

BUXTON HELMSLEY

August 5, 2025

VIA ELECTRONIC MAIL ONLY (STELLA.RELAMPAGOS@BAKERTILLY.COM & SCARLET.SAYERWIN@BAKERTILLY.COM)

Baker Tilly US, LLP
2020 Main Street, Suite 900
Irvine, California 92614
Attn: Daily Journal Corporation Audit Engagement Partner
Daily Journal Corporation Audit Quality Review Partner

Re: Baker Tilly's Audit Opinion at Daily Journal Corporation ("DJCO" or the "Company") – GAAP Violations, Contradictory Precedents, and Regulatory Exposure

Dear DJCO Audit Engagement Team and Quality Review Partner:

We write to formally address what now appears to be not only a material failure by Baker Tilly US, LLP ("Baker Tilly") in its audit of DJCO, but also a broader pattern of contradictory audit conduct that undermines the integrity of Baker Tilly's practice and risks further regulatory intervention.

Let us begin by noting the following indisputable facts:

1. **DJCO derives 76% of consolidated revenues** from Journal Technologies, Inc.—a mature, operational, revenue-generating suite of software platforms (eCourt, eDefender, eProsecutor, eSupervision) the Company describes as undergoing "continued improvement" and "upgrade."
2. **DJCO reports zero dollars in intangible assets**, despite the clear existence of capitalizable software development activity under ASC 985-20, and discloses **no R&D expense line item**, despite internally describing the relevant costs as "significant."
3. Baker Tilly audits other clients, including Galaxy Gaming, Inc., where software-related expenditures are capitalized and disclosed precisely as required under ASC 985-20, **confirming that Baker Tilly understands and applies our interpretation of ASC 985-20 as correct.**

This is not a matter of differing judgment. It is a matter of audit contradiction. Baker Tilly cannot claim in one audit that ASC 985-20 requires capitalization of post-feasibility development costs, while in another audit, certify financials that claim not only the opposite, but bury costs within financial statements in a way that leaves investors entirely unable to determine the nominal extent of "significant" research and development activities.

To contextualize Baker Tilly's audit failures and illustrate the severity of DJCO's noncompliance with U.S. Generally Accepted Accounting Principles ("GAAP") and Regulation S-X, **consider what a DJCO investor would be able to cite when asked: *How much of DJCO's capital has been invested in the development of Journal Technologies' software platforms?***

The only available answer (based on DJCO's most recent Form 10-K) is management's vague admission that these development costs are "*significant*". That is the extent of the "disclosure" practices at DJCO, which, after this letter, now arguably constitutes willful concealment of admittedly material figures from investors on the part of the Company, and—now—Baker Tilly.

BUXTON HELMSLEY USA, INC.

1185 AVENUE OF THE AMERICAS, THIRD FLOOR NEW YORK N.Y. 10036-2600
T. +1 (212) 561-5540 F. +1 (212) 561-6349 www.buxtonhelmsley.com

It is patently illogical to expect public market participants to derive a fair valuation of DJCO's securities when such "significant" costs are neither quantified nor presented in accordance with applicable financial reporting rules (under both GAAP and Regulation S-X). Investors are left to be merely throwing darts at that point, which fully undermines the integrity of markets. This is not a mere oversight—it is a systematic omission of material information, akin to failing to disclose any other category of "significant" economic activity.

We have already heard from other public market participants who declined to invest in DJCO specifically because they could not make sense of these disclosure failures. While they may not have articulated the deficiencies in technical regulatory terms, they should not have to; that hesitation to transact in a public company's securities reflects precisely the kind of investor confusion that Baker Tilly is entrusted to prevent. By continuing to stand behind DJCO's misleading financials, Baker Tilly is compounding that confusion—and failing in its core obligation to ensure transparency and protect the investing public from such confusion as to what is reality.

DJCO's leadership maintains the position that market participants can accurately price the Company's shares, despite being forced to rely on complete guesswork in the absence of basic, required financial data. That is not market integrity, but instead valuation by crystal ball, which is not only illogical but legally indefensible. We do not believe intent was a factor prior to our initial inquiry to DJCO's leadership, but we believe intent is a factor now after such a refusal to admit the reality of non-compliance at DJCO.

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I. BAKER TILLY AGREES WITH OUR INTERPRETATION—JUST NOT WHEN DJCO IS THE CLIENT.

Let us be clear: Baker Tilly has already affirmed our interpretation of ASC 985-20 as correct, but just not at DJCO.

At Galaxy Gaming, Inc., Baker Tilly signs off on the following as proper accounting under ASC 985-20:

- Capitalization of post-feasibility software development costs as intangible assets; and
- Separate R&D expense disclosures for any non-capitalizable activities (under ASC 985-20, either costs pre-technological feasibility, or post-development costs that are not improvements or upgrades), as required under Regulation S-X.

If Baker Tilly believes that software costs are not required to be capitalized, then we call on it to publicly rescind its audit opinion on Galaxy Gaming, Inc. and restate those financials. Otherwise, Baker Tilly is operating two contradictory versions of GAAP—one for clients who comply with the rules, and one for those who prefer not to.

The notion that DJCO's software is "not feasible" under ASC 985-20 is preposterous on its face. The platforms have been deployed, sold, supported, and upgraded for years (as admitted in quarterly filings)—more than "*can be produced*" (as ASC 985-20 is exactly worded), and—in fact—*have been* produced (requiring capitalization of costs long ago). If the Journal Technologies platforms were not technologically feasible, they would not be externally sold to courts and prosecutors. The Company's own Form 10-K disclosures destroy any argument to the contrary.

