

# BUXTON HELMSLEY

August 18, 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”) – August 14, 2025, Form 10-Q and 8-K Filings

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

We provide this letter privately, just ahead of its public release and our announcement of a solicitation to call a special meeting of shareholders to reconstitute the Board.

The Company’s August 14 Form 8-K and Form 10-Q reports compound the errors and omissions previously raised by Buxton Helmsley USA, Inc. At this stage, whether the Board chooses to engage collaboratively or not is no longer relevant; this letter serves to document the Board’s apparent disregard for compliance and security laws. With the release of this letter, we provide the Board with the opinion of the American Institute of CPAs (“AICPA”)—the very body that develops and grades the CPA exam—which agrees with our position: “agile” development is not an excuse to avoid properly reporting capitalization. DJCO’s improper accounting treatment of software development costs results in a “significant” underreporting of capitalization levels, in violation of GAAP. Baker Tilly must agree with the opinions of the AICPA; otherwise, their audit staff probably will not pass their CPA exams. The claims made by Steven Myhill-Jones, Tu To, the Board, and Baker Tilly continue to stand in direct conflict.

Additionally, the Board’s refusal to correct even the most basic errors, such as the inaccurate “date of event being reported” certified in the July 29, 2025, Form 8-K, underscores the Board’s disregard for accuracy and compliance. With leadership refusing to properly reflect simple dates in disclosures, it then proves that it cannot credibly address complex accounting matters. We outline below these regulatory obligations (not “games” as suggested) in simple terms and further remind the Board that the perpetuation of false statements in SEC filings—while invoking Mr. Munger’s words about integrity—only deepens our concerns regarding fiduciary duties.

## **ASC 985-20 and Agile Accounting Failures**

The claim by the Company that an “agile” development process exempts it from capitalization is squarely contradicted by the AICPA. Rather than rehash our perspective (yet again), we would like to point the Board to a few quotes from *The Journal of Accountancy*, the flagship publication of the AICPA:

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*“[But] large portions of the costs incurred to develop and test such features often should be capitalized if technological feasibility is achieved. These costs include the actual coding, testing, and associated labor costs...”*<sup>1</sup>

*“Product enhancements that are not considered maintenance activities sometimes can meet the technological feasibility threshold more easily because the developers are adding functions to an already successful product...”*<sup>2</sup>

The AICPA further emphasizes that agile methods do not provide an escape from ASC 985-20 obligations. Rather, they actually require more granular record-keeping to distinguish capitalizable from expensable work.

The AICPA spells out the record-keeping that agile demands under GAAP very clearly: “the project team should thoroughly document each person’s role in the project so that accounting can distinguish between those individuals whose time and activities could potentially be subject to capitalization and those whose activities would never fall into this category,” and that organizations should “maintain additional internal controls such as monthly reviews of activities, capitalized and expensed amounts, and communication templates that project managers can fill out to verify that employee time is coded correctly.”<sup>3</sup> Given the Company’s complete lack of a research and development expense line item, it would appear that DJCO likely has not been keeping track of research and development time *at all*, which means Baker Tilly certainly was not properly testing DJCO’s accounting assertions effectively (not even with basic common sense, given DJCO admitting “significant” research and development expenses as part of the same quarterly disclosure filings containing financial statements).

Despite the Company previously disclosing that “significant” updates and upgrades were made to improve the Journal Technologies’ product, the latest filing still provides no R&D expense line, certifies no development costs subject to capitalization under ASC 985-20, and asserts that development ends concurrently with technological feasibility.

*“Companies using an agile approach to develop software might conclude inappropriately that technological feasibility has not been met significantly before the software enhancement is available to customers, resulting in costs being expensed as incurred rather than being capitalized. If significant costs accrue between when technological feasibility actually was reached and when the software is available to customers, the resulting accounting could be inconsistent with GAAP.”*<sup>4</sup>

Ironically, the AICPA directly warns against this very misstep—using the agile “crutch” to avoid identifying costs that must be capitalized, given that smaller “sprints” do not change the overall materiality of certain phases from a collective view. The colossal distortion of reality as a result of DJCO’s misleading accounting under ASC 985-20 is equivalent to DJCO giving numerous discounts just below materiality thresholds that are individually small but pervasive across orders (the elements of classic fraud schemes where materiality thresholds are creatively used as a crutch to avoid overall reporting). Is DJCO engaging in that

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<sup>1</sup> Ryan P. Bouray & Glenn E. Richards, *Accounting for External-Use Software Development Costs in an Agile Environment*, *AICPA Journal of Accountancy* (Mar. 12, 2018), <https://www.journalofaccountancy.com/news/2018/mar/accounting-for-external-use-software-development-costs-201818259/> (last visited Aug. 16, 2025).

