Risk Factors Comparison 2023-12-28 to 2022-12-19 Form: 10-K

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The foregoing business discussion and the other information included in this Form 10- K should be read in conjunction with the following risks, trends and uncertainties, any of which, either individually or in the aggregate, could materially and adversely affect our business, operating results or financial condition. Risks Associated with **a Public Health Event** ~~Coronavirus (COVID- 19) Pandemic~~ The Company' s business is likely to be materially and adversely affected by **the emergence or resurgence of** an epidemic or pandemic such as COVID- 19, or by a similar event or the fear of such an event, and the measures that governmental authorities implement to address it. As COVID- 19 spread in **early** ~~March and April~~ 2020, governmental authorities and health officials implemented numerous unprecedented measures to contain the virus, including " stay at home " orders for non- essential workers, travel restrictions, quarantines and business shutdowns. Most of Journal Technologies' customers, which are primarily courts and governmental agencies in the United States, Canada and Australia, either closed or significantly scaled back their activities. Similarly, many law firms and companies from which the Traditional Business derives advertising and subscription revenues also curtailed their operations and spending. The impact on economic activity of ~~these actions~~ **a new crisis** or ~~similar actions in the future are likely to significantly impact~~ **a serious mutation of COVID- 19 could again threaten** the Traditional Business' advertising and subscription revenues. ~~The trend of~~ **Most people again** working from home and using on- line services **would** ~~is also~~ likely to put additional pressure on the newspaper business by impacting circulation numbers that may not be replaced by on- line revenues. Actions restricting travel, requiring non- essential workers to " stay at home " or causing courts and justice agencies to close or cut back operations can impact the ability of Journal Technologies to complete certain projects that are typically done in- person (and for which payment is usually received upon completion), reduce **e-** ~~efiling~~ - **filing** revenues, affect procurement processes and result in overall payment delays. In addition, the Company relies on its portfolio of marketable securities for dividend income and balance sheet support, and the value of the portfolio can be materially affected by declines in stock prices, particularly among the common stocks of the three U. S. financial institutions and one foreign manufacturer that make up a substantial portion of the portfolio. Due to the uncertainties associated with the duration and severity of an event like COVID- 19, the efforts to contain it, and the changes in business operations and personal behaviors that are likely to follow from it, it is difficult to estimate the magnitude of its impact on the Company' s business in future periods, but it could materially affect the Company' s operations, staffing levels, financial condition, liquidity and cash flows going forward. Also, ~~while~~ **with new norms established,** the ~~vast~~ majority of **Journal Technologies** ~~the Company' s~~ employees **continue** ~~are currently~~ working from home ~~effectively~~ **most days** , **and the long** ~~a resurgence in serious COVID~~ - ~~19 infections~~ **term downsides of these new norms on innovation and productivity are still being determined.- 11- Risks Associated with the Maturation of Artificial Intelligence (AI) Technologies The Company' s business may be materially affected — either positively or negatively-- by the emergence of disruptive new technologies or approaches enabled by the rapid pace of innovation unfolding in the artificial intelligence space. Worthwhile new technologies capitalize on eliminating old inefficiencies. Just as the emergence and maturation of the Internet and smartphone technologies had profound implications across many industries, AI has the potential to significantly change key factors related to the Traditional Business, Journal Technologies, and companies in the Company' s holdings of marketable securities. For the Traditional Business, there may be opportunities to automate or reduce the cost of content creation, or perhaps allow monetization of existing and / or historic content in new ways. Likewise, AI may negatively impact the business in ways that will prove difficult to circumvent. For Journal Technologies, AI may fundamentally alter or automate key customer workflows over time, obviating the need for its technology. AI will likely also create new and better ways for customers to achieve their mandates. We are allocating certain resources to ensure we have the capacity to recognize and pursue these opportunities, whether through in- house engineering, partnership, or mergers and acquisitions, but whether we will be successful is uncertain. The process and approach to engineering software itself may change in notable ways, and this** could ~~cause~~ **impact** the **business model of Journal Technologies. Monitoring potential impacts of AI on companies in our holdings of marketable securities will also require attention. Mitigating risk and capitalizing on potential opportunity requires active engagement. The** Company **' s challenge is to find and exploit opportunities to ensure change precipitated by AI provides tailwinds and not headwinds, and to do so in a way that is neither** ~~to~~ **too slow, nor premature** ~~experience a lack of availability of employees to perform key job functions at particular points in time~~ . Risks Associated with the Traditional Business Changes in the legal requirement to publish public notice advertising or in the legal ability of our newspapers to publish those notices would have a significant adverse impact on The Traditional Business. From time to time, the legislatures