Baker Tilly has been made aware of these issues of non-compliance, which makes the continued certification of DJCO's financial statements all the more troubling. Given such issues, Baker Tilly has an obligation to halt any further quarterly disclosures at DJCO until historical restatements are made and GAAP compliance is re-gained at DJCO on a going-forward basis. After the correction of Baker Tilly's historical errors in auditing DJCO, the software development accounting practices between DJCO and Galaxy Gaming, Inc. should reflect that ASC 985-20 (and Regulation S-X) do not change from one audit client to another.

II. THIS PATTERN SHOULD NOT BE SURPRISING—BAKER TILLY WAS JUST SANCTIONED BY THE PCAOB.

We would be remiss not to note that such audit contradictions by Baker Tilly are not new. In fact, **just months ago, the Public Company Accounting Oversight Board ("PCAOB") fined Baker Tilly for failing to maintain an effective system of quality control over its audits of public company financial statements.**

That enforcement action underscores a structural issue: Baker Tilly's audit conclusions are evident to reflect deference to client preference rather than consistent application of GAAP and Regulation S-X. The PCAOB's findings suggest a willingness to sacrifice audit rigor and consistency, undermining the independence that is central to the audit function.

This is not mere regulatory noise. These disclosure failures materially mislead investors and distort public market valuations (again, crystal balls do not derive fair valuations of securities). Baker Tilly's continued role in certifying DJCO's materially deficient financials places it squarely back in the crosshairs of regulatory scrutiny, as it should.

III. INTERNAL CONTROL FAILURES AT DJCO SHOULD NOT BE SURPRISING, WITH DJCO HAVING DELAYED QUARTERLY FILINGS ON THE BASIS OF A NEED TO OPTIMIZE INTERNAL CONTROLS.

Baker Tilly's failure to identify material misstatements and enforce consistent GAAP compliance at DJCO occurs within a broader context of ongoing, acknowledged internal control deficiencies—issues that Baker Tilly is presumably aware of (cannot claim it is unaware after this letter), yet has apparently chosen to disregard.

In a Form NT 10-Q filed on May 15, 2025, DJCO itself disclosed:

"Daily Journal Corporation (the 'Company') will be unable to file its Form 10-Q for the fiscal quarter ended March 31, 2025 within the prescribed time frame because the Company is migrating to a new accounting system as part of its efforts to enhance its internal control over financial reporting. As a result, the Company is still compiling information for the Form 10-Q and the auditors have not had a chance to complete their review of the financial statements for such fiscal quarter."

This is a clear admission that DJCO's internal control environment has not only been inadequate, but required a system-wide overhaul significant enough to delay compliance with routine SEC reporting obligations. That alone should have triggered heightened audit scrutiny; yet, Baker Tilly proceeded to sign off on financial statements that omit capitalizable software costs, misclassify R&D expenses, and reflect zero intangible asset value for a software company.

Instead of enhancing audit procedures in the face of internal control remediation and delayed filings, Baker Tilly apparently lowered the bar further, rubber-stamping noncompliant financials during a time when control gaps were already admitted by the audit client.

This reinforces what has become a recurring theme: where others might see red flags (even when the clients acknowledge them in regulatory filings), Baker Tilly apparently sees client appeasement opportunities. The cost of this negligence is borne by investors and the integrity of public markets.

To reiterate, investor value can be just as easily artificially created as it can be destroyed when there is anything but *neutral* accounting (as is required under GAAP). DJCO's leadership does not refute the substantial value of its Journal Technologies unit, yet Baker Tilly continues to certify financials that report these *investments* as *complete losses*, in violation of GAAP. This is not neutral financial reporting, and is a gross distortion of reality that misleads investors—a gross distortion (not rebutted by DJCO management) that Baker Tilly continues to rubber-stamp by not retracting prior financials issued by DJCO omitting such “significant” figures.

IV. REQUIRED ACTION – FIVE (5) BUSINESS DAYS.

In light of these findings, we demand that Baker Tilly take one of the following actions no later than August 11, 2025:

1. **Withdraw Baker Tilly's audit opinion** on DJCO's most recent financial statements, citing noncompliance with ASC 985-20 and Regulation S-X; or
2. **Publicly disclose a detailed technical defense of Baker Tilly's position** that DJCO's software platforms are not technologically feasible, and explain why these costs are neither capitalized nor disclosed (which will contradict Baker Tilly's opinions at numerous other audit clients, including Galaxy Gaming, Inc.).

Failure to do so will confirm what the record already suggests: Baker Tilly selectively applies accounting standards to suit client preference, even where the resulting financials distort asset values, understate earnings potential, and mislead investors.

We have already referred this matter to the PCAOB and SEC. Silence or delay on the part of Baker Tilly will only further validate the need for enforcement intervention.

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Auditors are not simply observers. They are gatekeepers. And Baker Tilly's gate appears to swing freely, open to the preferences of whatever client happens to be paying the bill.

Baker Tilly does not get to choose its own version of GAAP and Regulation S-X. It has already been confirmed at other clients that Baker Tilly knows how to apply ASC 985-20 and Regulation S-X properly, and is simply choosing not to do so at audit clients, including DJCO, to keep the audit fees flowing. The only question now is whether Baker Tilly is willing to correct its mistakes voluntarily, even when the answer proves inconvenient, or only when the PCAOB forces its hand to do so, yet again.

We await your response. Time is of the essence, with investors being harmed here.

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
444 South Flower Street, Suite 900
Los Angeles, CA 90071
Attn: Mr. Daniel S. Lim, Esq.
Mr. Douglas M. Miller, Esq.

Public Company Accounting Oversight Board (PCAOB)
Division of Enforcement and Investigations
1666 K Street NW
Washington, D.C. 20006
Attn: Mr. Robert E. Rice
Mr. William Ryan
Mr. John Abell
Mr. Ben Reed