. In fiscal 2011, $11.2 million was invested in the common stock of two foreign manufacturing companies, one of which Charlie Munger has said was BYD, the Chinese automaker that Berkshire Hathaway has also invested in. In fiscal 2012, $21 million was invested in shares of a third Fortune 200 company and in additional shares of one of the foreign manufacturing companies. Appendix III includes additional details about the securities portfolio over the past fourteen years including a year-by-year presentation of purchases and sales.

In early 2014, Daily Journal began to file 13-F disclosures with the SEC. These disclosures include information on stocks traded on U.S. exchanges including American depository receipts (ADRs) representing shares in foreign companies. 13-F disclosures do not include stocks that trade on foreign exchanges. Starting in fiscal 2015, Daily Journal began to include commentary in its 10-K reports indicating the U.S. dollar equivalent of marketable securities denominated in foreign currencies. Although the names of the foreign securities are not provided in the 10-K reports, we know that BYD's Class H shares trade on the Hong Kong stock exchange. The following exhibit shows securities disclosed on 13-F reports at the end of each fiscal year since 2014. We subtract the value of the holdings on the 13-F from the common stocks on the balance sheet to arrive at foreign marketable securities. We can segment the foreign securities by currency based on 10-K disclosures.

	9/30/22	9/30/21	9/30/20	9/30/19	9/30/18	9/30/17	9/30/16	9/30/15	9/30/14
Marketable Securities on Balance Sheet, at fair value									
Common stocks	275,529,000	347,573,000	179,368,000	194,581,000	212,296,000	220,973,000	158,462,000	158,705,000	165,734,000
Bonds	-	-	-	-	-	8,292,000	8,172,000	7,336,000	7,942,000
Total Marketable Securities on Balance Sheet, at fair value	**275,529,000**	**347,573,000**	**179,368,000**	**194,581,000**	**212,296,000**	**229,265,000**	**166,634,000**	**166,041,000**	**173,676,000**
Deferred tax liabilities attributable to unrealized gains on investments	32,120,000	64,115,000	35,870,000	37,241,000	42,151,000	64,550,000	42,250,000	43,278,000	48,896,000
Marketable Securities Portfolio, net of deferred tax liability	**243,409,000**	**283,458,000**	**143,498,000**	**157,340,000**	**170,145,000**	**164,715,000**	**124,384,000**	**122,763,000**	**124,780,000**
Securities disclosed on SEC Form 13F:									
Alibaba Group (ADR)	23,997,000	44,720,000	-	-	-	-	-	-	-
Bank of America	69,460,000	97,635,000	55,407,000	67,091,000	67,758,000	58,282,000	35,995,000	35,834,000	39,215,000
Posco (ADR)	357,000	672,000	408,000	460,000	643,000	676,000	498,000	341,000	4,903,140
US Bancorp	5,645,000	8,322,000	5,019,000	7,748,000	7,393,000	7,503,000	6,005,000	5,741,000	5,856,200
Wells Fargo	64,022,000	73,875,000	37,423,000	80,290,000	83,665,000	87,788,000	70,485,000	81,739,000	82,566,666
Total of securities disclosed on SEC Form 13F	**163,481,000**	**225,224,000**	**98,257,000**	**155,589,000**	**159,459,000**	**154,249,000**	**112,983,000**	**123,655,000**	**132,541,006**
Common stocks on balance sheet at fair value	275,529,000	347,573,000	179,368,000	194,581,000	212,296,000	220,973,000	158,462,000	158,705,000	165,734,000
Less marketable securities disclosed on SEC Form 13F	(163,481,000)	(225,224,000)	(98,257,000)	(155,589,000)	(159,459,000)	(154,249,000)	(112,983,000)	(123,655,000)	(132,541,006)
Foreign marketable securities not disclosed on SEC Form 13F	**112,048,000**	**122,349,000**	**81,111,000**	**38,992,000**	**52,837,000**	**66,724,000**	**45,479,000**	**35,050,000**	**33,192,994**
Foreign Securities									
Marketable security denominated in South Korean Won at fair value		-	-	9,380,000	10,249,000	11,724,000	12,667,000	8,694,000	
Marketable security denominated in Hong Kong Dollar at fair value	112,048,000	122,349,000	81,111,000	29,612,000	42,587,000	55,000,000	32,814,000	26,355,000	
Total Foreign Securities	**112,048,000**	**122,349,000**	**81,111,000**	**38,992,000**	**52,836,000**	**66,724,000**	**45,481,000**	**35,049,000**	

Source: Daily Journal 10-K Reports

Charlie Munger is known for running a very concentrated portfolio and his choices for Daily Journal are no exception. There have been very few changes to the securities reported on form 13-F over the years and Daily Journal continues to hold the securities that were initially purchased in the market rout of early 2009.[38]

Let's take a look at the overall results of the investment portfolio over the past decade as well as the aggregate results of all activity since 2009. The following exhibit shows dividends and interest received each year since fiscal 2013 along with *realized* gains on sales of investments. In addition, for each year the cumulative *unrealized* gains are presented. For example, in fiscal 2018, Daily Journal received $4.8 million in dividends and interest and realized gains of $3.2 million. There were also unrealized gains of $158.4 million as of September 30, 2018.

	9/30/22	9/30/21	9/30/20	9/30/19	9/30/18	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13
REALIZED GAINS AND INCOME FROM INVESTMENT PORTFOLIO:										
Dividends and interest income for fiscal year	5,451,000	2,908,000	4,965,000	5,380,000	4,808,000	4,844,000	4,085,000	3,829,000	3,001,000	2,541,000
Realized gains on sales of investments for fiscal year	14,249,000	41,749,000	4,193,000	-	3,182,000	-	-	4,000	-	1,000
Total	**19,700,000**	**44,657,000**	**9,158,000**	**5,380,000**	**7,990,000**	**4,844,000**	**4,085,000**	**3,833,000**	**3,001,000**	**2,542,000**
CUMULATIVE UNREALIZED GAINS ON SECURITIES AT YEAR END	**120,692,000**	**244,093,000**	**137,593,000**	**140,692,000**	**158,407,000**	**165,872,000**	**108,256,000**	**111,498,000**	**125,700,000**	**89,018,000**
MARGIN LOAN DATA:										
Margin loan at year end	75,000,000	32,000,000	29,493,000	29,493,000	29,493,000	29,493,000	29,493,000	29,493,000	29,493,000	29,493,000
Margin interest paid	1,026,000	233,000	434,000	862,000	651,000	422,000	284,000	224,000	230,000	97,000
SUMMARY DATA:	**Fiscal Years 2009 - 2022**									
Cash used to purchase marketable securities	100,950,000									
Dividends and interest income received	46,583,000									
Realized gains on sales of investments	63,477,000									
Cumulative unrealized gains on marketable securities at 9/30/2022	120,692,000									
Margin loan balance at 9/30/22	75,000,000									
Cumulative margin interest paid	4,463,000									

Source: Daily Journal 10-K Reports

The summary data for fiscal 2009 to 2022 shows that $101 million was used to purchase marketable securities over the fourteen year period. $46.6 million of dividends and interest was received in total along with $63.5 million of realized gains on sales of investments. As of September 30, 2022, Daily Journal had $120.7 million of unrealized gains on securities along with a $32.1 million deferred tax liability. Importantly, no current tax is owed on unrealized gains which can continue compounding until the securities are eventually sold.

In fiscal 2013, Daily Journal took a margin loan of $29.5 million in order to fund the acquisitions of New Dawn and ISD for Journal Technologies. In fiscal 2021, the company added $2.5 million of margin. In fiscal 2022, an additional $43 million of margin was added. The additional borrowing in 2021 and 2022 was used to purchase additional marketable securities. As of September 30, 2022, Daily Journal had margin loans outstanding of $75 million. In aggregate, the company has paid $4.5 million of margin interest since fiscal 2013.

Daily Journal could have chosen to fund the New Dawn and ISD acquisitions in fiscal 2013 by selling marketable securities rather than using a margin loan. As of September 30, 2013, the company had a marketable securities portfolio of $137 million. At the time, management indicated that using margin borrowing resulted in more favorable financing terms than would have been available for other types of borrowing. The interest rate on the margin loan fluctuates based on the Federal Funds rate plus 50 basis points (0.5%). In the fiscal 2022 10-K, management noted that interest payments on the $75 million margin loan have increased due to the Fed Funds rate increasing in 2022 and that further increases are possible if the Fed continues to tighten monetary policy.

At the 2022 annual meeting, Charlie Munger made the following comments about Daily Journal's margin debt:

> *"Well, of course, if you invest in marketable securities, you have the risk that they'll go down and you'll lose money instead of make it. But if you hold a depreciating currency, that's losing purchasing power. On balance, we prefer the risk we have to those we're avoiding, and we don't mind a tiny little bit of margin debt."* [39]

Given Mr. Munger's track record not only at Daily Journal but in financial markets in general over many decades, most shareholders seem to be willing to defer to his judgment regarding the use of leverage.

Despite stepping down as Chairman of Daily Journal in 2022, Charlie Munger remains on the board and in charge of the company's investment portfolio at the age of 99. At the 2022 annual meeting, Mr. Munger was asked about how the portfolio will be managed in the future and stated that "I'll handle it as long as we can, and when I'm gone or sufficiently impaired, we'll get someone else to do it."

Given the company's concentrated portfolio and exposure to Asian companies, it would be logical to assume that Daily Journal might turn to Li Lu if the portfolio remains relatively intact.[40] It is also possible that the concentrated portfolio could be liquidated or diversified into index funds requiring no active management. Ultimately, the funds are intended to bolster Daily Journal's position in software and it seems probable that the investment portfolio will eventually be used for that purpose although the timing is obviously uncertain.

Corporate Governance

On March 28, 2022, Daily Journal announced a major leadership transition with the appointment of Steven Myhill-Jones as Chairman and Interim Chief Executive Officer.[41] Mr. Myhill-Jones founded Canada-based Latitude Geographics in 1999 at the age of twenty-three. He ran the business for eighteen years before it was sold in 2017.[42] Charlie Munger had the following to say about Mr. Myhill-Jones at the time of his appointment:

> *"We are incredibly fortunate that Steven found his way into our lives. He's whip smart and full of energy," said Mr. Munger. "He's exactly the kind of leader we need at Daily Journal and Journal Technologies to take our business into the future. Steven was part of a team that built a very successful technology company out of nothing, and he ran it for a long period of time, with tenacity, patience and a focus on customer service. And he's hungry to do more!"*

Mr. Myhill-Jones replaced Gerald Salzman who retired at the age of 83 after spending more than half of his life at Daily Journal as a director, President, CEO, and CFO. Daily Journal's annual proxy statements have described Mr. Salzman's key role at Daily Journal and pointed out that he would be difficult to replace. However, the fact that the company took firm steps to outline management succession plans in 2022 is a positive development for the business given the advanced age of Mr. Salzman. With Mr. Myhill-Jones's appointment, Charlie Munger stepped down as Chairman but continues to serve as a director.

The management transition also included promotions at Journal Technologies. Danny Hemnani was promoted to CEO and Maryjoe Rodriguez was promoted to President. Ms. Rodriguez has worked at Journal Technologies since 2007 and was appointed to Daily Journal's board of directors in December 2021. However, she resigned from the board on November 14, 2022 and the company's announcement included no additional details.[43] According to her LinkedIn profile, Ms. Rodriguez continues to be employed by Journal Technologies but I have been unable to independently confirm her continued employment.

Daily Journal's compensation of Directors has traditionally been minimal. Non-employee directors receive a yearly stipend of $5,000 with no additional compensation. Charlie Munger has served on the board and managed the investment portfolio for no compensation whatsoever. Mr. Salzman was paid a $250,000 annual salary that remained unchanged since 1992. In fiscal 2021 and 2022, he received a $400,000 discretionary cash bonus, presumably set on an annual basis by the compensation committee with Mr. Munger's input.

Daily Journal has no stock option plans, retirement plans, or any other perquisites other than health, dental, vision, and life insurance policies which are offered to all full-time employees. However, executives have benefited from a unique management incentive plan that links compensation to the company's performance.

The excerpt on the following page taken from Daily Journal's 2022 proxy statement explains the rationale behind the management incentive plan and how it is preferable to a conventional stock option plan:

"The Board of Directors believes the Management Incentive Plan is preferable to a conventional stock option plan. As a mechanism for compensation, a stock option plan is capricious, as individuals awarded options in a particular year would ultimately receive too much or too little compensation for reasons unrelated to their performance. Such variations could cause undesirable effects, as participants receive different results for options awarded in different years. In addition, a conventional stock option plan would fail to properly weigh the disadvantage to shareholders through dilution."

Mr. Salzman has been provided with certificates for a certain percentage of the company's pre-tax earnings which he has accumulated over his years of service. In fiscal 2022, Mr. Salzman was entitled to 8.2% of pre-tax profits and received incentive compensation of $703,000. Daily Journal provides certificates to managers depending on their area of responsibility. Those who work in the traditional publishing business receive "Daily Journal Non-Consolidated Certificates" while software employees receive "Journal Technology Certificates".[44]

While Daily Journal's management incentive plan appears to have worked to align Mr. Salzman's incentives with the performance of the company without using traditional stock options, the company has announced that it will establish a new senior management equity incentive plan. While the plan is not yet established and there are no specific details, the plan has been initially funded with 3,720 shares of Daily Journal stock donated by Charlie Munger in June 2022.[45] At the time of Mr. Munger's gift, the shares were worth approximately $1 million. While this gift solidifies Mr. Munger's role as an exemplar and role model for the new leadership, it is unlikely that 3,720 shares of stock will be sufficient to provide incentives for very long.[46]

Daily Journal must compete with the largest technology firms in America if the company hopes to recruit and retain the best software engineers and managers. These large firms have far more resources than Daily Journal. Smaller firms like Tyler Technologies, discussed in Appendix II, also have greater financial resources than Daily Journal. Daily Journal's management succession moves in 2022 represented a good first step toward positioning the company for the future, but more clarity on a permanent CEO is required before shareholders can make any longer term assessments. Shareholders should also look for further details on the new management incentive program in the coming months which is likely to be expensive and could potentially cause dilution.