in California and Arizona (and elsewhere) have considered various proposals that would result in the elimination or reduction of the amount of public notice advertising in printed newspapers required by statute, and Arizona approved one such proposal for a particular notice type in fiscal 2017. These proposals typically focus on the availability of alternative means of providing public notices, such as via the Internet. Some proposals also question the need for public notices at all. To the extent these proposals become law, particularly in California and Arizona, they could materially affect the revenues of ~~The~~ **the** Traditional Business. **For example, the California legislature recently passed a bill (AB542) to be effective January 1, 2024 that will almost certainly result in a decline in legal advertising revenue by reducing the number of publication days in a newspaper for self- service storage facility lien sales. The existing requirement is to publish the notice once per week for two consecutive weeks. The bill now allows the notice to be published either once per week for two consecutive weeks in a newspaper or once in a newspaper and once on an**

internet website that customarily conducts or advertises online auctions or sales. In time, this has the potential to reduce annual earnings by approximately $ 150, 000 to $ 200, 000 per year. Another bill (AB721) relative to school budget hearing notices, was also passed. Effective January 1, 2027 these notices are to be moved to posting on the school district' s website in lieu of being published in a newspaper.- 12- In addition, if the adjudication, which is what gives publishers the legal ability to publish public notice advertising, of one or more of the Company' s newspapers were challenged and revoked, those newspapers would no longer be eligible to publish public notice advertising, and it could materially affect the revenues of ~~The~~ **the** Traditional Business. The Traditional Business faces strong competition in each of its markets. Competition for readers and advertisers is very intense, both from established publications and from new entrants into the market. The Daily Journals face aggressive competition. The Company' s court rules publications face competition in both Northern and Southern California from document management programs, online court rules services, and the courts themselves. The steady decline in recent years in the number of subscriptions to The Daily Journals and the court rule publications is likely to continue and adversely impact ~~The~~ **the** Traditional Business' future revenues. The Traditional Business also competes with serious competitors for public notice advertising in all of its markets. As the amount of this advertising has decreased due to the reduction in the number of foreclosures discussed above, the competition to publish the remaining public notices has intensified and may result in a further decline in ~~The~~ **the** Traditional Business' public notice advertising revenues. The Traditional Business continues to experience challenges in maintaining its commercial advertising and circulation revenues, particularly due to the growth of Internet sites. Internet sites devoted to recruitment have become significant competitors of our newspapers and websites for classified advertising. In addition, there has been a steady consolidation of companies serving the legal marketplace, resulting in an ever- smaller group of companies placing display advertising. Furthermore, newspapers like ours have been struggling to compete for display advertising generally, given the many other forums (including Internet sites) that compete for advertising dollars. These trends are expected to continue and would adversely affect ~~The~~ **the** Traditional Business. ~~The Company has contracted with~~ **During fiscal 2023, we had** a **slight increase of $ 9, 000 in** ~~third- party agency to sell display advertising for the Company. Circulation~~ **circulation revenues primarily resulting from some promotional sale efforts which we will continue. However, overall industry- wide circulation** revenues have continued to decline as more and more information has become available online. Law firm mergers have also reduced the number of firms that purchase multiple subscriptions of our newspapers. It is not practical to assume that we will be able to offset the decline in subscriptions with increases in the subscription rate, and we ~~expect~~ **cannot anticipate** that our circulation revenues will continue to ~~decline~~ **increase** . **- 13-** The Traditional Business is exposed to risks associated with fluctuations in postage and paper costs. After personnel costs, postage and paper costs are typically the Company' s next two largest expenses. An adequate supply of newsprint and other paper is important to the operations of ~~The~~ **the** Traditional Business. The Company currently does not have a contract with any paper supplier, and in the past, shortages of newsprint have sometimes resulted in higher prices. Recently, there have been consolidations of newsprint suppliers, and paper prices may fluctuate substantially in the future. The Traditional Business uses the U. S. Postal Service for distribution of a majority of its newspapers and products. Postal rates are dependent on the operating efficiency of the U. S. Postal Service and on legislative mandates imposed upon the U. S. Postal Service. During the past several years, postal rates have increased. Postal rates and fees may increase more in the future. Further, we may not be able to pass on increases in paper and postage costs to our customers **. We expect the Traditional Business to continue to suffer from significant secular decline. The newspaper business has been experiencing significant secular decline for some time, and the Company' s Traditional Business has been no exception. The Company expects its Traditional Business to continue to decline in the years ahead, which could have a material