The Detroit Legal News Company

2014 Annual Report

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INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
The Detroit Legal News Company:
Detroit, MI

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Detroit Legal News Company and subsidiary, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Detroit Legal News Company and subsidiary as of December 31, 2014 and 2013 and the results of their operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

February 10, 2015

CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013

ASSETS	**2014**	**2013**
CURRENT ASSETS:		
Cash and cash equivalents (note 1)	$ 8,968,706	$ 8,955,976
Accounts receivable— trade, less allowance for doubtful accounts of $252,000 and $518,000 at December 31, 2014 and 2013, respectively (note 9)	5,565,191	6,187,076
Inventories (note 2)	287,657	331,074
Prepaid expenses	179,031	138,942
Deferred income taxes	98,000	127,000
Income tax receivable	16,601	—
Total current assets	15,115,186	15,740,068
Property, plant, and equipment (notes 3 and 5)	10,091,884	9,776,254
Less accumulated depreciation	(7,964,267)	(7,584,387)
Net property, plant, and equipment	2,127,617	2,191,867
Goodwill	5,492,000	5,492,000
Other assets	112,927	204,965
Total assets	$22,847,730	$23,628,900

LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 546,591	$ 399,718
Accrued expenses (note 9)	655,828	650,659
Unearned subscriptions	49,211	58,366
Unearned rent	18,750	16,667
Customer deposits	24,590	9,453
Income taxes payable	—	27,118
Total current liabilities	1,294,970	1,161,981
Deferred income taxes (note 8)	756,000	642,000
Total liabilities	2,050,970	1,803,981
STOCKHOLDERS' EQUITY:		
Common stock, $10 par value. Authorized 40,000 shares; issued and outstanding 37,755 shares	377,550	377,550
Additional paid-in capital	135,125	135,125
Retained earnings	15,077,566	15,503,903
Total Detroit Legal News Company stockholders' equity	15,590,241	16,016,578
Noncontrolling interest	5,206,519	5,808,341
Total stockholders' equity	20,796,760	21,824,919
Total liabilities and stockholders' equity	$22,847,730	$23,628,900

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2014 and 2013

	2014	2013
Net sales (note 9)	$21,240,095	$21,653,616
Cost of sales	11,348,347	11,034,119
Gross profit	9,891,748	10,619,497
Selling, general, and administrative expenses	7,199,671	7,944,243
Operating income	2,692,077	2,675,254
Other income:		
Interest income	4,836	1,615
Rental income and other (note 5)	283,128	207,327
Total other income	287,964	208,942
Income before income taxes and noncontrolling interest	2,980,041	2,884,196
Income tax expense (note 8)	698,000	438,000
Net income	2,282,041	2,446,196
Less net income attributable to noncontrolling interest	1,198,178	1,453,466
Net income attributable to Detroit Legal News Company	$ 1,083,863	$ 992,730
Basic and diluted earnings per share (note 7)	$ 28.71	$ 26.29

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2014 and 2013

	Common stock	Additional paid-in capital	Retained earnings	Noncontrolling interest	Total stockholders' equity
Balances at December 31, 2012	$ 377,550	$ 135,125	$15,115,253	$ 6,604,875	$22,232,803
Net income	—	—	992,730	1,453,466	2,446,196
Dividends declared of $16.00 per common share ($16.00 regular, $0.00 special)	—	—	(604,080)	—	(604,080)
Distribution to noncontrolling interests	—	—	—	(2,250,000)	(2,250,000)
Balances at December 31, 2013	$ 377,550	$ 135,125	$15,503,903	$ 5,808,341	$21,824,919
Net income	—	—	1,083,863	1,198,178	2,282,041
Dividends declared of $40.00 per common share ($10.00 regular, $30.00 special)	—	—	(1,510,200)	—	(1,510,200)
Distribution to noncontrolling interests	—	—	—	(1,800,000)	(1,800,000)
Balances at December 31, 2014	$ 377,550	$ 135,125	$15,077,566	$ 5,206,519	$20,796,760