Perhaps the most significant risk facing Daily Journal involves who will take over Mr. Munger's investment management role. As discussed in the previous section, there are a number of scenarios that could play out with the investment portfolio in the coming years. If Journal Technologies finds attractive acquisition targets, the portfolio could be partially or fully liquidated to fund acquisitions. It is also possible that Journal Technologies could dramatically increase internal investment in software development requiring funds from the investment portfolio. Perhaps the most likely scenario over the next few years is that the portfolio will be transitioned from Mr. Munger to Li Lu or another investor who Mr. Munger has confidence in.

At the age of 99, it is simply unrealistic to expect that Mr. Munger will continue to manage the investment portfolio for many more years. Of course, a similar statement could have been made a decade ago and shareholders might be pleasantly surprised! Perhaps Mr. Munger will have more to say about the longer term direction for the investment portfolio at the upcoming annual meeting scheduled for February 15, 2023.

Conclusion

From a business standpoint, Daily Journal Corporation presents an irresistible case study of a company that has been completely transformed over the past quarter century. Starting from a solid base of niche market newspapers serving the legal and real estate professions, the company initiated investments in the software industry in 1999 and built a massive investment portfolio a decade later funded by a boom in business due to the foreclosure crisis. Over the past fourteen years, Charlie Munger's investment talents have added tremendous value for shareholders and ensured that the company will have funds to invest in the software industry as opportunities arise.

From an investment standpoint, Daily Journal is a "special situation". With a market value of ~ $400 million in late January 2023, shares trade at a premium to shareholders' equity of $179 million as of September 30, 2022. Consolidated financial results are "noisy" due to the fact that there are two unrelated operating subsidiaries and a large investment portfolio that is marked to market on a quarterly basis and produces wild swings in earnings.

Daily Journal Corporation can be thought of as having three main sources of value:

1. **Newspapers** represent the company's traditional business which has been in nearly constant decline for a quarter century, with a temporary reprieve provided by unusually strong public notice advertising during the foreclosure boom that followed the housing bubble. As discussed in the newspaper section, segment results have weakened in recent years and the business is now only marginally profitable. Management hopes to continue operating the newspapers without incurring losses. Charlie Munger has referred to newspapers as providing a public service and this is especially true in Daily Journal's case due to its focus on the legal profession. Shareholders should not expect much value from this segment and will have to accept very low (if any) returns on assets allocated to publishing.

2. **Software** represents the future of the company but is difficult to evaluate quantitatively. The initial acquisition of Sustain in 1999 was plagued by problems from the beginning and consumed significant capital. Management more than doubled down on the industry in fiscal 2013 when New Dawn and ISD were acquired and the combined Journal Technologies business continued to post steep losses in subsequent years. While the heavy amortization charges from the acquisition are in the past and all of the goodwill has been written off, Journal Technologies continues to spend heavily on software development, all of which is expensed as incurred. The software business has posted positive net income for the past two fiscal years which could bode well for the future. Charlie Munger, not one to exhibit unwarranted enthusiasm, has characterized future prospects as "especially interesting" but has also warned shareholders to regard the investment as "venture capital".

3. **Investments** are easy to quantify at a given point in time, but the concentrated nature of the portfolio and uncertainty regarding who will manage it once Charlie Munger is no longer able to creates difficulties. We can say with certainty that Daily Journal had $243.4 million of marketable securities on the balance sheet, net of deferred taxes, as of September 30, 2022 and we can say with certainty that

> $75 million of margin debt offsets the portfolio, but we would need to evaluate each holding to make a statement on whether this quoted value approximates intrinsic value. Doing so is well beyond the scope of this report. Even if an investor can come up with an opinion regarding the securities in the portfolio, not knowing who will manage it in the long run creates uncertainty regarding future allocations. Finally, since the portfolio is a potential source of funds for expansion of the software business in the future, shareholders cannot consider the portfolio to be distributable to owners of the business.

I have followed Daily Journal for over a decade because of Charlie Munger's involvement and the remarkable decision he made in early 2009 to bet heavily on a concentrated portfolio of stocks when he regarded the odds as being heavily in his favor. The combination of the luck that produced unusual profitability for the newspaper business during the foreclosure boom and Mr. Munger's investment skill resulted in a "Lollapalooza" outcome.

It is one thing to follow a company because it is an interesting story and quite another to commit funds, especially given Mr. Munger's advanced age and his undeniably central role. Gerald Salzman's longtime leadership has also transitioned to a new interim CEO and there is limited visibility into leadership for the software business in the long run.

The possibility of making large gains in court systems and justice agencies clearly exists, and that could be an entry point into additional areas of government. Tyler Technologies is a formidable competitor, but the software industry is known for David vs. Goliath stories where the small players eventually win. With Tyler recently trading for ~7x revenue, the market is clearly capable of assigning high valuations to companies in the industry.

Investors with a "venture capital" mindset and confidence in Daily Journal's technology could justify an investment based on the rich multiples that other software companies command, especially those with SAAS models that are perceived to be highly scalable with large addressable markets. A venture capital mindset is precisely the attitude that Charlie Munger has urged investors to adopt. This seems like the only logical approach one can adopt based on what is known today, at least from an outsider's perspective. Without a somewhat adventurous venture capital mindset, it is difficult to consider an investment in the company.

Appendix I: Vertical Market Software

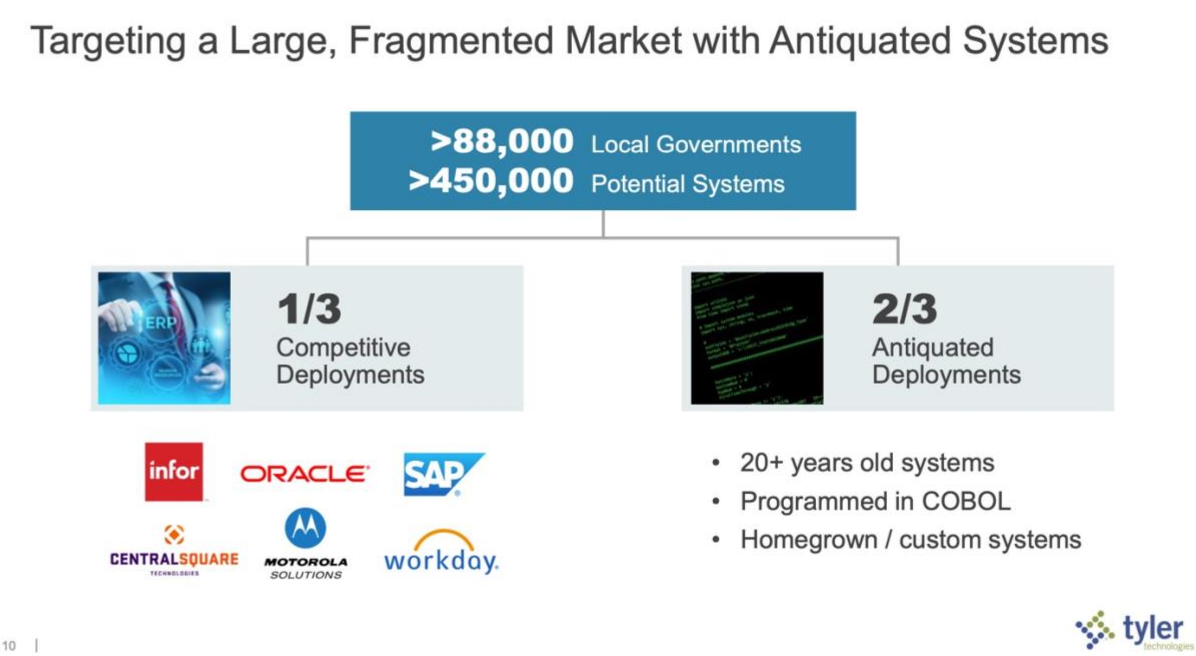
Introduction

Vertical market software serves organizations that operate in an industry with highly specialized requirements. In the case of Journal Technologies, the company builds software designed to handle the needs of the justice system. However, there are many other vertical markets that have special needs. This appendix provides insights into vertical market software based on my experience in the industry from the 1990s through the late 2000s.

For over a decade, I was involved in building enterprise software for membership-based organizations such as trade associations, membership societies, and unions. Such organizations have specific requirements related to membership management that are not available in "horizontal" software that targets organizations across multiple industries. Membership organizations have unique workflows and extensive custom requirements.

Whether the vertical market is the court system or membership-based organizations, software serving such markets has historically been very expensive and inflexible. For those of us who are used to the very latest in modern technology in our work and personal lives, it can be shocking to realize that many large organizations are still using technology that is often decades old. Many antiquated systems are either entirely custom built for a specific organization or are heavily modified software products that can no longer be upgraded effectively. In either case, long established workflows and habits militate against adoption of modern software.

Tyler Technologies, Journal Technology's most important competitor, estimates that two-thirds of its target market are organizations with homegrown or custom systems that are over twenty years old and coded in COBOL, a programming language that is much less flexible than modern languages:



Source: Tyler Technologies Investor Presentation, August 2022 [47]

The antiquated nature of software in government agencies is not surprising. Many of the membership association customers that I interacted with in the 1990s and 2000s were running software that deployed in the 1970s and 1980s. I would not be at all surprised if software that I installed in the 1990s and 2000s is still in production today. Organizations are slow to change and once software is installed, it tends to be sticky.

Technological Change

As Tyler Technologies mentioned in their presentation, many legacy systems were built using COBOL which traditionally ran on mainframe computers with primitive character-based user interfaces that predate the Windows and Macintosh operating systems. Many of the systems that I replaced with Windows-based software in the 1990s and 2000s were legacy character-based mainframe systems.

Legacy systems are typically homegrown custom systems or software packages that are heavily customized to fit the requirements of the client. Custom legacy systems are expensive to maintain and inflexible, often requiring the services of employees who understand codebases that are usually poorly documented. When longtime employees resign or retire, organizations are often left with systems that cannot be modified or maintained.

Modifying legacy commercial software products is often not much better than dealing with completely custom systems. Legacy software is usually customized by modifying the commercial software in ways that make upgrades difficult. As a result, many organizations end up running commercial software that is obsolete and are unable to take advantage of updates released by the software vendor without redoing all of their custom work and dealing with defects that invariably arise.

The increasing prevalence of object oriented software and client-server systems in the 1990s and 2000s represented a major advance over legacy systems. Rather than delivering a monolithic codebase to customers who would modify it in ways that impeded future upgrades, software companies could deliver products that were highly customizable and upgradable. Users enjoyed the productivity gains of a graphical user interface and information technology departments could be more responsive to changing requirements.

While the client-server systems deployed during the 1990s and 2000s were far more flexible than their predecessors, for the most part the systems were still deployed on-premise at client locations. As a result, organizations had to maintain these systems or hire consultants to do so. In addition, many such systems were not natively available online and e-commerce "add-ons" were needed to expose functionality to the web.

Software as a Service

Over the past decade, the software landscape has again shifted with client-server systems being supplanted by software solutions that can be deployed "in the cloud". Amazon Web Services and other hosted platforms offer organizations the ability to outsource the responsibility of maintaining server platforms on their own premises, although some larger organizations may still elect to run their own in-house server operations.

The traditional business model in enterprise software involves selling perpetual software licenses to clients that allow for the installation and use of the software indefinitely. In addition, software companies sell annual maintenance packages which typically provide clients with upgrades to the software as well as varying levels of ongoing support. In the membership-based vertical market, it was not unusual for perpetual licenses to run well into the six figures. Annual maintenance is typically 20-25% of the cost of the license and nearly all clients elect to pay for maintenance in order to obtain support and upgrades.

With the rise of cloud computing, the software business model underwent massive changes starting in the late 2000s. Customers would no longer purchase perpetual licenses to install software on their own premises nor would they pay annual maintenance. Instead, clients would pay an annual subscription fee in exchange for the right to use the software as an ongoing service (SAAS). In addition, clients could elect to pay additional fees to have the software hosted by a third party.

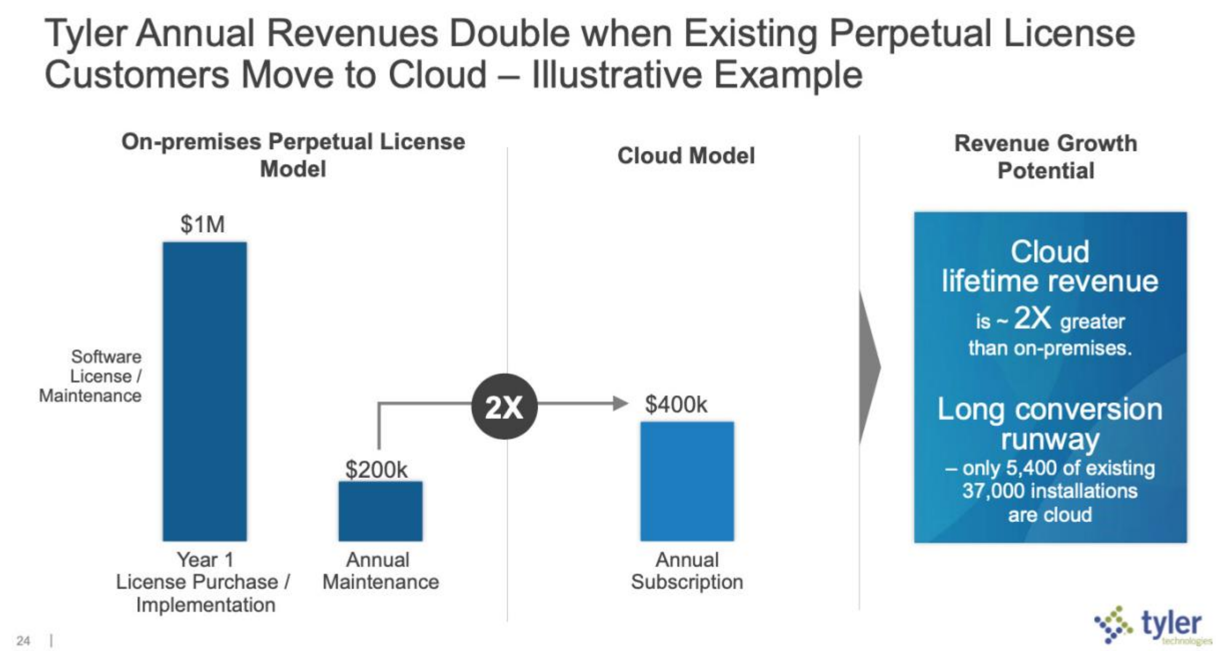
In both the traditional and SAAS models, clients must usually pay consulting fees to software vendors in exchange for making customizations to meet specific business needs, handle data conversions, and to train end users. In my experience, it was not unusual for consulting fees to approach the cost of the perpetual license and to last several months or, in very complicated cases, up to a year, before customers “went live” with the software for production use. Nearly all organizations have unique workflows.

