

Dolan Co.
Form 10-Q
November 02, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended: September 30, 2012

OR

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

For the Transition Period From to .

Commission File Number: 001-33603

The Dolan Company

(Exact name of registrant as specified in its charter)

Edgar Filing: Dolan Co. - Form 10-Q

Delaware
(State or other jurisdiction
of incorporation or organization)

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

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

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

(612) 317-9420

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

On October 31, 2012, there were 30,982,779 shares of the registrant's common stock outstanding.

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets as of September 30, 2012, (unaudited) and December 31, 2011 1

Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2012 and 2011 2

Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011 3

Unaudited Condensed Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2012 4

Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011 5

Notes to Unaudited Condensed Consolidated Interim Financial Statements 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 21

Item 3. Quantitative and Qualitative Disclosures about Market Risk 45

Item 4. Controls and Procedures 46

PART II OTHER INFORMATION 47

Item 1. Legal Proceedings 47

Item 1A. Risk Factors 47

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 47

Item 3. Defaults Upon Senior Securities 47

Item 4. Mine Safety Disclosures 47

Item 5. Other Information 47

Item 6. Exhibits 48

SIGNATURES 48

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****The Dolan Company****Condensed Consolidated Balance Sheets**

(in thousands, except share data)

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 15,586	\$ 752
Accounts receivable, including unbilled services (net of allowances for doubtful accounts of \$1,637 and \$1,416 as of September 30, 2012, and December 31, 2011, respectively)	66,337	72,117
Unbilled pass-through costs	4,249	4,317
Prepaid expenses and other current assets	4,380	3,976
Income tax receivable	7,961	1,968
Assets held for sale	370	257
Total current assets	98,883	83,387
Accounts receivable, long-term		2,500
Investments	11,074	11,901
Property and equipment, net	17,436	19,263
Finite-lived intangible assets, net	166,486	212,950
Goodwill and indefinite-lived intangible assets	151,329	283,039
Deferred income taxes	25,408	
Other assets	2,456	2,563
Total assets	\$ 473,072	\$ 615,603
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 15,766	\$ 7,667
Accounts payable	17,784	18,760
Accrued pass-through liabilities	8,940	8,820
Accrued compensation	8,710	5,188
Accrued liabilities	5,570	5,588
Due to sellers of acquired businesses	5,124	20,403
Deferred revenue	14,141	20,290
Total current liabilities	76,035	86,716
Long-term debt, less current portion	174,466	168,724
Deferred income taxes		20,739
Due to sellers of acquired businesses		12,687
Other liabilities	6,605	7,319
Total liabilities	257,106	296,185
Redeemable noncontrolling interest	5,494	12,726

Edgar Filing: Dolan Co. - Form 10-Q

Commitments and contingencies (Note 15)

Stockholders' equity		
Common stock, \$0.001 par value; authorized: 70,000,000 shares; outstanding: 30,985,090 and 30,576,597 shares as of September 30, 2012, and December 31, 2011, respectively	31	30
Preferred stock, \$0.001 par value; authorized: 5,000,000 shares; designated: 5,000 shares of Series A Junior Participating Preferred Stock; no shares outstanding		
Other comprehensive loss, net of tax	(1,082)	(1,285)
Additional paid-in capital	303,238	294,476
Retained earnings (accumulated deficit)	(84,946)	13,471
Total The Dolan Company stockholders' equity	217,241	306,692
Noncontrolling interest	(6,769)	
Total stockholders' equity	210,472	306,692
Total liabilities and stockholders' equity	\$ 473,072	\$ 615,603

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Professional Services	\$ 49,778	\$ 51,383	\$ 134,818	\$ 142,539
Business Information	18,282	18,815	56,552	58,582
Total revenues	68,060	70,198	191,370	201,121
Operating expenses				
Direct operating: Professional Services	23,000	23,075	63,943	65,000
Direct operating: Business Information	6,931	7,260	21,383	22,858
Selling, general and administrative	27,218	25,630	78,968	76,323
Amortization	4,607	4,726	14,178	13,185
Depreciation	1,820	1,991	5,634	5,560
Fair value and other adjustments on earnout liabilities	(1,655)	239	(12,127)	219
Impairment of long-lived assets and goodwill	151,614		151,614	
Total operating expenses	213,535	62,921	323,593	183,145
Equity in earnings of affiliates	396	383	1,420	1,572
Operating (loss) income	(145,079)	7,660	(130,803)	19,548
Non-operating income (expense)				
Interest expense, net of interest income	(2,195)	(1,744)	(6,252)	(4,717)
Non-cash interest income related to interest rate swaps				286
Other (expense) income		(107)		287
Total non-operating expense	(2,195)	(1,851)	(6,252)	(4,144)
(Loss) income from continuing operations before income taxes	(147,274)	5,809	(137,055)	15,404
Income tax benefit (expense)	47,031	(2,426)	42,686	(6,226)
(Loss) income from continuing operations	(100,243)	3,383	(94,369)	9,178
Discontinued operations, net of tax	(13,207)	(77)	(13,714)	562
Net (loss) income	(113,450)	3,306	(108,083)	9,740
Less: Net loss (income) attributable to noncontrolling interests	9,946	(217)	9,666	(604)
Net (loss) income attributable to The Dolan Company	\$ (103,504)	\$ 3,089	\$ (98,417)	\$ 9,136
Earnings (loss) per share basic and diluted:				
(Loss) income from continuing operations attributable to The Dolan Company	\$ (2.98)	\$ 0.10	\$ (2.80)	\$ 0.28
Discontinued operations attributable to The Dolan Company	(0.43)		(0.45)	0.02
Net (loss) income attributable to The Dolan Company	(3.41)	0.10	(3.25)	0.30