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income attributed to Detroit Legal News Company	$ 1,083,863	$ 992,730
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	379,880	406,955
Deferred income taxes	143,000	(106,000)
Income attributed to noncontrolling interests	1,198,178	1,453,466
Increase (decrease) in allowance for doubtful accounts	(266,000)	118,000
Changes in assets and liabilities which increase (decrease) cash flows:		
Accounts receivable-trade	887,885	2,721,934
Inventories	43,417	5,689
Income taxes receivable and payable	(43,719)	449,669
Prepaid expenses	(40,089)	(1,830)
Other assets	92,038	(95,889)
Accounts payable	146,873	(267,375)
Accrued expenses	(1,903)	(487,254)
Other current liabilities	15,137	547
Net cash provided by operating activities	3,638,560	5,190,642
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant, and equipment	(315,630)	(8,629)
Net cash used in investing activities	(315,630)	(8,629)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(1,510,200)	(604,080)
Distributions to noncontrolling interests	(1,800,000)	(2,250,000)
Net cash used in financing activities	(3,310,200)	(2,854,080)
Net increase in cash and cash equivalents	12,730	2,327,933
Cash and cash equivalents at beginning of year	8,955,976	6,628,043
Cash and cash equivalents at end of year	$8,968,706	$ 8,955,976
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	$ 552,000	$ 90,000

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies

(a) Description of Business

The Detroit Legal News Company operates in two lines of business. As Inland Press, it produces and sells sheet fed commercial printing, principally to customers located in southeastern Michigan. In addition, the Company's subsidiary Detroit Legal News Publishing, LLC (DLNP), publishes legal newspapers. All newspapers are circulated principally to subscribers in southern Michigan.

Rates charged for the publication of certain legal notices are regulated by the State of Michigan. There were no rate changes in 2014 or 2013.

(b) Principles of Consolidation

The consolidated financial statements include the operations of The Detroit Legal News Company (the Company) and those of its 55%-owned subsidiary, DLNP, a limited liability corporation. All significant intercompany balances and transactions have been eliminated in consolidation. Pursuant to a Member Operating Agreement, the members share in the net profits of DLNP in proportion to their respective ownership percentages.

(c) Cash Equivalents

Cash equivalents consist principally of money market funds with an initial term of less than three months and FDIC insured certificates of deposits with initial terms of less than one year. For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of one year or less to be cash equivalents. The Company maintains certain cash in depository accounts which, at times, may exceed federally insured limits.

(d) Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience together with individual review for collectability of all accounts with past due balances over 60 days. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

(f) Impairment of Long-Lived Assets and Long-Lived Assets Held for Disposal

Long-lived assets, such as property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows, expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. To date no impairment losses have been recognized.

Continued

(g) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is computed using straight-line methods over the estimated useful lives of the assets.

(h) Goodwill

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested annually on December 31st for impairment or more frequently if events and circumstances indicate the asset might be impaired. Intangible assets with finite lives are amortized over their respective estimated useful lives and their estimated residual values and reviewed for impairment.

An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. For goodwill, the impairment determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. To date, no impairment losses have been recorded.

(i) Subscription Revenue Recognition

Subscription revenue is recorded as unearned subscriptions at the time of billing and is recognized as sales on a publication basis over the subscription period. Other revenues are recognized at the time services are rendered or upon shipment.

(j) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(k) Uncertain Income Tax Position

The tax effects from an uncertain tax position are recognized in the financial statements, only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized, upon ultimate settlement with the relevant tax authority. The Company believes that no uncertain tax positions were taken during the current year, which would require recording an additional liability.

Continued

(l) Use of Estimates

The preparation of the financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangibles and goodwill; valuation allowances for receivables, inventories and deferred income tax assets; and assets and obligations related to employee benefits. Actual results could differ from those estimates.

(m) Subsequent Events

Management has evaluated subsequent events through the date on which the financial statements were available to be issued.

(2) Inventories

Inventories consist of the following at December 31, 2014 and 2013:

	2014	2013
Paper, ink, and plate material	$ 222,445	$ 275,266
Work in process	65,212	55,808
	$ 287,657	$ 331,074

(3) Property, Plant, and Equipment

Property, plant, and equipment consist of the following at December 31, 2014 and 2013:

	2014	2013	Estimated Useful Lives
Land and improvements	$ 290,035	$ 290,035	—
Buildings and improvements	2,242,348	2,211,348	10 to 30 years
Machinery and equipment	7,559,501	7,274,871	3 to 15 years
	$10,091,884	$ 9,776,254	

(4) Line of Credit

The Company has a $3,000,000 line of credit available at the bank's prime rate. This line of credit expires on May 1, 2015. At December 31, 2014 and 2013, no amounts were borrowed under this line of credit.