The economics of the traditional model can be extremely lucrative. Once a software product is built, the incremental costs of selling an additional perpetual license is close to zero which provides for extremely high margins on license sales. Annual maintenance revenue is also generally high margin, although there are costs associated with providing bug fixes and upgrades. Consulting services are lower margin given that employees must be dedicated to clients projects, although in my experience, consulting still offers attractive economics.

The SAAS model upended the traditional business model by eliminating the initial sale of perpetual licensing revenue. Instead, the annual subscription revenue would replace both the perpetual license and annual maintenance revenue streams. While this reduces revenue in the short term, it holds the potential for longer client lifetime revenue depending on the price of annual subscriptions.

I left the software industry in 2009 around the time the SAAS model was gaining steam, so my personal exposure to the economics of SAAS vs. the traditional model is limited. However, I found the slide on the next page from Tyler Technologies interesting because it illustrates a path toward greater lifetime revenue under the SAAS/Cloud model. The left side of the slide represents the economics of the traditional model while the right side illustrates the SAAS cloud based model. The numbers provided for the perpetual license model are quite similar to what I recall from the mid to late 2000s.

The cloud-based model obviously has the potential to deliver greater revenue over long periods of time but this depends on client retention. The level of “churn” is an important metric for all subscription based businesses, including SAAS. However, unlike subscribing to a horizontal software product with many viable substitutes, vertical market SAAS solutions still generally have high switching costs and tend to be “sticky” for long periods of time. Due to the complexity involved in changing vendors, most clients will only switch if absolutely needed.



Source: Tyler Technologies Investor Presentation, August 2022 [48]

Building Partnerships

The sales cycle for enterprise software is long, winding, and complex. An entire industry has been built around developing requests for proposals (RFPs) that help clients define their business needs clearly. Developing an RFP can take several months and such documents can be hundreds of pages long. Clients then submit the RFP to the top vendors offering software in their particular vertical market and it can take a sales team weeks to adequately complete an RFP response. By the time demonstrations are scheduled, both the client and the software vendor have spent a considerable amount of time on the process. The RFP process, sales demonstrations, and financial negotiations can take months to complete.

The process takes a long time because the stakes are extremely high, both for the client and for the software company. Buying enterprise software can be tremendously disruptive for an organization and botched implementations can end careers. It is essential for an organization to fully vet software companies to ensure that they not only have the best solution but also are in a position to offer the consulting services needed to implement customizations and have the financial stability to remain in business for years and decades to come.

While buying a subscription to software on the Apple or Google app stores might be like "dating", enterprise software is more like "marriage", both in terms of the cost of the decision and the length of the relationship. A good "marriage" between client and vendor can result in decades of productivity for the client and recurring revenue for the software company. A bad "marriage" can end in tears and be followed by recriminations, loss of reputation for the software vendor, and protracted litigation. The nature of the industry creates opportunities for software companies with a long term horizon and a determination to build relationships with customers that have the potential to last for several decades.

Appendix II: Tyler Technologies

Introduction

Tyler Technologies is one of the leading companies offering software and related services for public sector entities in the United States. Tyler's roots go back to 1966 when Joseph McKinney began to build a conglomerate consisting primarily of industrial businesses, one of which included Tyler Pipe.[49] Over the years, most of the businesses were sold. By 1996, the Tyler's main subsidiaries included Forest City, a retailer of automotive parts and supplies, and IFS, a company that provided products for fundraising programs in schools.

In 1997, Tyler decided to shift its focus to information technology. IFS was sold during that year and Forest City was sold in 1999. In a flurry of acquisitions starting in early 1998, Tyler began to transform itself into a software company with a clear focus on providing systems and services to the public sector.[50]

Tyler has continued its strategy of growth through acquisitions over the past quarter century. In 2021, Tyler posted revenue of $1.6 billion and net income of $161.5 million. Revenue for the first nine months of 2022 was $1.4 billion with $133.2 million of net income. As of January 6, 2023, the company had a market capitalization of $13 billion, a valuation that is obviously far from inexpensive relative to revenue and earnings.

Business Model

Tyler Technologies offers information management software and related services for a broad array of public sector needs. The software is intended to provide local governments with easy access to information that results in improved performance and transparency within agencies, between agencies, and in interactions with the general public. The software solutions fall into the following broad categories:

- **Public Administration.** Financial management systems are designed to conform to government financial reporting and auditing requirements while providing agencies with visibility into future revenue. Enterprise resource planning (ERP) solutions are integral to day-to-day activities as well as longer range planning. In addition, appraisal software automates the process of estimating property values and collecting taxes as well as handling city and county land records.

- **Courts and Public Safety.** Courts and justice systems have complex needs related to managing courtroom dockets as well as the complexities of civil and criminal cases, including the automation of tasks related to discovery, witnesses, and other details that attorneys need access to. Tyler also provides software to manage jails and to integrate jail management with police and court systems.

- **Health and Human Services.** Disability benefits software automates the process of handling applications and continuing eligibility requirements for benefits. Additionally, Tyler offers solutions related to environmental health permitting, inspections, and related processes.

- **K-12 Education.** Tyler provides software to automate tasks such as school bus routing along with an ERP package designed to handle school budgeting, attendance, and human resources functions.

- **Platform Tools.** Tyler provides platform technologies that can be used to program new applications with minimal levels of required coding and utilizing data from multiple sources.

As discussed in Appendix I, the software industry has experienced rapid technological change in recent years. The most significant change impacting the business model has been the shift from selling perpetual software licenses with optional maintenance packages to cloud based SAAS solutions. This has changed the timing of revenue by shifting up-front licensing fees to subscription fees received over the course of a client relationship.

Assuming that customers stick around for long periods of time, the SAAS model has the potential to realize greater revenue than the traditional perpetual licensing model. Tyler claims to have client turnover of approximately 2% annually which bodes well for the company's efforts to grow SAAS revenue in the long run.

The exhibit below shows how Tyler's revenue mix has changed over the past decade:

Figures in thousands	Q1-Q3 2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Revenue as % of Total											
Software licenses and royalties	3.7%	4.7%	6.6%	9.2%	10.0%	10.3%	11.0%	10.0%	10.0%	9.8%	9.3%
Subscriptions	54.0%	49.3%	31.4%	27.3%	23.6%	20.5%	18.8%	18.9%	17.8%	14.8%	12.3%
Professional services	13.4%	13.2%	16.7%	19.6%	20.5%	21.5%	22.6%	23.7%	23.1%	22.4%	23.0%
Maintenance	25.1%	29.8%	41.9%	39.6%	41.1%	42.7%	42.2%	41.5%	43.1%	46.0%	47.3%
Appraisal services	1.9%	1.7%	1.9%	2.2%	2.3%	3.0%	3.5%	4.2%	4.4%	5.0%	6.2%
Hardware and other	1.8%	1.4%	1.6%	2.1%	2.5%	2.1%	1.9%	1.6%	1.6%	2.0%	1.9%
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Tyler Technologies 10-K and 10-Q Reports

Licensing and royalty revenue has declined from 9-11% of revenue in the mid 2010s to under 4% during the first nine months of 2022. Over the past decade, subscription revenue has increased from 12.3% in 2012 to 54% during the first nine months of 2022. We can also see how software maintenance has declined as a percentage of total revenue over the past decade. The overall effect of the changing revenue mix has been to make more of Tyler's revenue sources recurring, as the following exhibit shows:

Figures in thousands	Q1-Q3 2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Recurring vs. Non-Recurring Revenue ($)											
Recurring revenues	1,106,786	1,258,721	818,160	726,670	605,069	531,495	465,700	357,500	300,500	253,600	216,500
Non-recurring revenues	291,197	333,566	298,503	359,757	330,213	309,404	294,180	233,522	192,601	163,043	146,804
Total revenues	**1,397,983**	**1,592,287**	**1,116,663**	**1,086,427**	**935,282**	**840,899**	**759,880**	**591,022**	**493,101**	**416,643**	**363,304**
Recurring vs. Non-Recurring Revenue (% of Total)											
Recurring revenues	79.2%	79.1%	73.3%	66.9%	64.7%	63.2%	61.3%	60.5%	60.9%	60.9%	59.6%
Non-recurring revenues	20.8%	20.9%	26.7%	33.1%	35.3%	36.8%	38.7%	39.5%	39.1%	39.1%	40.4%
Total revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Tyler Technologies 10-K and 10-Q Reports

The shift toward a greater percentage of revenue coming from recurring sources is a powerful trend if customers stick with Tyler's solutions in the long run. Perpetual licenses are one time charges and customers could opt to not renew maintenance agreements. However, SAAS customers have no option to stop paying for subscription fees if they wish to continue using the software. Even if customers are not thrilled with the software, making a change is a long and winding road and this makes subscription revenue very sticky once customers are using software in production.

Let's take a look at Tyler's income statements over the past decade:

Figures in thousands	Q1-Q3 2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Revenues:											
Software licenses and royalties	51,784	74,452	73,164	100,205	93,441	86,242	83,733	59,008	49,065	40,841	33,928
Subscriptions	755,604	784,435	350,648	296,352	220,547	172,176	142,657	111,933	87,848	61,864	44,618
Professional services	187,802	209,391	186,409	213,061	191,269	180,460	171,648	139,852	113,821	93,267	83,408
Maintenance	351,182	474,287	467,513	430,318	384,521	359,319	320,998	245,537	212,696	191,720	171,851
Appraisal services	25,968	27,788	21,127	23,479	21,846	25,023	26,287	25,065	21,802	20,825	22,543
Hardware and other	25,643	21,934	17,802	23,012	23,658	17,679	14,557	9,627	7,869	8,126	6,956
Total Revenues	**1,397,983**	**1,592,287**	**1,116,663**	**1,086,427**	**935,282**	**840,899**	**759,880**	**591,022**	**493,101**	**416,643**	**363,304**
Cost of Revenues:											
Software licenses and royalties	8,640	5,877	3,339	3,938	3,802	3,321	2,964	1,632	1,900	2,377	1,983
Amortization of acquired software	40,882	45,601	31,962	30,642	22,972	21,686	22,235	4,440	1,858	2,078	1,888
Subscriptions, professional services and maintenance	721,017	799,158	510,504	502,138	438,923	387,634	348,939	285,340	236,363	199,617	171,584
Appraisal services	17,695	19,061	15,945	15,337	14,299	16,286	16,411	15,922	14,284	13,809	14,889
Hardware and other	19,219	12,946	12,401	17,472	15,708	12,595	10,143	6,501	5,325	5,559	5,258
Total Cost of Revenues	807,453	882,643	574,151	569,527	495,704	441,522	400,692	313,835	259,730	223,440	195,602
Gross Profit	**590,530**	**709,644**	**542,512**	**516,900**	**439,578**	**399,377**	**359,188**	**277,187**	**233,371**	**193,203**	**167,702**
Selling, general and administrative expenses	301,216	390,579	259,561	257,746	207,605	175,914	165,176	133,317	108,260	98,289	86,706
Research and development expense	72,517	93,481	88,363	81,342	63,264	47,324	43,154	29,922	25,743	23,269	20,140
Amortization of other intangibles	43,259	44,849	21,662	21,445	16,217	13,381	13,202	5,905	4,546	4,517	4,279
Operating Income	**173,538**	**180,735**	**172,926**	**156,367**	**152,492**	**162,758**	**137,656**	**108,043**	**94,822**	**67,128**	**56,577**
Interest expense	(20,276)	(23,298)	(1,013)	(2,027)	-	-	-	-	-	-	-
Other income, net	712	1,544	3,129	5,498	3,378	698	(1,998)	381	(355)	(1,309)	(2,709)
Income before income taxes	153,974	158,981	175,042	159,838	155,870	163,456	135,658	108,424	94,467	65,819	53,868
Income tax (benefit) provision	20,811	(2,477)	(19,778)	13,311	8,408	(6,115)	21,957	43,555	35,527	26,718	20,874
Net Income	**133,163**	**161,458**	**194,820**	**146,527**	**147,462**	**169,571**	**113,701**	**64,869**	**58,940**	**39,101**	**32,994**
Average diluted shares outstanding	42,425	42,244	41,526	40,105	40,123	39,246	38,961	36,552	35,401	34,590	32,916
Diluted earnings per common share	3.14	3.82	4.69	3.65	3.68	4.32	2.92	1.77	1.66	1.13	1.00

Note: In 2018, management adjusted revenue breakdowns for 2016 and 2017 based on *Revenue from Contracts with Customers. ASU No. 2014-09.* Table above reflects adjusted data for 2016 and 2017.