negative impact upon the Company' s revenue, income and future prospects** . Risks Associated with Journal Technologies The success of Journal Technologies depends in large part on the technological update and upgrade of its software products. Journal Technologies' success depends on the continued improvement of its products, and the costs to update and upgrade those products consistently represent a large portion of Journal Technologies' expenses. There are many uncertainties in the process of courts and other justice agencies migrating to newer case management systems, including whether Journal Technologies' versions of these systems will find general acceptance and whether the modification of such systems can be done in a cost- effective manner. The costs to update and upgrade Journal Technologies' products are expensed as incurred and will impact earnings at least through the foreseeable future **. To build out next- generation technology there is up- front investment required, which is now underway. Likewise, investment is required to improve existing technology to simplify the process of configuring, managing and updating systems. These investments are being made to both improve win rates and maximize the efficiency (ergo reduce costs, and increase margins) of building and deploying customer systems. The intention is to improve profitability, but if this development is not done effectively, it may not yield the expected competitive advantages or intended efficiencies** . Journal Technologies faces significant competition from other case management software vendors. There is significant competition among a limited number of companies to provide services and software to courts and other justice agencies, and some of these companies are much larger and have greater access to capital and other resources than Journal Technologies. Normally, the vendor is selected through a bidding process, and often the customers will express a preference for, or even require, larger vendors. An inability to successfully compete in this difficult market could materially affect the earnings of Journal Technologies. **Likewise, specialized vendors in specific vertical markets may develop or continue to enhance specific solutions for certain customer types that are sufficiently focused and turnkey that Journal Technologies will struggle to compete with them.- 14-** The customers of Journal Technologies are public sector entities, which create special issues and risks. Almost all of the customers of Journal Technologies are courts, justice agencies, and other government entities. Accordingly, we face special risks associated with governmental budget constraints, especially during stressful economic times, which could force government entities to defer or forego consulting services or even stop paying their annual software license and maintenance fees. In addition, we encounter risks related to a longer and more complicated sales cycle than exists for commercial customers, political issues related to resource allocation, administration turnover and preferences for internal case management solutions or for a particular vendor, complicated bidding procedures, and fluctuations in the demand for information technology products and services. Journal Technologies generally recognizes revenues for software installations only upon completion of the applicable services and customer acceptance of the software system. In most cases, installation fees are not due until the customer has indicated its satisfaction with the installed system, and it has " gone live ". Accordingly, we do not recognize revenues for installation services or for most other consulting services until after the services have been performed and accepted. There are significant risks associated with our ability to complete our services to the satisfaction of our customers and to fulfill the requirements that entitle us to be paid. An inability to realize payment for services performed could materially affect the earnings of Journal Technologies. Additional costs may not be recoverable for historic projects with flexible scopes or scopes that are subject to interpretation, or projects that require adjustments due to technology changes that occur due to the passage of time. The end- of- life process for legacy products and customer transitions to new products must be handled effectively. Disruptions that affect long **-** standing customer relationships can have negative reputational implications for Journal Technologies and that can affect its earnings. Risks Associated with Our Holdings of Marketable Securities A large portion of the Company' s assets is held in publicly traded securities, and the prices of those securities may decline. As of September 30, ~~2022~~ **2023** , the Company held marketable securities worth approximately $ ~~275~~ **303** , ~~529~~ **128** , 000, with an unrealized gain for financial statement purposes of $ ~~120~~ **137** , ~~692~~ **716** , 000. While this portfolio has enabled the Company to borrow on ~~very~~ favorable terms for acquisitions and to better compete for case management software opportunities that are usually limited to " large " firms, it is unusual for a public company to invest a significant amount of its available cash in the marketable securities of other public companies. The value of these securities could decline, which would adversely affect net income and shareholders' equity. Also, as of September 30, ~~2022~~ **2023** , the Company' s holdings of marketable securities were concentrated in just eight companies. Accordingly, a significant decline in the market value of one or more of the Company' s holdings may not be offset by hypothetically better performance of other holdings. This concentration of risk may result in a more pronounced effect on net income and shareholders' equity. **- 15- The irreplaceable manager of our marketable securities portfolio passed away in November 2023. Charles T. Munger, the legendary investor of Berkshire Hathaway fame, has been a director of the Company for many decades, and has long managed the Company' s holdings of marketable securities. Mr. Munger passed away on November 28, 2023. Although the Board will work to ensure that the portfolio remains well- managed, it' s impossible to ever replace Mr. Munger. Given the loss of Mr. Munger, the Company does not expect the future financial performance of its marketable securities portfolio to rival its past performance.