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

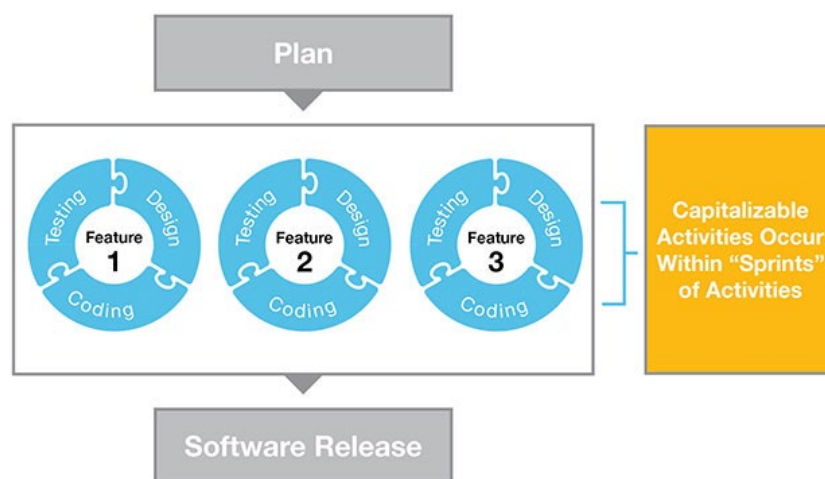
misleading accounting scheme, too? The question is natural, if the Audit Committee is attempting to justify these matters with such logic (when even the AICPA clearly disagrees with the Audit Committee, Baker Tilly, and Tu To on such similar issues).

According to DJCO’s own disclosures, Journal Technologies:

- a) Incurs “significant” ongoing costs post-technological feasibility upgrades and improvements to its products (upgrades and improvements only could apply to finished products), which are subject to mandatory capitalization under ASC 985-20 (only post-technological feasibility *maintenance and support* costs are to be expensed);
- b) Derives 76% of revenues from these products—demonstrating *far more* than “feasibility”; and
- c) Operates under an agile approach that still requires adherence to ASC 985-20.

Taken together, these admissions cannot be reconciled with AICPA guidance. Expensing costs that should be capitalized materially misleads investors, distorts earnings, and undermines the integrity of the balance sheet.

To provide greater clarity, the AICPA illustrates in the below diagram how (and which) costs must be capitalized while operating under an agile framework.



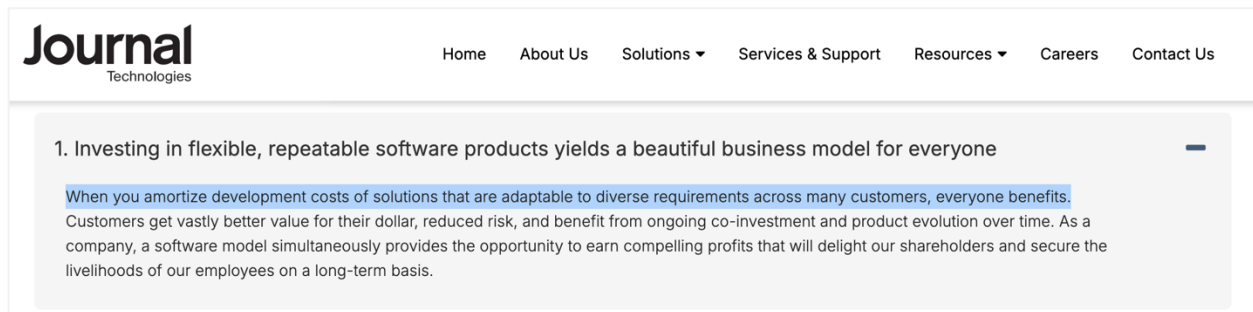
The AICPA also makes equally clear how DJCO is overcomplicating these matters: “...the additional administrative work [to come from an agile development approach] does not have to be onerous,” adding “[i]n most cases the various tasks and deliverables within each sprint can be segmented into broad categories, so that all costs associated with that task can be either expensed or capitalized,” just as the above diagram depicts.<sup>5</sup>

Taking this even further, the contradiction deepens when a sophisticated investor reviews the Journal Technologies website, which clearly states, “**When you amortize development costs of solutions that are adaptable to diverse requirements across many customers, everyone benefits**” (See screenshot below).<sup>6</sup>

<sup>5</sup> *Id.*

<sup>6</sup> Journal Technologies website – “About Us”: <https://www.journaltech.com/about/> (last visited Aug. 18, 2025).

That claim of DJCO amortizing development costs is patently false. DJCO does not capitalize or amortize any development costs (not even an amortization period set), let alone fails to disclose capital investments in development entirely. That quoted statement from Journal Technologies' website is not interpretation—it is complete misrepresentation, and an admission that this leadership is aware of its obligation to amortize development costs in accordance with GAAP.



While the Board has dishonestly attempted to portray our advocacy for truth and accuracy in accounting as “financial engineering,” that characterization collapses when weighed against the position of the AICPA—the very body that determines whether Baker Tilly personnel are even qualified to hold CPA licenses. The AICPA’s guidance outlined above aligns with our position and does so keenly in the interest of protecting shareholders.