Source: Tyler Technologies 10-K and 10-Q Reports

A full analysis of Tyler's financials is beyond the scope of this appendix, but let's at least take a look at how key statistics, including margins, have trended over time:

Figures in thousands	Q1-Q3 2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Gross Margin Analysis:											
Software licenses, royalties and acquired software *	4.4%	30.9%	51.8%	65.5%	71.3%	71.0%	69.9%	89.7%	92.3%	89.1%	88.6%
Subscriptions, professional services, and maintenance	44.3%	45.6%	49.2%	46.6%	44.9%	45.6%	45.1%	42.6%	43.0%	42.4%	42.8%
Appraisal services	31.9%	31.4%	24.5%	34.7%	34.5%	34.9%	37.6%	36.5%	34.5%	33.7%	34.0%
Hardware and other	25.1%	41.0%	30.3%	24.1%	33.6%	28.8%	30.3%	32.5%	32.3%	31.6%	24.4%
Overall gross margin	**42.2%**	**44.6%**	**48.6%**	**47.6%**	**47.0%**	**47.5%**	**47.3%**	**46.9%**	**47.3%**	**46.4%**	**46.2%**
** Software license gross margin excluding amortization*	*83.3%*	*92.1%*	*95.4%*	*96.1%*	*95.9%*	*96.1%*	*96.5%*	*97.2%*	*96.1%*	*94.2%*	*94.2%*
SG&A as % of revenue	21.5%	24.5%	23.2%	23.7%	22.2%	20.9%	21.7%	22.6%	22.0%	23.6%	23.9%
R&D as % of revenue	5.2%	5.9%	7.9%	7.5%	6.8%	5.6%	5.7%	5.1%	5.2%	5.6%	5.5%
Amortization as % of revenue	3.1%	2.8%	1.9%	2.0%	1.7%	1.6%	1.7%	1.0%	0.9%	1.1%	1.2%
Operating margin	**12.4%**	**11.4%**	**15.5%**	**14.4%**	**16.3%**	**19.4%**	**18.1%**	**18.3%**	**19.2%**	**16.1%**	**15.6%**
Net income margin	**9.5%**	**10.1%**	**17.4%**	**13.5%**	**15.8%**	**20.2%**	**15.0%**	**11.0%**	**12.0%**	**9.4%**	**9.1%**

Source: Tyler Technologies 10-K and 10-Q Reports

Software licensing offers very high margins. Due to Tyler's history of acquisitions, software gross margins are burdened with amortization related to acquired software. Although the cost is real, it is not a cash expense. Stripping amortization charges from licensing results in "cash" gross margin figures well in excess of 90%.

Tyler does not provide granularity when it comes to gross margin provided by subscriptions alone. Instead, we only have reported cost of revenue for subscriptions, professional services, and maintenance. This figure has remained stable in the low to mid 40% range over the past decade. However, gross margin on subscription revenue is likely higher than gross margin on professional services due to the cost of employees required to provide the services. Cost of revenue for subscription services includes the cost of hosting software either internally or using provides such as AWS.

Overall gross margin has remained relatively stable over the past decade as the revenue mix shifted toward SAAS. I have not conducted an in depth investigation of the numerous acquisitions made by Tyler over the past decade or how the mix of acquisitions have impacted margins or opex, nor have I conducted an analysis of the price paid for these acquisitions. I would note that Tyler has significant stock compensation expenses and the share count has been climbing over time.

Courts and Justice Agencies

Tyler Technologies and Journal Technologies both provide software for courts and justice agencies. Let's take a brief look at several of the most important categories of software that Tyler offers in this vertical market:

- **Court Case Management.** Tyler offers a broad array of software targeting court case management with Enterprise Justice representing their flagship product. The primary function of the software is to allow for efficient operations of courtrooms by automating tasks and providing interfaces for all parties to a lawsuit for both criminal and civil cases. The system also allows for virtual courtrooms, a feature that has been in increasing demand in recent years due to the pandemic.

- **Civil Process.** Court clerks must track a large amount of information related to case papers and related data as well as handling the process of dealing with summons, subpoenas, warrants, protective orders, and interfacing with law enforcement agencies. Since court clerks have public facing roles, the software is designed to improve efficiency when dealing with the public.

- **Electronic Filing.** Tyler states that over 850,000 users file over 28 million documents on their platforms annually. In addition to accepting filing submissions, the software also handles the process of accepting payment for fees and fines. Tyler derives revenue from transaction fees for payment services.

- **Jury Management.** Software is needed to track citizens eligible for duty, handle the process of calling citizens for service, and managing the process of jury selection and payment to jurors for their service.

A high degree of integration is required between disparate software modules, as we can easily see by considering the functionality implied by these categories. The needs are specialized and will vary from one jurisdiction to another. Furthermore, individual judges are known to establish somewhat different procedures in their courtrooms. The ability to configure and adapt software for these functions is very important.

Tyler's history in court software dates back to the company's shift from industrial businesses to software. The company's 1998 10-K describes a set of products that includes judicial information management and court management software. It appears that the court and justice vertical is one of the original software markets selected by Tyler very early in its transformation to a software company.

Conclusion

It is interesting to note that Daily Journal's initial entry into the software business took place around the same time that Tyler moved into software. In January 1999, Daily Journal acquired Sustain Technologies. Sustain's business focused on court and justice systems, a field that Daily Journal knew well due to its longstanding presence in the legal community. Daily Journal and Tyler Technologies have been direct competitors in this space for nearly a quarter century.

While this appendix falls short of a full profile of Tyler Technologies, it seems clear that the company is a serious competitor in public sector software solutions in general and in court and justice systems in particular. While Daily Journal's software operations have remained small and limited to court and justice agencies, Tyler has grown much more rapidly through acquisitions of numerous software companies. Tyler has also expanded far beyond courts and justice to offer a broad array of public sector software.

Vertical market software can be a very lucrative business. Once a customer "goes live" on a software product, they typically remain with the same vendor for a very long period of time. The traditional perpetual licensing model with annual maintenance is attractive because of the initial inflow of cash from the license sale and ongoing revenue from maintenance, but the customer always has the option of not paying for maintenance while retaining the rights to use the software.

The SAAS model is potentially even more attractive for companies like Tyler Technologies and Daily Journal because customers must continue paying annual subscription fees in order to use the software since no perpetual license has been granted. We can see from Tyler's results that the shift from traditional licensing to SAAS has resulted in more recurring revenue while not harming overall gross margin. These favorable economics have led to high market expectations, as evidenced by the high valuation assigned to Tyler Technologies by market participants.

Appendix III: Daily Journal Corporation’s Financial Data

Balance Sheets

	9/30/22	9/30/21	9/30/20	9/30/19	9/30/18	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13	9/30/12	9/30/11	9/30/10	9/30/09	9/30/08
ASSETS															
CURRENT ASSETS:															
Cash and cash equivalents	13,423,000	12,596,000	26,922,000	8,615,000	9,301,000	3,384,000	11,411,000	15,617,000	15,410,000	11,338,000	985,000	3,058,000	3,615,000	1,425,000	994,000
Restricted cash	2,045,000	2,043,000	2,041,000	2,015,000	-	-	-	-	-	-	-	-	-	-	-
U.S. Treasury Bills	-	-	-	-	-	-	-	-	-	-	800,000	13,100,000	13,499,000	6,627,000	20,726,000
Marketable securities at fair value	275,529,000	347,573,000	179,368,000	194,581,000	212,296,000	229,265,000	166,634,000	166,041,000	173,676,000	136,994,000	102,156,000	56,116,000	50,082,000	54,075,000	-
Accounts receivable, less allowance for doubtful accounts	16,931,000	9,524,000	6,727,000	7,036,000	4,803,000	5,358,000	4,707,000	5,673,000	8,566,000	6,314,000	5,709,000	6,595,000	9,209,000	10,221,000	9,434,000
Inventories	56,000	43,000	36,000	40,000	46,000	40,000	41,000	48,000	51,000	56,000	43,000	44,000	29,000	19,000	26,000
Prepaid expenses and other current assets	451,000	557,000	613,000	508,000	512,000	798,000	800,000	684,000	983,000	1,958,000	241,000	232,000	230,000	238,000	194,000
Income tax receivable	1,019,000	-	601,000	153,000	270,000	909,000	890,000	765,000	2,051,000	305,000	196,000	-	-	-	-
Deferred Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	779,000
TOTAL CURRENT ASSETS	**309,454,000**	**372,336,000**	**216,308,000**	**212,948,000**	**227,228,000**	**239,754,000**	**184,483,000**	**188,828,000**	**200,737,000**	**156,965,000**	**110,130,000**	**79,145,000**	**76,664,000**	**72,605,000**	**32,153,000**
LONG TERM ASSETS:															
Property, plant and equipment															
Land, buildings and improvements	16,330,000	16,499,000	16,572,000	16,499,000	16,422,000	16,396,000	16,306,000	12,773,000	12,814,000	12,847,000	12,819,000	12,849,000	12,842,000	12,858,000	12,938,000
Furniture, office equipment, and computer software	1,688,000	1,688,000	1,782,000	2,119,000	2,877,000	2,724,000	2,743,000	2,655,000	2,889,000	2,712,000	2,263,000	2,777,000	2,899,000	3,238,000	3,718,000
Machinery and equipment	1,521,000	1,524,000	1,524,000	1,750,000	1,749,000	1,799,000	1,864,000	1,864,000	1,864,000	2,014,000	2,072,000	2,124,000	2,124,000	2,139,000	2,041,000
Total property, plant and equipment, at cost	19,539,000	19,711,000	19,878,000	20,368,000	21,048,000	20,919,000	20,913,000	17,292,000	17,567,000	17,573,000	17,154,000	17,750,000	17,865,000	18,235,000	18,697,000
Less accumulated depreciation	(9,986,000)	(9,706,000)	(9,422,000)	(9,572,000)	(9,828,000)	(9,292,000)	(8,849,000)	(8,335,000)	(8,552,000)	(8,343,000)	(7,911,000)	(8,376,000)	(8,084,000)	(8,086,000)	(7,989,000)
Property, plant and equipment, net of depreciation	**9,553,000**	**10,005,000**	**10,456,000**	**10,796,000**	**11,220,000**	**11,627,000**	**12,064,000**	**8,957,000**	**9,015,000**	**9,230,000**	**9,243,000**	**9,374,000**	**9,781,000**	**10,149,000**	**10,708,000**
Operating lease right-of-use asset	104,000	215,000	140,000	-	-	-	-	-	-	-	-	-	-	-	-
US Treasury Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,663,000
Capitalized software, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets, at cost less accumulated amortization	-	-	-	-	-	3,058,000	7,953,000	12,990,000	17,744,000	22,610,000	-	-	-	-	-
Goodwill	-	-	-	-	13,400,000	13,400,000	13,400,000	13,400,000	13,400,000	13,400,000	-	-	-	-	-
Deferred Income Taxes - Federal	-	8,021,000	11,137,000	12,596,000	9,269,000	10,652,000	7,546,000	4,021,000	2,981,000	858,000	1,591,000	2,297,000	2,476,000	1,995,000	1,573,000
Deferred Income Taxes - State	-		534,000	1,036,000	2,881,000	2,217,000									
TOTAL LONG TERM ASSETS	**9,657,000**	**18,241,000**	**22,267,000**	**24,428,000**	**36,770,000**	**40,954,000**	**40,963,000**	**39,368,000**	**43,140,000**	**46,098,000**	**10,834,000**	**11,671,000**	**12,257,000**	**12,144,000**	**13,944,000**
TOTAL ASSETS	**319,111,000**	**390,577,000**	**238,575,000**	**237,376,000**	**263,998,000**	**280,708,000**	**225,446,000**	**228,196,000**	**243,877,000**	**203,063,000**	**120,964,000**	**90,816,000**	**88,921,000**	**84,749,000**	**46,097,000**
LIABILITIES & SHAREHOLDER EQUITY															
CURRENT LIABILITIES:															
Accounts payable	5,062,000	4,239,000	3,926,000	4,520,000	2,820,000	3,049,000	2,644,000	4,212,000	4,344,000	4,259,000	2,201,000	2,436,000	2,879,000	3,213,000	2,828,000
Accrued liabilities	7,066,000	6,052,000	5,005,000	5,173,000	4,402,000	3,112,000	2,583,000	2,919,000	3,118,000	4,416,000	2,738,000	3,183,000	3,376,000	3,548,000	3,668,000
Income tax payable	-	6,244,000	-	-	-	-	-	-	-	-	-	756,000	852,000	857,000	1,051,000
Deferred income taxes	-	-	-	-	-	-	41,501,000	40,641,000	46,502,000	32,132,000	19,146,000	8,987,000	10,474,000	12,112,000	-
Notes payable, current portion	146,000	147,000	133,000	126,000	121,000	115,000	110,000	-	-	-	-	-	-	-	-
Deferred subscriptions	2,679,000	2,694,000	2,899,000	3,195,000	3,174,000	3,284,000	3,402,000	3,474,000	3,381,000	3,534,000	3,649,000	5,405,000	5,004,000	5,340,000	5,847,000
Deferred installation contracts	-	-	-	1,932,000	2,554,000	5,072,000	6,536,000	7,820,000	8,896,000	6,879,000	-				
Deferred consulting fees	6,394,000	5,498,000	4,868,000	-	-	-	-	-	-	-	-				
Deferred maintenance agreements and other revenues	12,272,000	9,138,000	11,159,000	15,722,000	14,186,000	9,442,000	8,084,000	6,815,000	7,031,000	6,864,000	1,805,000				
TOTAL CURRENT LIABILITIES	**33,619,000**	**34,012,000**	**27,990,000**	**30,668,000**	**27,257,000**	**24,074,000**	**64,860,000**	**65,881,000**	**73,272,000**	**58,084,000**	**29,539,000**	**20,767,000**	**22,585,000**	**25,070,000**	**13,394,000**
LONG TERM LIABILITIES:															
Investment margin account borrowing	75,000,000	32,000,000	29,493,000	29,493,000	29,493,000	29,493,000	29,493,000	29,493,000	29,493,000	29,493,000	-	-	-	-	-
Deferred maintenance agreements	370,000	995,000	450,000	335,000	176,000	759,000	149,000	551,000	180,000	269,000	-	-	-	-	-
Accrued Liabilities	4,547,000	3,383,000	1,455,000	230,000	170,000	135,000	62,000	47,000	780,000	1,870,000	4,200,000	5,170,000	5,670,000	4,360,000	3,200,000
Accrued interest and penalty for uncertain/unrecognized tax benefits	-	-	-	-	-	-	745,000	633,000	537,000	-	-	-	-	-	-
Deferred income taxes	25,273,000	64,115,000	35,870,000	37,241,000	42,151,000	64,550,000	2,723,000	2,991,000	3,244,000	-	-	-	-	-	-
Notes payable, long term	1,285,000	1,431,000	1,576,000	1,709,000	1,835,000	1,956,000	2,071,000	-	-	-	-	-	-	-	-
TOTAL LONG TERM LIABILITIES	**106,475,000**	**101,924,000**	**68,844,000**	**69,008,000**	**73,825,000**	**96,893,000**	**35,243,000**	**33,715,000**	**34,234,000**	**31,632,000**	**4,200,000**	**5,170,000**	**5,670,000**	**4,360,000**	**3,200,000**
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SHAREHOLDERS' EQUITY:															
Preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common stock	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	15,000
Other paid-in capital	1,755,000	1,755,000	1,755,000	1,755,000	1,755,000	1,755,000	1,755,000	1,755,000	1,755,000	1,755,000	1,755,000	1,755,000	1,755,000	1,839,000	1,907,000
Retained earnings	177,248,000	252,872,000	139,972,000	135,931,000	45,361,000	57,150,000	58,068,000	59,111,000	58,301,000	57,670,000	53,891,000	48,350,000	40,510,000	34,507,000	28,382,000
Accumulated other comprehensive income	-	-	-	-	115,786,000	100,822,000	65,506,000	67,720,000	76,301,000	53,908,000	31,565,000	14,760,000	18,387,000	20,712,000	105,000
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,753,000)	(906,000)
TOTAL SHAREHOLDERS' EQUITY	**179,017,000**	**254,641,000**	**141,741,000**	**137,700,000**	**162,916,000**	**159,741,000**	**125,343,000**	**128,600,000**	**136,371,000**	**113,347,000**	**87,225,000**	**64,879,000**	**60,666,000**	**55,319,000**	**29,503,000**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**319,111,000**	**390,577,000**	**238,575,000**	**237,376,000**	**263,998,000**	**280,708,000**	**225,446,000**	**228,196,000**	**243,877,000**	**203,063,000**	**120,964,000**	**90,816,000**	**88,921,000**	**84,749,000**	**46,097,000**