(5) Operating Leases

The Company owns certain land and a building which it leases to an unrelated party. The property had an original cost of approximately $325,000 and a carrying value of $100,000 at December 31, 2014. A lease on that building expired October 1, 2013. That lease was a "triple net" lease, with the lessee responsible for maintenance expenses, property taxes and insurance.

On December 1, 2013 the Company entered into a new lease where the Company is responsible for all maintenance expenses, property taxes and insurance. That lease expired on October 1, 2014. However, the lease provision provides for an Extended Term on a month-to-month basis unless and until either party has terminated the Lease by giving the other party one hundred twenty days prior written notice of such termination. As of December 31, 2014 the lease parameters were operating under the Extended Term as described above.

Continued

Annual lease revenues derived from this property were approximately $206,000 in 2014 and $115,400 in 2013. Expenses related to this lease were approximately $108,000 in 2014 and 20,000 in 2013. The Company continues to explore the possibility of selling this property.

The Company also owns a parking lot which it leases to an unrelated party. Lease revenues were approximately $53,000 in 2014 and 2013. That lease expired December 31, 2014. However, the Company continues to lease the property on a month to month basis. Revenues from this property in 2015 are expected to be approximately $53,000.

On January 2, 2013, the Company entered into a 60 month operating lease with a lessor regarding high end copier equipment. The lease called for monthly payments of approximately $3,700 per month for 60 months. Expenses related to this lease were approximately $44,400 in 2014 and 2013.

DLNP leases various office spaces with an initial three to six-year term expiring between 2012 and 2016. Total rent expense associated with these leases for 2014 and 2013 was $175,414 and 174,195, respectively.

Future minimum lease payments for office space under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2014 are:

2015	120,636
2016	16,952
Total minimum lease payments	$ 137,588

(6) Defined Contribution Plans

The Company sponsors a 401(k) savings plan which covers substantially all Inland Press employees. The plan is funded by employee contributions through salary reductions. The Company pays all administrative costs of the plan. The Company also funds employer contributions to its defined contribution/401(k) plan for eligible salaried employees. Additional employer contributions are made to the Company's respective union employee's 401(k) accounts as a result of negotiated labor contracts. Total employer contributions for both union and non-union employees totaled $351,357 in 2014 and $243,914 in 2013.

DLNP sponsors a 401(k) savings plan which covers substantially all DLNP employees. The plan is funded by employee contributions through salary reductions. DLNP contributes 3 percent of compensation to the plan for each employee. DLNP contributions were $70,000 in 2014 and $78,884 in 2013. DLNP pays all administrative costs of the plan.

(7) Basic and Diluted Earnings Per Share

Basic earnings per share (EPS) was computed by dividing net income attributable to the Company by 37,755, the weighted average number of shares of common stock outstanding during the year. Diluted EPS would not differ from basic EPS as the Company has no securities or other contracts to issue common stock that would have a potentially dilutive effect on the EPS calculation.

Continued

(8) Income Taxes

Income tax expense for the years ended December 31, 2014 and 2013 consists of:

	2014	2013
Current federal income tax	$ 472,000	$ 474,000
Current state and local income tax	83,000	70,000
Deferred taxes	143,000	(106,000)
	$ 698,000	$ 438,000

Income tax expense as reported differs from the amount computed by applying the U.S. federal income tax rate of 34% for the tax years ended December 31, 2014 and December 31, 2013, to income before income taxes and noncontrolling interest as a result of the following:

	2014	2013
Computed "expected" tax expense	$ 1,013,000	$ 981,000
Increase (reduction) in income taxes resulting from:		
Noncontrolling interest in earnings of DLNP	(407,000)	(494,000)
Local income tax, net of federal benefit	55,000	46,000
Other, net	37,000	(95,000)
Income taxes	$ 698,000	$ 438,000

The tax effects of temporary differences at December 31, 2014 and 2013, that give rise to deferred tax assets and liabilities are presented below:

	2014	2013
Deferred tax assets:		
Accrued vacation pay	$ 34,000	$ 29,000
Allowance for doubtful accounts	67,000	118,000
Inventory	62,000	55,000
Other	18,000	4,000
Total deferred tax assets	181,000	206,000
Deferred tax liabilities:		
Unbilled revenue	64,000	61,000
Accumulated depreciation	293,000	226,000
Prepaid insurance	19,000	18,000
Goodwill	461,000	414,000
Other	2,000	2,000
Total deferred tax liabilities	839,000	721,000
Net deferred tax liability	$ 658,000	$ 515,000

Deferred income taxes as recorded in the consolidated balance sheets as of December 31, 2014 and 2013 are as follows:

	2014	2013
Current assets	$ 98,000	$ 127,000
Long-term liability	(756,000)	(642,000)
Total	$ (658,000)	$ (515,000)

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences.