### Regulation S-X and Securities Law Implications

Given the Company’s response to date, we find that it is important to reiterate that accounting is not a matter of “philosophy”. GAAP explicitly rejects reporting slanted toward portraying results as “good” or “bad”. Instead, reporting must reflect the actual substance of transactions. To suggest otherwise is categorically false, and the Board knows it. These are *obligations*—not *preferences*.

Regulation S-X is clear:

- § 4-01 presumes financials departing from GAAP are misleading.
- § 4-08 requires separate disclosure of material line items, including “significant” R&D expenses.

Furthermore, SOX § 906 (18 U.S.C. § 1350) exposes CEOs and CFOs to *severe* penalties for knowingly certifying reports noncompliant with GAAP and Regulation S-X (as is evident to us to have occurred with the Company’s new Form 10-Q filing—a serious misstep on the part of Mr. Myhill-Jones and Tu To, defying securities laws, even after we warned them of that impending violation days before).

### More Than Just a Footnote

Even more troubling is that leadership refuses to correct the most basic errors. Mr. Myhill-Jones still has not corrected the July 29 Form 8-K—a falsified date, signed and certified—despite it being pointed out publicly. If leadership cannot report a simple date truthfully, how can shareholders trust that same leadership with accounting in an honest manner?

The newly filed Form 10-Q quietly (on the very last page before the signatures) concedes ineffective controls, noting the hire of a “Director of SEC Reporting” to “focus on the Company’s compliance with its public reporting requirements.” Still, the same leadership that failed to recognize or prevent these issues is now overseeing that hire and the others brought on to “strengthen the design, operation, and documentation of internal control over financial reporting.” Entrusting remediation to a leadership who made false certifications is like sending the same mechanic who botched the brakes back to “fix” them after a crash. Even with a new “Director of SEC Reporting,” Mr. Myhill-Jones still has not been compelled to correct his falsely dated July 29 Form 8-K filing (well knowing the “earliest date of event being reported” was “two weeks ago” at the time of the filing, which was a breach of the Company’s Form 8-K disclosure obligations). The Board’s “resolution” of these matters is not corrective. Subordinates are also not the same as oversight, which is clearly lacking at DJCO.

Upholding your duties here does not mean attempting to silence scrutiny and retaliate against whistleblowers (again, you could have had this conversation behind closed doors, but you refused to)—it means installing the controls to begin tracking R&D time properly, capitalizing and expensing software costs as required under ASC 985-20, and producing GAAP-compliant financials (both going forward and historically, to the extent an appropriate amortization period for Journal Technologies’ software assets would affect current financials).

If DJCO truly wants to “unlock business value,” it can start by reporting credible numbers, because compliance is not optional, and insisting on it is our duty to protect investors. This leadership is apparently so overwhelmed by the idea of correcting these long-running record-keeping failures that it prefers to turn away from the issues at hand rather than address its compliance failures. That is not an option under the law, and suggests you are simply not up for the task of directorship, especially if a special meeting solicitation is required for an entirely unconflicted remediation of these matters to begin (wasting shareholder funds on a conflicted investigation, in the meantime).

### **Our Proposal: Shareholder Value and Governance Reform**

The contrast between our proposal and the incumbent Board could not be clearer: Buxton Helmsley is compensated only if we deliver outperformance for shareholders. Unlike current Board members, we would receive no reward unless we outperform the average, and only in proportion to the extent we do. Current Board members are compensated regardless of their performance, and—apparently—regardless of how many securities laws they may violate.

Many public companies have adopted performance-based compensation structures to align shareholder interests with the fiduciaries who guide the organization. This ensures that compensation directly aligns with success. The fact that shareholders repeatedly approve these arrangements demonstrates their conviction that such structures create meaningful value. DJCO shareholders would likewise benefit from a partner committed to unlocking the company’s full potential, particularly given our proven track record in doing so.

Our past engagements—such as Fossil, whose shares have now risen over 270% within 18 months of agreeing to collaborate with us—show what disciplined oversight and collaboration with Buxton Helmsley can achieve. In that case, the incumbent board initially responded publicly with falsehoods, too, only to accept collaboration as the better alternative to being replaced. DJCO is now approached with a similar choice: partner in restoring compliance and maximizing value, or prolong the inevitable outcome. Proper governance and adherence to securities law are the baseline from which true value creation begins.

Shareholders already signaled great dissatisfaction with the Board at the last annual meeting. A special meeting solicitation is now imminent. The only question is whether the Board chooses collaboration or, again,

prolongs the inevitable. The Board will, however, lose substantial negotiating leverage if it prolongs the inevitable and waits to come to the table after we announce commencement of our solicitation.

On that final note, we plan to proceed expeditiously with communication to shareholders, including: (i) a copy of this letter; and (ii) announcing our solicitation to call a special meeting of shareholders to reconstitute oversight and ensure an unconflicted remediation.

For the avoidance of doubt, we reserve all rights, at law and in equity, and waive none.

Respectfully,



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

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Attn: Daily Journal Corporation Audit Engagement Partner  
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