Income Statements

	For Fiscal Year Ending														
	9/30/22	9/30/21	9/30/20	9/30/19	9/30/18	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13	9/30/12	9/30/11	9/30/10	9/30/09	9/30/08
Revenues:															
Advertising	8,591,000	8,171,000	7,104,000	9,132,000	9,112,000	9,104,000	9,854,000	10,502,000	11,435,000	14,472,000	19,221,000	21,337,000	23,185,000	23,586,000	23,771,000
Circulation	4,394,000	4,576,000	5,090,000	5,249,000	5,401,000	5,654,000	5,912,000	5,915,000	6,038,000	6,346,000	6,530,000	6,767,000	7,071,000	7,831,000	8,538,000
Advertising service fees and other	2,937,000	2,684,000	2,501,000	2,712,000	2,659,000	2,812,000	2,651,000	2,703,000	2,800,000	3,012,000	3,205,000	3,428,000	3,987,000	4,064,000	3,519,000
Licensing and maintenance fees	19,192,000	21,044,000	21,647,000	20,179,000	17,225,000	16,037,000	14,758,000	13,984,000	12,987,000	9,942,000	2,205,000				
Consulting fees	11,865,000	6,319,000	7,718,000	5,539,000	2,832,000	4,476,000	4,085,000	4,704,000	4,002,000	3,406,000	713,000	2,981,000	3,337,000	4,943,000	4,777,000
Other public service fees	7,030,000	7,131,000	5,882,000	5,844,000	3,474,000	3,301,000	4,352,000	6,170,000	6,161,000	498,000	-				
Gain from sale of property, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	**54,009,000**	**49,925,000**	**49,942,000**	**48,655,000**	**40,703,000**	**41,384,000**	**41,612,000**	**43,978,000**	**43,423,000**	**37,676,000**	**31,874,000**	**34,513,000**	**37,580,000**	**40,424,000**	**40,605,000**
Operating Expenses:															
Salaries and Employee Benefits	36,935,000	34,230,000	37,802,000	35,014,000	33,832,000	31,749,000	27,381,000	26,010,000	25,262,000	19,236,000	13,592,000	13,473,000	16,003,000	16,897,000	17,820,000
Increases to the long-term supplemental compensation accrual	1,245,000	1,835,000	-	-	-	-	-	-	-	-	-	-	-	-	-
Agency commissions (Ad revenues were net of commissions prior to 2021)	905,000	536,000	-	-	-	-	-	-	-	-	-	-	-	-	-
Newsprint and printing expenses	739,000	625,000	699,000	727,000	780,000	877,000	912,000	1,225,000	1,221,000	1,307,000	1,321,000	1,382,000	1,479,000	1,830,000	2,082,000
Outside Services	4,001,000	3,084,000	3,428,000	3,874,000	4,287,000	4,552,000	3,729,000	3,524,000	3,212,000	3,086,000	2,956,000	3,168,000	3,075,000	3,775,000	3,511,000
Postage and Delivery Expenses	668,000	654,000	712,000	838,000	857,000	1,112,000	1,141,000	1,318,000	1,281,000	1,328,000	1,375,000	1,437,000	1,471,000	1,544,000	1,722,000
Depreciation and Amortization	379,000	480,000	524,000	589,000	3,678,000	5,586,000	5,709,000	5,531,000	5,516,000	2,441,000	503,000	535,000	613,000	797,000	990,000
Goodwill impairment	-	-	-	13,400,000	-	-	-	-	-	-	-	-	-	-	-
Equipment maintenance and software	1,029,000	1,039,000	1,268,000	1,516,000	1,458,000	1,071,000	-	-	-	-	-	-	-	-	-
Credit card merchant discount fees	1,679,000	1,831,000	1,393,000	1,409,000	1,027,000	945,000	-	-	-	-	-	-	-	-	-
Rent expenses	249,000	286,000	612,000	1,017,000	996,000	742,000	-	-	-	-	-	-	-	-	-
Accounting and legal fees	833,000	937,000	939,000	1,605,000	1,302,000	1,432,000	-	-	-	-	-	-	-	-	-
Other general & administrative expenses	3,358,000	2,236,000	3,848,000	6,890,000	6,546,000	6,485,000	9,380,000	9,882,000	9,121,000	6,489,000	3,445,000	3,716,000	3,498,000	3,388,000	3,615,000
Reversal of Sustain's Contingent Liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-off and expense of capitalized software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	**52,020,000**	**47,773,000**	**51,225,000**	**66,879,000**	**54,763,000**	**54,551,000**	**48,252,000**	**47,490,000**	**45,613,000**	**33,887,000**	**23,192,000**	**23,711,000**	**26,139,000**	**28,231,000**	**29,740,000**
Income From Operations	**1,989,000**	**2,152,000**	**(1,283,000)**	**(18,224,000)**	**(14,060,000)**	**(13,167,000)**	**(6,640,000)**	**(3,512,000)**	**(2,190,000)**	**3,789,000**	**8,682,000**	**10,802,000**	**11,441,000**	**12,193,000**	**10,865,000**
Other Income (Expense):															
Dividends and Interest Income	5,451,000	2,908,000	4,965,000	5,380,000	4,808,000	4,844,000	4,085,000	3,829,000	3,001,000	2,541,000	1,967,000	1,233,000	867,000	704,000	852,000
Other income	-	69,000	3,000	38,000	37,000	34,000	61,000	65,000	97,000	54,000	-	-	-	-	-
Net unrealized (losses) gains on investments	(123,401,000)	106,499,000	(3,099,000)	(17,715,000)	-	-	-	-	-	-	-	-	-	-	-
Gains on sales of investments	14,249,000	41,749,000	4,193,000	-	3,182,000	-	-	4,000	-	1,000	7,000	1,000	-	91,000	-
Interest Expense	-	-	-	-	-	-	-		-	-	-	(36,000)	(36,000)	(40,000)	(129,000)
Interest expense on note payable collateralized by real estate	(83,000)	(94,000)	(119,000)	(93,000)	(95,000)	(100,000)	(88,000)	-	-	-	-	-	-	-	-
Interest expense on margin loans	(1,026,000)	(233,000)	(434,000)	(862,000)	(651,000)	(422,000)	(284,000)	(224,000)	(230,000)	(97,000)	-	-	-	-	-
Interest/penalty expense reversal (accrual) for uncertain tax benefits	-	-	-	-	-	743,000	(112,000)	(96,000)	(537,000)	-	100,000	-	-	-	-
OTTI losses on investments	-	-	-	-	(4,560,000)	-	-	(376,000)	-	(1,719,000)	(2,855,000)	-	-	-	-
Gains on land sale	272,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-		-	-	-	-	-	-	-	-	-	-	-
Total other income (expense)	(104,538,000)	150,898,000	5,509,000	(13,252,000)	2,721,000	5,099,000	3,662,000	3,202,000	2,331,000	780,000	(781,000)	1,198,000	831,000	755,000	723,000
Income Before Taxes	**(102,549,000)**	**153,050,000**	**4,226,000**	**(31,476,000)**	**(11,339,000)**	**(8,068,000)**	**(2,978,000)**	**(310,000)**	**141,000**	**4,569,000**	**7,901,000**	**12,000,000**	**12,272,000**	**12,948,000**	**11,588,000**
(Provision for) benefit from income taxes	26,925,000	(40,150,000)	(185,000)	6,260,000	19,540,000	7,150,000	1,935,000	1,120,000	490,000	(790,000)	(2,360,000)	(4,160,000)	(4,600,000)	(4,922,000)	(4,475,000)
Minority interest in net loss of subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(75,624,000)**	**112,900,000**	**4,041,000**	**(25,216,000)**	**8,201,000**	**(918,000)**	**(1,043,000)**	**810,000**	**631,000**	**3,779,000**	**5,541,000**	**7,840,000**	**7,672,000**	**8,026,000**	**7,113,000**
Weighted average number of common shares outstanding	1,379,655	1,380,746	1,380,746	1,380,746	1,380,746	1,380,746	1,380,746	1,380,746	1,380,746	1,380,746	1,380,746	1,380,746	1,380,746	1,408,699	1,452,854
Earnings Per Share	**(54.81)**	**81.77**	**2.93**	**(18.26)**	**5.94**	**(0.66)**	**(0.76)**	**0.59**	**0.46**	**2.74**	**4.01**	**5.68**	**5.56**	**5.70**	**4.90**
Revenue by type as a % of total:															
Advertising	16%	16%	14%	19%	22%	22%	24%	24%	26%	38%	60%	62%	62%	58%	59%
Circulation	8%	9%	10%	11%	13%	14%	14%	13%	14%	17%	20%	20%	19%	19%	21%
Advertising service fees & other	5%	5%	5%	6%	7%	7%	6%	6%	6%	8%	10%	10%	11%	10%	9%
Licensing and maintenance fees	36%	42%	43%	41%	42%	39%	35%	32%	30%	26%	7%				
Consulting fees	22%	13%	15%	11%	7%	11%	10%	11%	9%	9%	2%	9%	9%	12%	12%
Other public service fees	13%	14%	12%	12%	9%	8%	10%	14%	14%	1%	0%				
Other	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total Revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Cash Flow Statements