The Company is subject to taxation in various jurisdictions. The Company continues to remain subject to examination by U.S. federal authorities for the years 2011 through 2014 and for State authorities for the years 2010 through 2014. Management believes that all tax positions taken on the Company's returns during the years that remain open to examination would more likely than not be sustained under examination by federal and state authorities. Accordingly, the Company has not recorded any liability for unrecognized tax benefits related to certain tax positions taken on its various income tax returns. Interest and penalties related to income tax liabilities, if, and when applicable, would be included as a component of income tax expense in the accompanying statements of income.

(9) Related Party Transactions

In the past, DLNP has sold advertising space for legal notices to an entity related to one of its noncontrolling members, pursuant to an exclusivity agreement with that entity. As of the end of 2014, the noncontrolling member is no longer related to that entity. The consolidated financial statements include sales to this noncontrolling member's former entity of approximately $4,460,000 and $6,067,000 in 2014 and 2013, respectively and related accounts receivable of approximately $1,235,000 and $1,661,000 at December 31, 2014 and 2013, respectively.

The exclusivity agreement with the entity referred to above, terminates on December 31, 2015 unless mutually extended by the parties or, if the noncontrolling member formerly related to that entity remains a member of DLNP beyond December 31, 2015, the agreement would terminate at such later date when the noncontrolling member or any successor entity, is no longer a noncontrolling member of DLNP.

Accrued expenses include approximately $158,000 and $242,000 at December 31, 2014 and 2013, respectively, related to a consulting agreement with a DLNP member (see note 10).

(10) Commitments and Contingencies

On November 30, 2005, an entity wholly owned by Dolan Media Inc. purchased a 35% minority interest in DLNP from existing DLNP minority members. Detroit Legal News maintains a 55% ownership in DLNP. Concurrently with the transaction, the members entered into a new Member Operating Agreement. In accordance with the terms of the new Member Operating Agreement, any DLNP member may exercise a "shootout" provision on a date within 60 days prior to November 30, 2011 and each November 30th after that, by declaring a value for DLNP as a whole. If this were to occur, each of the remaining DLNP members must decide whether it is a buyer of that member's interest or a seller of its own interest in DLNP at this declared value. At that time, the Company's management may deem it prudent to exercise its option to purchase the interest of one or both of the remaining DLNP members. Should this be the case, the Company may be required to seek additional funding. No party exercised its "shoot out" provision in 2014 or 2013.

Unless otherwise agreed to by the members, the Member Operating Agreement provides for mandatory quarterly cash distributions by DLNP of excess cash, additional distributions as deemed appropriate by the DLNP Board of Directors, and distributions to pay income taxes caused by DLNP taxable income. No distribution shall be declared or made if, after giving it effect, DLNP would not be able to pay its debts as they become due in the usual course of business or DLNP's total assets would be less than the sum of its total liabilities.

Concurrent with the above described, DLNP entered into a multi-year consulting agreement with a member which requires annual fees at the lesser of $500,000 or 7% of DLNP's net income, as defined. DLNP is also required to purchase and maintain certain key man life insurance during the term of the agreement. The amount of the annual premium on the policy shall be paid by DLNP, but deducted from the compensation due the member. This consulting agreement along with future annual fees was terminated as of December 31, 2014. (note 9).

NOTES

NOTES

DIRECTORS

BRADLEY L. THOMPSON II, *Chairman and President*
(term expires April, 2016)

RICHARD E. RASSEL, *Secretary*
(term expires April, 2015)

BURTON D. FARBMAN
(term expires April, 2017)

STEPHEN B. FOWLER
(term expires April, 2017)

LESLIE A. MURPHY
(term expires April, 2015)

RONALD J. PALMER
(term expires April, 2016)

ROBERT V. PETERSON
(term expires April, 2015)

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