** The Company is required to recognize losses in a particular security for financial statement purposes even though the Company has not actually sold the security. Under accounting rules that became effective in fiscal 2019, changes in the unrealized gains and losses on marketable securities are included in the Company' s reported net income (loss), even though the Company has not actually realized any gain or loss by selling such marketable securities. Accordingly, changes in the market prices of the Company' s marketable securities can have a significant impact on the Company' s reported results for a particular period, even though those changes do not bear on the performance of the Company' s operating businesses. The Company may be subject to fluctuations in foreign currency rates for marketable securities that are not denominated in the United States Dollar. At times, the Company may hold marketable securities denominated in currencies other than the United States Dollar. When it does, the Company may be at risk for significant fluctuations in the applicable foreign currency exchange rates, which would affect the profitability of such marketable securities. The Company currently owns one such investment that is denominated in Hong Kong ~~Dollar~~ **Dollars** . General Corporate Risks Changes in accounting guidance could have a significant effect on the Company' s reported financial results. Preparing consolidated financial statements requires the Company' s management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. These estimates and assumptions are affected by management' s application of accounting policies and the prevailing accounting guidance. The Company considers fair value measurement and disclosures, revenue recognition, accounting for software costs and income taxes to be critical accounting policies and estimates. A change in the accounting guidance with respect to one or more of these areas could materially affect the Company' s reported financial results. As noted above, beginning in fiscal 2019, changes in unrealized gains (losses) on marketable securities are included in the Company' s net income (loss) and thus may have a significant impact on the Company' s reported results depending on the fluctuations of the prices of the marketable securities owned by the Company. **- 16-** We cannot be sure that customer information and systems are fully protected against security breaches. Journal Technologies' software processes and stores customer information in the conduct of its business, including in some cases by utilizing cloud- based systems supplied by third- party vendors. Despite our efforts to maintain up- to- date security controls, it is possible that our system could be improperly used to access or misappropriate customer systems or information, including personally identifiable or other confidential information. A material security breach of this nature could harm our reputation, cause us to lose current and potential customers, require us to allocate more resources to information security, or subject us or our customers to liability, resulting in increased costs, loss of revenue, or both. The Traditional Business also operates certain websites that process and, in certain cases, store customer information. ~~A minor~~ **Minor** security ~~breach~~ **breaches** ~~was~~ **were** discovered on ~~a website~~ **websites** operated by ~~The~~ **the** Traditional Business in early fiscal 2015 **and again in November 2023** , and although ~~it was~~ **both incidents were** remediated **without loss of data or revenue** , there can be no assurance that there will not be more material breaches in the future. Also, our insurance may not cover all of the costs that we may incur as a result of a material security breach. The Company has identified material weaknesses in its internal control over financial reporting. The Company has identified material weaknesses in its internal control over financial reporting. The Company' s internal control over financial reporting has been designed to provide management and the Board of Directors with reasonable assurance regarding the preparation and fair presentation of the Company' s consolidated financial statements. As a small company, we are not able to segregate duties to the extent we could if we had more people, and we have not sufficiently designed controls that support an effective assessment of our internal controls relating to the prevention of fraud and possible management override of controls. Further, the Company does not have an internal audit group, and has not engaged an outside firm to complete the documentation of its internal control assessment to the level required by the applicable criteria. We believe that our overall internal control environment is sufficient for a company of our size. However, the existence of material weaknesses means that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis. If we are not able to correct material weaknesses or deficiencies in internal controls in a timely way, our ability to record, process, summarize and report financial information accurately and within the time periods specified in the SEC' s rules and forms will be adversely affected. Such a result could negatively impact the market price and trading liquidity of our stock, weaken investor confidence in our reported financial information, subject us to civil and criminal investigations and penalties, and generally materially and adversely affect our business and financial condition. Item 1B. Unresolved Staff Comments