	For Fiscal Year Ending														
	9/30/22	9/30/21	9/30/20	9/30/19	9/30/18	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13	9/30/12	9/30/11	9/30/10	9/30/09	9/30/08
Cash flows from operating activities:															
Net income	**(75,624,000)**	**112,900,000**	**4,041,000**	**(25,216,000)**	**8,201,000**	**(918,000)**	**(1,043,000)**	**810,000**	**631,000**	**3,779,000**	**5,541,000**	**7,840,000**	**7,672,000**	**8,026,000**	**7,113,000**
Adjustments to reconcile net income to net cash from operations:															
Depreciation and amortization	379,000	480,000	524,000	589,000	3,678,000	5,586,000	5,709,000	5,531,000	5,516,000	2,441,000	503,000	535,000	613,000	797,000	990,000
Goodwill impairment	-	-	-	13,400,000	-	-	-	-	-	-	-	-	-	-	-
Write-off and expense of capitalized software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Minority interest in consolidated subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on land sale	(272,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on sale of marketable securities, net	(14,249,000)	(41,749,000)	(4,193,000)	-	(3,182,000)	-	-	(4,000)	-	-	-	-	-	-	-
Gain on sale of capital assets															
Unrealized (gains) losses on marketable securities	123,401,000	(106,499,000)	3,099,000	17,715,000	-	-	-	-	-	-	-	-	-	-	-
Deferred income taxes	(30,821,000)	31,895,000	590,000	(6,392,000)	(19,241,000)	(4,574,000)	(1,637,000)	(1,283,000)	(2,039,000)	(493,000)	(261,000)	189,000	(423,000)	(433,000)	(622,000)
Premium amortized (discount earned) on treasuries	-	-	-	-	-	(3,000)	(3,000)	(3,000)	(3,000)	(2,000)	(4,000)	(13,000)	(11,000)	69,000	19,000
Other-than-temporary losses on investments	-	-	-	-	4,560,000	-	-	376,000	-	1,719,000	2,855,000	-	-	-	-
Changes in current assets and liabilities:															
(Increase) decrease in current assets															
Accounts receivable, net	(7,407,000)	(2,797,000)	309,000	(2,233,000)	555,000	(651,000)	966,000	2,893,000	(2,252,000)	1,691,000	886,000	2,614,000	1,012,000	(787,000)	(3,897,000)
Inventories	(13,000)	(7,000)	4,000	6,000	(6,000)	1,000	7,000	3,000	5,000	(13,000)	1,000	(15,000)	(10,000)	7,000	(3,000)
Prepaid expenses and other current assets	217,000	56,000	(105,000)	4,000	286,000	2,000	(116,000)	299,000	975,000	252,000	(9,000)	(2,000)	8,000	(44,000)	(7,000)
Income tax receivable	(1,019,000)	601,000	(448,000)	117,000	639,000	(19,000)	(125,000)	1,286,000	(1,746,000)	(109,000)	-	-	-	-	-
Increase (decrease) in liabilities															
Accounts payable	823,000	313,000	(594,000)	1,700,000	(229,000)	405,000	(1,568,000)	(132,000)	85,000	(155,000)	(235,000)	(443,000)	(334,000)	385,000	1,203,000
Accrued liabilities	2,178,000	2,900,000	917,000	831,000	1,325,000	(143,000)	(209,000)	(836,000)	(1,851,000)	(3,016,000)	(1,415,000)	(693,000)	1,138,000	1,040,000	1,748,000
Income tax payable	(6,244,000)	6,244,000	-	-	-	(2,723,000)	(268,000)	(253,000)	3,244,000	-	(952,000)	(96,000)	(5,000)	(194,000)	389,000
Deferred subscriptions	(15,000)	(205,000)	(296,000)	21,000	(110,000)	(118,000)	(72,000)	(11,000)	(153,000)	(115,000)	(170,000)				
Deferred installation contracts	-	-	-	1,695,000	(2,518,000)	(2,268,000)	(1,284,000)	(1,076,000)	2,017,000	(593,000)	-	401,000	(336,000)	(507,000)	(371,000)
Deferred consulting fees	896,000	630,000	156,000	-	-	-	-	-	-	-	-				
Deferred maintenance agreements and other	2,509,000	(1,476,000)	(1,668,000)	(622,000)	4,161,000	2,772,000	867,000	155,000	78,000	286,000	219,000				
Net cash provided by operating activities	**(5,261,000)**	**3,286,000**	**2,336,000**	**1,615,000**	**(1,881,000)**	**(2,651,000)**	**1,224,000**	**7,755,000**	**4,507,000**	**5,672,000**	**6,959,000**	**10,317,000**	**9,324,000**	**8,359,000**	**6,562,000**
Cash flows from investing activities:															
Maturities and sales of treasuries	-	-	-	-	-	-	-	-	-	800,000	19,400,000	51,199,000	38,380,000	22,754,000	18,268,000
Purchases of treasuries	-	-	-	-	-	-	-	-	-	-	(7,099,000)	(50,790,000)	(45,269,000)	(7,203,000)	(20,516,000)
Purchases of marketable securities	(117,678,000)	(64,990,000)	-	-	-	(5,013,000)	(3,832,000)	(10,977,000)	-	-	(20,961,000)	(11,154,000)	-	(20,424,000)	-
Sales of marketable securities	80,570,000	45,033,000	16,307,000	-	8,125,000	-	-	4,044,000	-	-	-	-	-	-	-
Sale of land	381,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business acquisitions net of cash acquired	-	-	-	-	-	-		(50,000)	-	(25,332,000)	-	-	-	-	-
Capitalized software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchases of property, plant and equipment, net	(36,000)	(29,000)	(184,000)	(165,000)	(212,000)	(253,000)	(3,779,000)	(565,000)	(435,000)	(280,000)	(372,000)	(129,000)	(245,000)	(238,000)	(377,000)
Net cash provided by (used for) for investing activities	**(36,763,000)**	**(19,986,000)**	**16,123,000**	**(165,000)**	**7,913,000**	**(5,266,000)**	**(7,611,000)**	**(7,548,000)**	**(435,000)**	**(24,812,000)**	**(9,032,000)**	**(10,874,000)**	**(7,134,000)**	**(5,111,000)**	**(2,625,000)**
Cash flows from financing activities:															
Proceeds from margin loan borrowing	43,014,000	17,000,000	1,000,000	-	-	-	-	-	-	29,493,000	-	-	-	-	-
Payment to margin loan borrowing	(14,000)	(14,493,000)	(1,000,000)	-	-	-	-	-	-	-	-	-	-	-	-
Note payable collateralized by real estate	-	-	-	-	-	-	2,260,000	-	-		-	-	-	-	-
Payment of real estate loan principal	(147,000)	(131,000)	(126,000)	(121,000)	(115,000)	(110,000)	(79,000)	-	-	-	-	-	-	-	-
Loan proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment of loan principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,012,000)
Principal payments under management termination fee payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of common and treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,817,000)	-
Net cash provided by (used for) financing activities	**42,853,000**	**2,376,000**	**(126,000)**	**(121,000)**	**(115,000)**	**(110,000)**	**2,181,000**	**-**	**-**	**29,493,000**	**-**	**-**	**-**	**(2,817,000)**	**(4,012,000)**
Increase (decrease) in cash and cash equivalents	**829,000**	**(14,324,000)**	**18,333,000**	**1,329,000**	**5,917,000**	**(8,027,000)**	**(4,206,000)**	**207,000**	**4,072,000**	**10,353,000**	**(2,073,000)**	**(557,000)**	**2,190,000**	**431,000**	**(75,000)**
Cash and cash equivalents:															
Beginning of year	**14,639,000**	**28,963,000**	**10,630,000**	**9,301,000**	**3,384,000**	**11,411,000**	**15,617,000**	**15,410,000**	**11,338,000**	**985,000**	**3,058,000**	3,615,000	1,425,000	994,000	1,069,000
End of year	**15,468,000**	**14,639,000**	**28,963,000**	**10,630,000**	**9,301,000**	**3,384,000**	**11,411,000**	**15,617,000**	**15,410,000**	**11,338,000**	**985,000**	**3,058,000**	**3,615,000**	**1,425,000**	**994,000**

Segment Information

Traditional Business Segment (Newspapers)

Traditional Business	For Fiscal Year Ending									
	9/30/22	9/30/21	9/30/20	9/30/19	9/30/18	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13
Revenues:										
Advertising	8,591,000	8,171,000	7,104,000	9,132,000	9,112,000	9,104,000	9,854,000	10,502,000	11,435,000	14,472,000
Circulation	4,394,000	4,576,000	5,090,000	5,249,000	5,401,000	5,654,000	5,912,000	5,915,000	6,038,000	6,346,000
Advertising service fees and other	2,937,000	2,684,000	2,501,000	2,712,000	2,659,000	2,812,000	2,651,000	2,703,000	2,800,000	3,012,000
Total revenue	**15,922,000**	**15,431,000**	**14,695,000**	**17,093,000**	**17,172,000**	**17,570,000**	**18,417,000**	**19,120,000**	**20,273,000**	**23,830,000**
Operating expenses:										
Salaries and employee benefits	9,618,000	8,226,000	10,420,000	10,637,000	10,381,000	10,548,000	9,997,000	9,750,000	9,526,000	15,856,000
Increase to long-term supplemental compensation accrual	1,130,000	1,795,000	-	-	-	-	-	-	-	
Amortization of intangible assets	-	-	-	-	-	-	142,000	12,000	-	
Other	4,472,000	4,967,000	4,787,000	6,344,000	6,459,000	7,304,000	7,101,000	8,276,000	7,628,000	
Total operating expenses	15,220,000	14,988,000	15,207,000	16,981,000	16,840,000	17,852,000	17,240,000	18,038,000	17,154,000	15,856,000
Income (loss) from operations	702,000	443,000	(512,000)	112,000	332,000	(282,000)	1,177,000	1,082,000	3,119,000	7,974,000
Other income	-	-	-	-	-	22,000	52,000	-	-	-
Interest collateralized by real estate	-	-	-	(93,000)	(95,000)	(100,000)	(88,000)	-	-	-
Pre-tax income (loss)	702,000	443,000	(512,000)	19,000	237,000	(360,000)	1,141,000	1,082,000	3,119,000	7,974,000
Income tax benefit (expense)	(185,000)	(115,000)	100,000	(5,000)	490,000	(2,000)	(530,000)	(70,000)	(1,460,000)	(3,301,000)
Net income (loss)	**517,000**	**328,000**	**(412,000)**	**14,000**	**727,000**	**(362,000)**	**611,000**	**1,012,000**	**1,659,000**	**4,673,000**
Total assets	22,743,000	22,412,000	35,896,000	17,176,000	19,602,000	16,606,000	19,026,000	15,047,000	18,228,000	18,458,000
Capital expenditures	3,000	22,000	121,000	132,000	212,000	160,000	3,662,000	425,000	110,000	96,000
Amortization of intangible assets	-	-	-	-	-	-	142,000	12,000	-	-

NOTE ON CAPEX FOR 2016:

In fiscal 2016, Daily Journal Corporation purchased an office building in Logan, Utah on 3.6 acres of land for $3,500,000. This property was previous leased for Journal Technologies by a third party. This capital expenditure was classified under the Traditional Business rather than Journal Technologies because the capital for the purchase came from the Traditional Business which rents the property to Journal Technologies. At the 2017 annual meeting, a question was asked about this classification:

> *"Question 7: You purchased the building in Logan, which I believe is used exclusively in Journal Technologies, but in accounting, it's under the traditional business, I'm wondering why?*
>
> *Charlie: Gerry I give you that one. He says, why is Logan, somehow in the traditional business? It shouldn't be.*
>
> *Gerry: The Daily Journal purchased the building and they own the building. And Journal Technologies pays rent to the parent company for that and the amount of rent is not, what we would consider, material from that perspective. And because it's owned by the Daily Journal that's how we originally classify it. No real significant reasons. All the expenses on the Journal Technologies books."* [51]

Journal Technologies Segment

Journal Technologies	For Fiscal Year Ending									
	9/30/22	9/30/21	9/30/20	9/30/19	9/30/18	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13
Revenues:										
Licensing and maintenance fees	19,192,000	21,044,000	21,647,000	20,179,000	17,225,000	16,037,000	14,758,000	13,984,000	12,987,000	9,942,000
Consulting fees	11,865,000	6,319,000	7,718,000	5,539,000	2,832,000	4,476,000	4,085,000	4,704,000	4,002,000	3,406,000
Other public service fees	7,030,000	7,131,000	5,882,000	5,844,000	3,474,000	3,301,000	4,352,000	6,170,000	6,161,000	498,000
Total revenue	**38,087,000**	**34,494,000**	**35,247,000**	**31,562,000**	**23,531,000**	**23,814,000**	**23,195,000**	**24,858,000**	**23,150,000**	**13,846,000**
Operating expenses:										
Salaries and employee benefits	27,317,000	26,004,000	27,382,000	24,377,000	23,451,000	21,201,000	17,384,000	16,260,000	15,736,000	
Increase to long-term supplemental compensation accrual	115,000	40,000	-	-	-	-	-	-	-	
Amortization of intangible assets	-	-	-	-	3,058,000	4,895,000	4,895,000	4,895,000	4,866,000	18,031,000
Goodwill impairment	-	-	-	13,400,000	-	-	-	-	-	
Other	9,368,000	6,741,000	8,636,000	12,121,000	11,414,000	10,603,000	8,733,000	8,297,000	7,857,000	
Total operating expenses	36,800,000	32,785,000	36,018,000	49,898,000	37,923,000	36,699,000	31,012,000	29,452,000	28,459,000	18,031,000
Income (loss) from operations	1,287,000	1,709,000	(771,000)	(18,336,000)	(14,392,000)	(12,885,000)	(7,817,000)	(4,594,000)	(5,309,000)	(4,185,000)
Other income	-	-	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	743,000	(112,000)	(96,000)	(537,000)	-
Pre-tax income (loss)	1,287,000	1,709,000	(771,000)	(18,336,000)	(14,392,000)	(12,142,000)	(7,929,000)	(4,690,000)	(5,846,000)	(4,185,000)
Income tax benefit (expense)	(205,000)	(425,000)	100,000	2,450,000	695,000	7,910,000	3,140,000	1,580,000	2,350,000	2,263,000
Net income (loss)	**1,082,000**	**1,284,000**	**(671,000)**	**(15,886,000)**	**(13,697,000)**	**(4,232,000)**	**(4,789,000)**	**(3,110,000)**	**(3,496,000)**	**(1,922,000)**
Total assets	27,868,000	20,480,000	22,277,000	22,741,000	29,885,000	33,461,000	39,786,000	47,108,000	51,973,000	47,611,000
Capital expenditures	33,000	7,000	63,000	33,000	-	93,000	117,000	140,000	325,000	184,000
Amortization of intangible assets	-	-	-	-	3,058,000	4,895,000	4,895,000	4,895,000	4,866,000	1,865,000

Corporate Segment

Corporate	For Fiscal Year Ending 9/30/22	9/30/21	9/30/20	9/30/19	9/30/18	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13
Dividends and interest income	5,451,000	2,908,000	4,965,000	5,380,000	4,808,000	4,844,000	4,085,000	3,829,000	2,868,000	2,541,000
Gains on sale of land	272,000	-	-	-	-	-	-	-	-	-
Other income	-	69,000	3,000	38,000	37,000	12,000	9,000	69,000	-	55,000
Other than temporary impairment loss on investments	-	-	-	-	(4,560,000)	-	-	(376,000)	-	-
Interest expense on note collateralized by real estate	(83,000)	(94,000)	(119,000)	-	-	-	-	-	-	-
Interest expense on margin loans	(1,026,000)	(233,000)	(434,000)	(862,000)	(651,000)	(422,000)	(284,000)	(224,000)	-	(97,000)
Gains on sales of marketable securities, net	14,249,000	41,749,000	4,193,000	-	3,182,000	-	-	-	-	-
Net unrealized (losses) gains on marketable securities	(123,401,000)	106,499,000	(3,099,000)	(17,715,000)	-	-	-	-	-	(1,719,000)
Pre-tax income (loss)	(104,538,000)	150,898,000	5,509,000	(13,159,000)	2,816,000	4,434,000	3,810,000	3,298,000	2,868,000	780,000
Income tax benefit (expense)	27,315,000	(39,610,000)	(385,000)	3,815,000	18,355,000	(758,000)	(675,000)	(390,000)	(400,000)	248,000
Net income (loss)	**(77,223,000)**	**111,288,000**	**5,124,000**	**(9,344,000)**	**21,171,000**	**3,676,000**	**3,135,000**	**2,908,000**	**2,468,000**	**1,028,000**
Total assets	268,500,000	347,685,000	180,402,000	197,459,000	214,511,000	230,641,000	166,634,000	166,041,000	173,676,000	136,994,000