Edgar Filing: Dolan Co. - Form 10-Q

Decrease in redeemable noncontrolling interest in NDeX		0.09		0.17
Net (loss) income attributable to The Dolan Company common stockholders	\$ (3.41)	\$ 0.19	\$ (3.25)	\$ 0.47
Weighted average shares outstanding-basic	30,327	30,142	30,260	30,126
Weighted average shares outstanding-diluted	30,327	30,208	30,260	30,219
Amounts attributable to The Dolan Company and to The Dolan Company common stockholders:				
(Loss) income from continuing operations, net of tax, attributable to The Dolan Company	\$ (90,297)	\$ 3,166	\$ (84,703)	\$ 8,574
Discontinued operations, net of tax, attributable to The Dolan Company	(13,207)	(77)	(13,714)	562
Net (loss) income attributable to The Dolan Company	(103,504)	3,089	(98,417)	9,136
Decrease in redeemable noncontrolling interest in NDeX, net of tax		2,683		5,206
Net (loss) income attributable to The Dolan Company common stockholders	\$ (103,504)	\$ 5,772	\$ (98,417)	\$ 14,342

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

Table of Contents

The Dolan Company

Unaudited Condensed Consolidated Statements of Comprehensive (Loss) Income

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net (loss) income attributable to The Dolan Company	\$ (103,504)	\$ 3,089	\$ (98,417)	\$ 9,136
Other comprehensive income (loss):				
Unrealized gain (loss) on interest rate swap, net of tax	69	(81)	203	(129)
Comprehensive (loss) income attributable to The Dolan Company	\$ (103,435)	\$ 3,008	\$ (98,214)	\$ 9,007

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

(in thousands, except share data)

	The Dolan Company Stockholders Equity							Total
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Other Comprehensive Loss	Noncontrolling Interest		
Balance at December 31, 2010	30,511,408	\$ 30	\$ 286,148	\$ (6,022)	\$ (1,298)	\$	\$ 278,858	
Net income attributable to The Dolan Company				19,493			19,493	
Decrease in redeemable noncontrolling interest in NDeX, net of tax			7,487				7,487	
Unrealized gain on interest rate swap, net of tax					13		13	
Issuance of common stock pursuant to the exercise of stock options	4,000		9				9	
Share-based compensation expense, including issuance of restricted stock (shares are net of forfeitures)	198,689		3,861				3,861	
Repurchase of common stock	(137,500)		(1,691)				(1,691)	
Increase in redeemable noncontrolling interest in DiscoverReady, net of tax			(1,261)				(1,261)	
Other			(77)				(77)	
Balance at December 31, 2011	30,576,597	\$ 30	\$ 294,476	\$ 13,471	\$ (1,285)	\$	\$ 306,692	
Net loss attributable to The Dolan Company				(98,417)			(98,417)	
Net loss attributable to noncontrolling interest						(6,769)	(6,769)	
Change in noncontrolling interest in NDeX			791				791	
Unrealized gain on interest rate swap, net of tax					203		203	
Issuance of common stock pursuant to the exercise of stock options	13,500		30				30	
Share-based compensation expense, including issuance of restricted stock (shares are net of forfeitures)	394,993	1	2,840				2,841	
Decrease in redeemable noncontrolling interest in DiscoverReady, net of tax			5,101				5,101	
Balance at September 30, 2012	30,985,090	\$ 31	\$ 303,238	\$ (84,946)	\$ (1,082)	\$ (6,769)	\$ 210,472	

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

(in thousands)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities		
Net (loss) income	\$ (108,083)	\$ 9,740
Loss (income) from discontinued operations	13,714	(562)
(Loss) income from continuing operations	(94,369)	9,178
Distributions received from The Detroit Legal News Publishing, LLC	2,247	3,500
Distributions paid to holders of noncontrolling interests		(566)
Gain on sale of investment		(394)
Non-cash operating activities:		
Amortization	14,178	13,185
Depreciation	5,634	5,560
Impairment of long-lived assets and goodwill	151,614	
Equity in earnings of affiliates	(1,420)	(1,572)
Share-based compensation expense	2,833	3,026
Deferred income taxes and income tax receivable	(45,912)	286
Change in value of interest rate swap		(286)
Amortization of debt issuance costs	327	280
Non-cash fair value adjustment on earnouts recorded in connection with acquisitions	(11,493)	222
Changes in operating assets and liabilities:		
Accounts receivable and unbilled pass-through costs	(5,850)	(2,361)
Prepaid expenses and other current assets	814	3,995
Other assets	93	105
Accounts payable and accrued liabilities	2,744	(5,287)
Deferred revenue and other liabilities	1,204	(1,531)
Cash provided by operating activities - continuing operations	22,644	27,340
Cash used in operating activities - discontinued operations	(1,498)	(3,851)
Net cash provided by operating activities	21,146	23,489
Cash flows from investing activities		
Acquisitions and investments	(145)	(67,065)
Capital expenditures	(5,017)	(5,318)
Escrow payment received on sale of investment		471
Cash used in investing activities - continuing operations	(5,162)	(71,912)
Cash used in investing activities - discontinued operations	143	(850)
Net cash used in investing activities	(5,019)	(72,762)
Cash flows from financing activities		
Net borrowings on senior revolving note	19,300	54,000
Payments on senior long-term debt	(3,750)	