

BUXTON HELMSLEY

July 28, 2025

VIA ELECTRONIC MAIL ONLY (SMJ@DAILYJOURNAL.COM)

Daily Journal Corporation
915 East First Street
Los Angeles, CA 90012
Attn: Board of Directors – All Members

Re: Daily Journal Corporation (“DJCO” or the “Company”) – Continued Failure to Disclose Investigation Into Accounting Treatment of “Significant” Costs

Dear Members of the DJCO Board of Directors (the “Board”):

As you are aware, we issued an open letter last Friday (the “July 25 Letter”) in response to the Board’s failure to disclose to shareholders both the July 21, 2025, emergency Board meeting and the selectively disclosed internal investigation into the Company’s historical accounting practices (though, the Board inappropriately attempting to investigate *their own* practices). Despite having the entire weekend to prepare and file a Form 8-K disclosing the ongoing investigation (which has been underway now for 6 days), no such disclosure to shareholders has been made. At this stage, the Board’s continued action (or lack thereof) is difficult to interpret as anything other than intentional.

The issues outlined herein materially distort the true value of the Company by understating asset values, misrepresenting capitalization levels, and artificially suppressing reported earnings. For these reasons, we are emphatic such information must be corrected and disclosed *immediately*. This is a matter of compliance with securities laws.

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The Company has firmly acknowledged the materiality of the software development costs within its most recent Form 10-K (Page 7):

*“Journal Technologies’ success depends on the continued improvement of its products, which is why the costs to update and upgrade them **consistently constitute such a significant portion of the Company’s expenses.**”*

Therefore, the Company’s acknowledgment of these “significant” costs constitutes an implicit admission of the overall materiality of the underlying issues. Critically, the Company has stated that these costs relate to “continued improvement” and “upgrade[s]”—language that not only places the expenditures squarely within the scope of costs required to be capitalized under ASC 985-20 (as detailed in the July 25 Letter), but also directly contradicts the Company’s assertion that the software platform remains in a state of foundational incompleteness. One is not “improv[ing]” or “upgrad[ing]” a platform that is not yet fundamentally completed; such terminology presupposes the existence of a complete baseline asset undergoing enhancement. Thus, the Company’s own characterization of these activities entirely undermines its effort to disclaim capitalization obligations by claiming that the software is still in a purely exploratory phase (pre-“technological feasibility”).

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If the Journal Technologies software were not “technologically feasible”, there would be no opportunity to “improve[]” or “upgrade”.

In addition, these costs to “upgrade” and “improve[]” follow the most significant foundational development-phase expenses that were similarly subject to mandatory capitalization under GAAP (the initial/base development phase, before improvements and upgrades), but were not capitalized—rendering the Company’s financial disclosures “presumed to be misleading or inaccurate”, given such violations of GAAP. *See* Regulation S-X § 210.4-01(a)(1). Put plainly, the Company has been reporting zero intangible assets and zero R&D expenses, despite its own acknowledgments that the costs associated with these missing line items are both significant and tied to a completed platform being “upgrade[d]” and “improve[d]”. The Company’s contradictory claims do not hold water even slightly.

As detailed in the July 25 Letter, the Company has failed to appropriately classify its “significant” R&D expenses in a separate line item. This deprives investors of their ability to understand the materiality in numeric terms and instead forces them to rely on vague, qualitative references to its “significan[ce]”. Instead, these expenses have been buried in other accounts. While we believe these accounting errors were unintentional, intentionality is irrelevant to whether correction is required. Regulation S-X mandates the proper classification and disclosure of material expense categories. *See* Regulation S-X §§ 210.4-08 and 210.4-02.

Regulation S-X § 210.12-09 also requires proper asset valuation and qualifying account schedules. Zero reported intangible assets for a software company that derives 76% of its revenues from such software products, with “significant” costs “improv[ing]” and “upgrad[ing]” those products, makes clear the Company’s financial disclosures are materially inconsistent with economic reality. The Journal Technologies software offerings are clearly not worthless, as the Company is untruthfully reporting. Again, FASB Concepts Statement No. 8 requires *neutrality* in accounting practices, disallowing both “conservative” and “aggressive” accounting, given anything other than neutrality distorts the truth and reality.

The true “significan[ce]” (the *dollar value*—not just a word) of such costs is something “which an average prudent investor ought reasonably to be informed”. The existing approach provides investors with no way to assess the true “significan[ce]” of such costs for the publicly traded Company. *See* Regulation S-X § 210.1-02(o).

As further evidence, a comparison between DJCO’s accounting practices to its peer, Tyler Technologies, Inc. (NYSE: TYL), represents a clear divergence (despite both companies being subject to the same accounting standards and securities laws):

	Daily Journal Corporation	Tyler Technologies, Inc.
Software Products	Products actively being sold, and now being “upgrade[d]” and “improve[d]”.	Products actively being sold, and now being “upgrade[d]” and “improve[d]”.
Intangible Assets Line Item on Balance Sheet?	No.	Yes.
Research and Development Expense Line Item on Income Statement?	No.	Yes.

* * *

We believe these continued disclosure failures, including the failure to disclose to shareholders an already underway accounting investigation into “significant” matters not represented within financial statements, raise serious questions about auditor independence “in fact and appearance”. See Regulation S-X § 210.2-01(b). If the Board refuses to disclose these matters to shareholders immediately on Form 8-K, we call on the Company’s auditors to demonstrate their independence (“in fact and appearance”) by resigning. Principles 1 and 2 of the COSO Framework are clearly at hand here.

We find it difficult to believe that the Company’s legal counsel (presumably Munger, Tolles & Olson LLP) has not advised the Board to promptly disclose the investigation. Failure to follow such guidance exposes the Board to potential personal liability for the Company’s violations of federal securities laws.

Moreover, the Company selectively disclosed the existence of an investigation into the Company’s accounting (related to “significant” ongoing costs—not immaterial) to a *single* public market participant. We believe this likely constitutes a violation of Regulation FD, even further necessitating broad corrective disclosure to *all* public market participants on Form 8-K, under Item 7.01 or 8.01.

We continue to call on the Board to immediately compel management’s disclosure of these matters to the Company’s shareholders, in line with the late Charlie Munger’s firmly established principles of transparency and integrity. His legacy deserves these matters being resolved through the immediate correction of a long-standing (what we believe to be) mistake, rather than turning this into a scandal. Further delay will only compound the issues at hand (at the further expense of shareholders), and these issues are not going away.

Very Truly Yours,



Alexander E. Parker
Chairman of the Board and Chief Executive Officer
Buxton Helmsley USA, Inc.

Cc: U.S. Securities and Exchange Commission
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