All Segments: Summary Reconciliation

Totals - Summary	For Fiscal Year Ending 9/30/22	9/30/21	9/30/20	9/30/19	9/30/18	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13
Revenues:										
Advertising, net	8,591,000	8,171,000	7,104,000	9,132,000	9,112,000	9,104,000	9,854,000	10,502,000	11,435,000	14,472,000
Circulation	4,394,000	4,576,000	5,090,000	5,249,000	5,401,000	5,654,000	5,912,000	5,915,000	6,038,000	6,346,000
Advertising service fees and other	2,937,000	2,684,000	2,501,000	2,712,000	2,659,000	2,812,000	2,651,000	2,703,000	2,800,000	3,012,000
Licensing and maintenance fees	19,192,000	21,044,000	21,647,000	20,179,000	17,225,000	16,037,000	14,758,000	13,984,000	12,987,000	9,942,000
Consulting fees	11,865,000	6,319,000	7,718,000	5,539,000	2,832,000	4,476,000	4,085,000	4,704,000	4,002,000	3,406,000
Other public service fees	7,030,000	7,131,000	5,882,000	5,844,000	3,474,000	3,301,000	4,352,000	6,170,000	6,161,000	498,000
Total revenue	**54,009,000**	**49,925,000**	**49,942,000**	**48,655,000**	**40,703,000**	**41,384,000**	**41,612,000**	**43,978,000**	**43,423,000**	**37,676,000**
Operating expenses:	-	-	-	-	-	-	-	-	-	-
Salaries and employee benefits	36,935,000	34,230,000	37,802,000	35,014,000	33,832,000	31,749,000	27,381,000	26,010,000	25,262,000	
Increase to long-term supplemental compensation accrual	1,245,000	1,835,000	-	-	-	-	-	-	-	
Amortization of intangible assets	-	-	-	-	3,058,000	4,895,000	5,037,000	4,907,000	4,866,000	33,887,000
Goodwill impairment	-	-	-	13,400,000	-	-	-	-	-	
Other	13,840,000	11,708,000	13,423,000	18,465,000	17,873,000	17,907,000	15,834,000	16,573,000	15,485,000	
Total operating expenses	52,020,000	47,773,000	51,225,000	66,879,000	54,763,000	54,551,000	48,252,000	47,490,000	45,613,000	33,887,000
Income (loss) from operations	1,989,000	2,152,000	(1,283,000)	(18,224,000)	(14,060,000)	(13,167,000)	(6,640,000)	(3,512,000)	(2,190,000)	3,789,000
Dividends and interest income	5,451,000	2,908,000	4,965,000	5,380,000	4,808,000	4,844,000	4,085,000	3,829,000	2,868,000	2,541,000
Net unrealized (losses) gains on marketable securities	(123,401,000)	106,499,000	(3,099,000)	(17,715,000)	-	-	-	-	-	(1,719,000)
Other than temporary impairment loss on investments	-	-	-	-	(4,560,000)	-	-	(376,000)	-	-
Gains on sales of marketable securities, net	14,249,000	41,749,000	4,193,000	-	3,182,000	-	-	-	-	-
Gains on sale of land	272,000	-	-	-	-	-	-	-	-	-
Other income	-	69,000	3,000	38,000	37,000	34,000	61,000	69,000	-	55,000
Interest expense on note collateralized by real estate	(83,000)	(94,000)	(119,000)	(93,000)	(95,000)	(100,000)	(88,000)	-	-	-
Interest expense on margin loans	(1,026,000)	(233,000)	(434,000)	(862,000)	(651,000)	(422,000)	(284,000)	(224,000)	-	(97,000)
Other interest expense	-	-	-	-	-	743,000	(112,000)	(96,000)	(537,000)	-
Pre-tax income (loss)	(102,549,000)	153,050,000	4,226,000	(31,476,000)	(11,339,000)	(8,068,000)	(2,978,000)	(310,000)	141,000	4,569,000
Income tax benefit (expense)	26,925,000	(40,150,000)	(185,000)	6,260,000	19,540,000	7,150,000	1,935,000	1,120,000	490,000	(790,000)
Net income (loss)	**(75,624,000)**	**112,900,000**	**4,041,000**	**(25,216,000)**	**8,201,000**	**(918,000)**	**(1,043,000)**	**810,000**	**631,000**	**3,779,000**
Total assets	319,111,000	390,577,000	238,575,000	237,376,000	263,998,000	280,708,000	225,446,000	228,196,000	243,877,000	203,063,000
Capital expenditures	36,000	29,000	184,000	165,000	212,000	253,000	3,779,000	565,000	435,000	280,000
Amortization of intangible assets	-	-	-	-	3,058,000	4,895,000	5,037,000	4,907,000	4,866,000	1,865,000

Marketable Securities

	9/30/22	9/30/21	9/30/20	9/30/19	9/30/18	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13	9/30/12	9/30/11	9/30/10	9/30/09
Marketable Securities on Balance Sheet, at fair value														
Common stocks	275,529,000	347,573,000	179,368,000	194,581,000	212,296,000	220,973,000	158,462,000	158,705,000	165,734,000	129,699,000	94,061,000	48,393,000	43,005,000	47,917,000
Bonds	-	-	-	-	-	8,292,000	8,172,000	7,336,000	7,942,000	7,295,000	8,095,000	7,723,000	7,077,000	6,158,000
Total Marketable Securities on Balance Sheet, at fair value	**275,529,000**	**347,573,000**	**179,368,000**	**194,581,000**	**212,296,000**	**229,265,000**	**166,634,000**	**166,041,000**	**173,676,000**	**136,994,000**	**102,156,000**	**56,116,000**	**50,082,000**	**54,075,000**
Deferred tax liabilities attributable to unrealized gains on investments	32,120,000	64,115,000	35,870,000	37,241,000	42,151,000	64,550,000	42,250,000	43,278,000	48,896,000	34,610,000	20,898,000	9,772,000	11,269,000	12,965,000
Marketable Securities Portfolio, net of deferred tax liability	**243,409,000**	**283,458,000**	**143,498,000**	**157,340,000**	**170,145,000**	**164,715,000**	**124,384,000**	**122,763,000**	**124,780,000**	**102,384,000**	**81,258,000**	**46,344,000**	**38,813,000**	**41,110,000**
Securities disclosed on SEC Form 13F:														
Alibaba Group (ADR)	23,997,000	44,720,000	-	-	-	-	-	-	-					
Bank of America	69,460,000	97,635,000	55,407,000	67,091,000	67,758,000	58,282,000	35,995,000	35,834,000	39,215,000					
Posco (ADR)	357,000	672,000	408,000	460,000	643,000	676,000	498,000	341,000	4,903,140					
US Bancorp	5,645,000	8,322,000	5,019,000	7,748,000	7,393,000	7,503,000	6,005,000	5,741,000	5,856,200					
Wells Fargo	64,022,000	73,875,000	37,423,000	80,290,000	83,665,000	87,788,000	70,485,000	81,739,000	82,566,666					
Total of securities disclosed on SEC Form 13F	**163,481,000**	**225,224,000**	**98,257,000**	**155,589,000**	**159,459,000**	**154,249,000**	**112,983,000**	**123,655,000**	**132,541,006**					
Common stocks on balance sheet at fair value	275,529,000	347,573,000	179,368,000	194,581,000	212,296,000	220,973,000	158,462,000	158,705,000	165,734,000					
Less marketable securities disclosed on SEC Form 13F	(163,481,000)	(225,224,000)	(98,257,000)	(155,589,000)	(159,459,000)	(154,249,000)	(112,983,000)	(123,655,000)	(132,541,006)					
Foreign marketable securities not disclosed on SEC Form 13F	**112,048,000**	**122,349,000**	**81,111,000**	**38,992,000**	**52,837,000**	**66,724,000**	**45,479,000**	**35,050,000**	**33,192,994**					
Foreign Securities														
Marketable security denominated in South Korean Won at fair value		-	-	9,380,000	10,249,000	11,724,000	12,667,000	8,694,000						
Marketable security denominated in Hong Kong Dollar at fair value	112,048,000	122,349,000	81,111,000	29,612,000	42,587,000	55,000,000	32,814,000	26,355,000						
Total Foreign Securities	**112,048,000**	**122,349,000**	**81,111,000**	**38,992,000**	**52,836,000**	**66,724,000**	**45,481,000**	**35,049,000**						
From Cash Flow Statements:														
Purchases of marketable securities	117,678,000	64,990,000	-	-	-	5,013,000	3,832,000	10,977,000	-	-	20,961,000	11,154,000	-	20,424,000
Sales of marketable securities	(80,570,000)	(45,033,000)	(16,307,000)	-	(8,125,000)	-	-	(4,044,000)	-	-	-	-	-	-
Net purchases (sales) of marketable securities	**37,108,000**	**19,957,000**	**(16,307,000)**	**-**	**(8,125,000)**	**5,013,000**	**3,832,000**	**6,933,000**	**-**	**-**	**20,961,000**	**11,154,000**	**-**	**20,424,000**
Cumulative running total of cash used to buy marketable securities	**100,950,000**	**63,842,000**	**43,885,000**	**60,192,000**	**60,192,000**	**68,317,000**	**63,304,000**	**59,472,000**	**52,539,000**	**52,539,000**	**52,539,000**	**31,578,000**	**20,424,000**	**20,424,000**
REALIZED GAINS AND INCOME FROM INVESTMENT PORTFOLIO:														
Dividends and interest income for fiscal year	5,451,000	2,908,000	4,965,000	5,380,000	4,808,000	4,844,000	4,085,000	3,829,000	3,001,000	2,541,000	1,967,000	1,233,000	867,000	704,000
Realized gains on sales of investments for fiscal year	14,249,000	41,749,000	4,193,000	-	3,182,000	-	-	4,000	-	1,000	7,000	1,000	-	91,000
Total	**19,700,000**	**44,657,000**	**9,158,000**	**5,380,000**	**7,990,000**	**4,844,000**	**4,085,000**	**3,833,000**	**3,001,000**	**2,542,000**	**1,974,000**	**1,234,000**	**867,000**	**795,000**
CUMULATIVE UNREALIZED GAINS ON SECURITIES AT YEAR END	**120,692,000**	**244,093,000**	**137,593,000**	**140,692,000**	**158,407,000**	**165,872,000**	**108,256,000**	**111,498,000**	**125,700,000**	**89,018,000**	**52,464,000**	**24,532,000**	**29,655,000**	**33,677,000**
MARGIN LOAN DATA:														
Margin loan at year end	75,000,000	32,000,000	29,493,000	29,493,000	29,493,000	29,493,000	29,493,000	29,493,000	29,493,000	29,493,000	-	-	-	-
Margin interest paid	1,026,000	233,000	434,000	862,000	651,000	422,000	284,000	224,000	230,000	97,000	-	-	-	-

NOTES ON FOREIGN SECURITIES:

In the 10-K reports for fiscal 2015 to fiscal 2019, Daily Journal's Foreign Currency Risk section contains the information provided above indicating that a foreign currency security (singular) was held in South Korean Won and a foreign currency security (singular) was held in Hong Kong Dollars. In the fiscal 2020 10-K, the Risks Associated with Our Holdings of Marketable Securities section indicates that there is one marketable security held in an unspecified foreign currency in addition to the four securities disclosed in the 13-F. In the fiscal 2021 10-K, the Risks Associated with Our Holdings of Marketable Securities section indicates that there are investments in seven companies, but that only one is denominated in Hong Kong dollars, which I infer to be BYD, and there is no mention of any other foreign currencies. In the fiscal 2022 10-K, there are multiple references to "one foreign manufacturer" and that it is denominated in Hong Kong Dollars.

Notes

[1] **Charlie Munger has emphasized the lack of a parallel between Daily Journal and Berkshire on several occasions.** Quote taken from 2022 10-K: https://www.sec.gov/Archives/edgar/data/783412/000143774922029285/djco20220930_10k.htm, retrieved on January 15, 2023.

[2] **The slow motion destruction of newspaper industry economics began in the late 1990s** when the internet emerged from academia into the mainstream of popular culture. From the earliest days of the internet, the threat to the news business was apparent. By end of the first decade of the current century, the writing was on the wall as I discussed in *Can Traditional Print Newspapers Survive "Creative Destruction"?* published on May 27, 2009. Source: https://rationalwalk.com/can-traditional-print-newspapers-survive-creative-destruction retrieved on January 20, 2023.

[3] **For background on Charlie Munger's acquisition of Daily Journal**, I recommend chapter eighteen of *Damn Right: Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger* a biography published by Janet Lowe in 2000. Review of *Damn Right* published on January 1, 2023: https://rationalreflections.substack.com/p/damn-right-behind-the-scenes-with

[4] **Daily Journal 2021 annual meeting transcript** published on February 26, 2021 by Richard Lewis, retrieved on January 20, 2023: http://latticeworkinvesting.com/2021/02/26/charlie-munger-full-transcript-of-daily-journal-annual-meeting-2021/

[5] **Daily Journal 1995 10-K** is the earliest filing available on the SEC's EDGAR website. Retrieved on January 11, 2023: https://www.sec.gov/Archives/edgar/data/783412/0000898430-95-002715.txt. Interestingly, although combined paid circulation for the Los Angeles and San Francisco Daily Journals has dropped from 20,600 in 1995 to 5,640 in 2022, pricing has increased from $389 in 1995 to $887 in 2022. According to the Bureau of Labor Statistics, the purchasing power of $389 in September 1995 is equivalent to $754 in September 2022 dollars, so the Daily Journals have increased pricing faster than officially reported inflation. BLS CPI Inflation Calculator can be found at https://www.bls.gov/data/inflation_calculator.htm.

[6] **Daily Journal 2022 annual meeting transcript** published on June 3, 2022 by Richard Lewis. Retrieved on January 9, 2023: http://latticeworkinvesting.com/2022/06/03/charlie-munger-full-transcript-of-daily-journals-2022-annual-meeting. *"By the way, it's not a tragedy that Berkshire has some surplus money they're not investing. And you can argue that the little old Daily Journal, what a good thing it was we had 30 million extra coming in from a foreclosure boom and that we invested it shrewdly. It gives us a lot of flexibility."*

[7] **Daily Journal 2017 annual meeting transcript** published by Richard Lewis on February 17, 2017. Retrieved on January 9, 2023: http://latticeworkinvesting.com/2017/02/17/charlie-munger-full-transcript-of-daily-journal-annual-meeting-2017/

[8] **Daily Journal 2016 annual meeting transcript** published by Richard Lewis on February 13, 2016. Retrieved on January 9, 2023: http://latticeworkinvesting.com/2016/02/13/charlie-munger-transcript-of-daily-journal-annual-meeting-2016/

[9] **Daily Journal Corporation: Declining Publisher or Rising Hedge Fund**, December 15, 2011, The Rational Walk. Retrieved from https://rationalwalk.com/daily-journal-corporation-declining-publisher-or-rising-hedge-fund/ on January 20, 2023.

[10] **Correspondence between Daily Journal Corporation and the SEC dated March 18, 2013.** Retrieved on January 20, 2023 at: https://www.sec.gov/Archives/edgar/data/783412/000143774913003140/filename1.htm. Although the company maintains that it is not an investment company, as defined by the Investment Company Act of 1940, Daily Journal did start to disclose certain marketable securities traded on U.S. exchanges starting in 2014 on form 13-F.

[11] **Daily Journal Corporation Announces New Chairman and CEO**, March 28, 2022. Retrieved on January 20, 2023 at: https://www.globenewswire.com/en/news-release/2022/03/28/2410830/26116/en/Daily-Journal-Corporation-Announces-New-Chairman-and-CEO.html

[12] **Daily Journal 2022 annual meeting transcript** published on June 3, 2022 by Richard Lewis. Retrieved on January 9, 2023: http://latticeworkinvesting.com/2022/06/03/charlie-munger-full-transcript-of-daily-journals-2022-annual-meeting.

[13] **Management expects circulation revenue to continue to decline:** *"Circulation revenues have continued to decline as more and more information has become available online. Law firm mergers have also reduced the number of firms that purchase multiple subscriptions of our newspapers. It is not practical to assume that we will be able to offset the decline in subscriptions with increases in the subscription rate, and we expect that our circulation revenues will continue to decline."* Source: 2022 10-K: https://www.sec.gov/Archives/edgar/data/783412/000143774922029285/djco20220930_10k.htm, retrieved on January 11, 2023.

[14] **Estimated circulation revenue run rate** for the S.F. and L.A. Daily Journals is not a published metric released by the company but simply the product of multiplying the year end paid subscriptions of The Daily Journals by the subscription price in effect. Discounting is apparent because this calculated estimate is greater than overall circulation revenues. For example, in fiscal 2022, the annual subscription price of The Daily Journals was $887 and there were 5,640 subscribers which would imply circulation revenues of slightly more than $5 million. However, Daily Journal reported *total* circulation revenue of $4,394,000 in fiscal 2022. In addition to The Daily Journals, the company also has eight other newspapers. I conclude that there must be some level of discounting based on the inferences drawn by these calculations.

[15] **Damn Right: Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger** by Janet Lowe, published in 2000. The acquisitions are discussed on pages 206-207. Link to book on Amazon.com: https://amzn.to/3HmqMhZ

[16] **Daily Journal's stock closed at $35 on September 29, 1998** which was the last trading day of the Daily Journal's 1998 fiscal year. Data source: Yahoo! Finance, retrieved on January 21, 2023: https://finance.yahoo.com/quote/DJCO/history?period1=907027200&period2=907113600&interval=1d&filter=history&frequency=1d&includeAdjustedClose=true

[17] **United States Residential Foreclosure Crisis: Ten Years Later**, March 2017. Available at: https://rationalwalk.com/wp-content/uploads/2023/01/national-foreclosure-report-10-year.pdf, retrieved on January 21, 2023.

[18] **Daily Journal 2022 annual meeting transcript** published on June 3, 2022 by Richard Lewis. Retrieved on January 9, 2023: http://latticeworkinvesting.com/2022/06/03/charlie-munger-full-transcript-of-daily-journals-2022-annual-meeting.

[19] **Daily Journal 2021 annual meeting transcript** published on February 26, 2021 by Richard Lewis, retrieved on January 20, 2023: http://latticeworkinvesting.com/2021/02/26/charlie-munger-full-transcript-of-daily-journal-annual-meeting-2021/

[20] **The meme stock mania** was covered well in Spencer Jakab's recent book, *The Revolution That Wasn't: GameStop, Reddit, and the Fleecing of Small Investors*, which I reviewed in late 2021 on The Rational Walk: https://rationalwalk.com/the-revolution-that-wasnt, retrieved on January 23, 2023.

[21] **Why Software Is Eating the World** by Marc Andreessen, August 20, 2011. https://a16z.com/2011/08/20/why-software-is-eating-the-world, retrieved on January 23, 2023.

[22] **Data for fiscal years 1993 to 1998** were taken from Daily Journal's 10-K reports for fiscal 1995, 1996, 1997, and 1998. Free cash flow was estimated by taking cash flows from operations and subtracting capital expenditures. The earliest 10-K for Daily Journal on the SEC's website is for fiscal 1995 which contains income statements back to 1993.

[23] **Daily Journal purchased 80% of the capital stock of Choice Information Systems, subsequently renamed as Sustain, for $6.67 million.** Purchase price in excess of net assets acquired was $3.8 million to be amortized over five years. On the cash flow statement, $2,834,000 is accounted for as "Acquisitions, net of cash acquired", with the remainder of the cash outflow for the purchase accounted for as changes to working capital accounts. The fiscal 1999 10-K indicates that approximately $4 million of working capital was left at Sustain immediately following the acquisition.

[24] **From Daily Journal's 2008 10-K**: *"In 1999 the Company acquired an 80% equity interest in Sustain for cash of $6.67 million. The Company periodically acquired additional equity interests in Sustain through October 2001 for cash of approximately $7 million primarily paid to Sustain pursuant to rights offerings. The results of operations for the additional*

ownership interests have been included in the financial statements from the dates of such acquisitions. The acquisitions were accounted for using the purchase method of accounting; accordingly, the purchase price in excess of the net assets was allocated to goodwill and purchased software and then written off through fiscal 2001. In 2008 Sustain became a wholly owned subsidiary after additional purchases from certain of its shareholders for a nominal amount." It seems reasonable to regard the final purchase of 7% of Sustain in 2008 for a "nominal amount" to reflect the deterioration of the business. Retrieved on January 23, 2023: https://www.sec.gov/Archives/edgar/data/783412/000119312508258218/d10k.htm

[25] **Daily Journal 2017 annual meeting transcript** published by Richard Lewis on February 17, 2017. Retrieved on January 9, 2023: http://latticeworkinvesting.com/2017/02/17/charlie-munger-full-transcript-of-daily-journal-annual-meeting-2017/

[26] **Daily Journal's 2001 10-K**: https://www.sec.gov/Archives/edgar/data/783412/000089843001504121/d10k405.txt, retrieved on January 11, 2023.

[27] **Daily Journal's 2019 10-K**: *"In fiscal 2013, when the Company acquired [New Dawn] and [ISD] it recorded goodwill of $13,400,000 which represented the expected synergies in expanding the Company's software business. Based on a recent third-party appraiser's valuation report, the entire goodwill of $13,400,000 was impaired and thus fully written off as of September 30, 2019. In addition, the Company decided to initiate the end-of-life process of New Dawn's and ISD's legacy software products and focus on Journal Technologies' Internet-based family of products."* Retrieved on January 15, 2023: https://www.sec.gov/Archives/edgar/data/783412/000143774919024290/djco20190930_10k.htm

[28] **Daily Journal 2018 annual meeting transcript** published by Richard Lewis on February 19, 2018. Retrieved on January 10, 2023. http://latticeworkinvesting.com/2018/02/19/charlie-munger-full-transcript-of-daily-journal-annual-meeting-2018/

[29] Ibid. **Munger on Journal Technology's long slog:** *"It's been a long slog to date and there'll be a long slog ahead. We're taking some territory, but it's not rapid and it it's never going to be the kind of thing that Google gets into, or Microsoft, where the sky just rains gold. It's going to be a long, long slog. But we have a big pack of money and we have a strong will, and we have a lot of good people working in the system, and I think we'll end up slogging pretty well."*

[30] **Daily Journal 2022 annual meeting transcript** published on June 3, 2022 by Richard Lewis. Retrieved on January 9, 2023: http://latticeworkinvesting.com/2022/06/03/charlie-munger-full-transcript-of-daily-journals-2022-annual-meeting.

[31] **The Life of Pasteur** by Rene Vallery-Radot. Louis Pasteur made his famous statement about chance favoring the prepared mind in a speech on December 7, 1854 in the context of scientific discovery. The same sentiment is certainly true for other areas of human endeavor including being willing and able to act in size and with conviction when opportunities arise in markets. https://www.gutenberg.org/files/60956/60956-h/60956-h.htm, retrieved on January 24, 2023.

[32] **Daily Journal's fiscal Q1 2009 10-Q**, covering the period from October 1, 2008 to December 31, 2008, retrieved on January 24, 2023: https://www.sec.gov/Archives/edgar/data/783412/000114036109003935/form10q.htm

[33] **Daily Journal's fiscal Q2 2009 10-Q**, covering the period from January 1, 2009 to March 31, 2009, retrieved on January 24, 2023: https://www.sec.gov/Archives/edgar/data/783412/000114036109011512/form10q.htm

[34] **Daily Journal's fiscal Q3 2009 10-Q,** covering the period from April 1, 2009 to June 30, 2009, retrieved on January 24, 2023: https://www.sec.gov/Archives/edgar/data/783412/000114036109018729/form10q.htm

[35] **Daily Journal's fiscal 2009 10-K**, covering the period from October 1, 2008 to September 30, 2009, retrieved on January 24, 2023: https://www.sec.gov/Archives/edgar/data/783412/000119312509253186/d10k.htm

[36] **Daily Journal's fiscal Q2 2010 10-Q**, covering the period from January 1, 2010 to March 31, 2010, retrieved on January 24, 2023: https://www.sec.gov/Archives/edgar/data/783412/000114036110020646/form10q.htm

[37] **Daily Journal 2016 annual meeting transcript** published by Richard Lewis on February 13, 2016. Retrieved on January 9, 2023: http://latticeworkinvesting.com/2016/02/13/charlie-munger-transcript-of-daily-journal-annual-meeting-2016/

[38] **Dataroma** provides summary 13-F information for many well-known investors. The activity report shows the lack of activity over the years. Note that the Posco position included in the exhibit as of September 30, 2022 was sold in the fourth calendar quarter of 2022. https://www.dataroma.com/m/m_activity.php?m=DJCO&typ=a, retrieved on January 24, 2023.

[39] **Daily Journal 2022 annual meeting transcript** published on June 3, 2022 by Richard Lewis. Retrieved on January 9, 2023: http://latticeworkinvesting.com/2022/06/03/charlie-munger-full-transcript-of-daily-journals-2022-annual-meeting.

[40] **Charlie Munger has a longstanding relationship with Li Lu** and has stated on numerous occasions that Li Lu manages assets for the Munger family. Li Lu is the only outside manager Mr. Munger has hired to manage his funds. Although I am not aware of Mr. Munger stating that Li Lu will manage Daily Journal's portfolio, it would be a logical decision.

[41] **Daily Journal Corporation Announces New Chairman and CEO**, March 28, 2022, Retrieved on January 12, 2023: https://www.globenewswire.com/en/news-release/2022/03/28/2410830/26116/en/Daily-Journal-Corporation-Announces-New-Chairman-and-CEO.html

[42] **For more background on Steven Myhill-Jones**, I recommend an Inc.com article from September 2006, retrieved on January 12, 2023: https://www.changingcourse.com/pressrelease/inc092006.pdf

[43] **Daily Journal's 8-K filed on November 17, 2022** disclosed Maryjoe Rodriguez's resignation. Retrieved on January 24, 2023: https://www.sec.gov/ix?doc=/Archives/edgar/data/783412/000143774922027666/djco20221115_8k.htm

[44] **Daily Journal's 2020 Proxy Statement**, retrieved on January 15, 2023: https://www.sec.gov/Archives/edgar/data/783412/000143774921029366/djco20211227_def14a.htm

[45] **Form 4 documenting the gift of stock was filed by Charlie Munger on June 17, 2022**, retrieved on January 24, 2023: https://www.sec.gov/Archives/edgar/data/783412/000120919122037721/xslF345X03/doc4.xml

[46] **For further comments on Charlie Munger's gift of stock**, see Exemplars, published on Rational Reflections on November 17, 2022. https://rationalreflections.substack.com/p/exemplars, retrieved on January 24, 2023.

[47] **Tyler Technologies Investor Presentation**, August 2022. Retrieved on December 27, 2022. The presentation is available at https://rationalwalk.com/wp-content/uploads/2022/12/TYL-InvestorPresentation-August2022.pdf

[48] Ibid.

[49] **Tyler Corporation**, Encyclopedia.com. This article has quite a bit of historical information on Tyler's origin story: https://www.encyclopedia.com/books/politics-and-business-magazines/tyler-corporation, Retrieved on January 7, 2023. For more information on Joseph F. McKinney, Tyler's founder, see **Tyler Corp. chief likes his companies diverse and ready to make the cash flow** by Harihar Krishnanupi, December 2, 1984: https://www.upi.com/Archives/1984/12/02/Business-Profile-Joseph-F-McKinneyNEWLNTyler-Corp-chief-likes-his-companies-diverse-and-ready-to-make-the-cash-flow/7781470811600/, retrieved on January 7, 2023.

[50] **Tyler Corporation's 1998 10-K** discusses the company's strategic shift into the software industry: https://www.sec.gov/Archives/edgar/data/860731/0000950134-99-002307.txt, retrieved on January 7, 2023.

[51] **Daily Journal 2017 annual meeting transcript** published by Richard Lewis on February 17, 2017. Retrieved on January 9, 2023: http://latticeworkinvesting.com/2017/02/17/charlie-munger-full-transcript-of-daily-journal-annual-meeting-2017/