

Risk Factors Comparison 2023-12-14 to 2022-12-13 Form: 10-K

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Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock. Some statements in this Form 10-K, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section entitled “Cautionary Statement Regarding Forward-Looking Statements” for more information.

Summary of Material Risk Factors ~~• We have limited operating history, which makes it difficult for us to evaluate our future business prospects and make decisions based on those estimates of future performance. • The COVID-19 pandemic, or another widespread public health epidemic, catastrophic or geopolitical event, might create additional liabilities, risks and exposures which could negatively impact our current business, growth prospects and cash flows, and future profitability. • We maintain limited self-insurance for workers’ compensation services that we provide to our clients. • There is no guarantee that our current cash position, expected revenue growth and anticipated financing transactions will be sufficient to fund our operations for the next twelve months. • Our success depends on adoption of our products and services by our various types of customers. • We assume the obligation to make wage, tax, and regulatory payments for WSEs, and, as a result, are exposed to client credit risks. • We operate in an immature and rapidly evolving industry and have a relatively new business model, which makes it difficult to evaluate our business and prospects. We face intense competition across all markets for our services, which may lead to lower revenue or operating margins. Our targeted customer base is diverse, and we face a challenge in meeting each group’s needs. • Providing specialized Gig Economy oriented staffing management products and services is an emerging yet competitive business, and many of our competitors have greater resources that may enable them to compete more effectively. • We have claims and lawsuits against us that may result in adverse outcomes. • We have identified material weaknesses in our internal control over financial reporting. • If we are unable to secure or pay for the insurance coverage required for our business operations, or if we lose any existing coverage, we may not be able to offer some of our services and our revenues could be reduced. • We may be subject to penalties and interest payable on taxes as a result of data entry in our software or manual error. • Our ability to adjust and collect service fees for increases in unemployment tax rates may be limited. • Our software does sponsorship of various SPACs requires significant capital deployment, entails certain risks and may not track penalties be successful, which would likely have a material adverse effect on our future expansion, revenues, and profits. Further, certain of our officers and directors also serve as officers and directors of the SPACs, which could give rise to conflicts of interest, and this is performed manually. • This may cause errors in calculations of the amount due. • We may never successfully commercialize ShiftPixy Labs. • We may have outages, data losses, and disruptions of our online services if we fail to maintain an adequate operations infrastructure. Because we store data in the cloud with providers such as Microsoft and Amazon, any disruptions in our ability to access this data or any breach of security concerning this data in the cloud could have a materially adverse effect. • Software products we use in our business may contain defects which will make it more difficult for us to establish and maintain customers. • The Company is delinquent in paying its outstanding payroll taxes to the Internal Revenues Service, states and local taxing authorities. If the IRS pursues collection efforts beyond what the Company can afford to pay, the IRS can freeze our bank accounts and the Company may be forced to file for bankruptcy. 27 • If a contract relating to our mission critical software that we use in our business is terminated or not renewed, our business could be seriously disrupted, and our revenues significantly reduced. • We may not be able to protect our source code from copying in the event of an unauthorized disclosure. • We intend to use open source blockchain technology in our technology platform, which has been scrutinized by regulatory agencies and may be impacted by unfavorable regulatory action. • We use and leverage open source technology in our technology platform which may create security risks. • We depend heavily on Scott W. Absher, who is our Board Chair, Chief Executive Officer and largest shareholder. The loss of his services could harm our prospects, and our ability to implement successfully our business plan. • If we are not recognized as an employer of WSEs under federal and state regulations, or we are deemed to be an insurance agent or third-party administrator, we and our clients could be adversely impacted. • We are in the business of providing WSEs to our clients. As such we have been sued for claims resulting from action by or against our WSEs, including California Private Attorney General’s Act claims, and are likely to be subject to such claims in the future, which may require significant capital to defend. • Failure to comply with, or changes in, laws and regulations applicable to our business, particularly potential changes to the ACA, could have a materially adverse effect on our business. • Failure to secure any necessary registrations or licensure could affect our ability to operate certain segments of our business in certain jurisdictions. • Laws related to the classification of gig economy workers are changing, and we may be subject to state and local regulations impacting how we classify our workers. • Our common stock is thinly traded, which can cause volatility in its price. If we are unable to continue to meet the listing requirements of Nasdaq, our common stock will be delisted. • A controlling interest in our common stock is closely held by our Board Chair and CEO, Mr. Absher, which may limit minority shareholders from influencing corporate governance. • We are an “emerging growth company” under the JOBS Act, as well as a “smaller reporting company,” and we cannot be certain if the reduced disclosure requirements applicable to such companies will make our common stock less attractive to investors. Risks Relating to Our Business We have a limited operating history, which makes it difficult for us to evaluate our future business prospects and make decisions based on those estimates of for our future performance. We are an emerging business and are in the process of developing our products and services. We have been in business since July 2015. Although our continuing business processed gross billings of over \$ 81 39.0 million and \$ 79 52.2 million for Fiscal 2023, and Fiscal 2022 and Fiscal 2021, respectively, it is still difficult, if not~~

impossible, to forecast our future results based upon our limited historical operating data. Because of the related uncertainties, we may be hindered in our ability to anticipate and timely adapt to increases or decreases in sales, revenues or expenses. If we make poor budgetary decisions as a result of unreliable data, our gross billings in the future may decline, which may result in a decline in our stock price. **28We** There is uncertainty regarding our ability to implement our business plan and to grow our business to a greater extent than we can with our existing financial resources without additional financing. Although we closed multiple public offerings and private placements both during and shortly after the close of Fiscal 2022, we currently **do not** have **any** no binding agreements, commitments or understandings to secure additional financing at this time. We also **and do not** have **any** no binding agreements, commitments or understandings to acquire any other businesses or assets. Our long-term future growth and success, including implementation of our growth initiatives, as described above, are dependent not only upon our ability to generate cash from operating activities but also our ability to raise additional capital. Nevertheless, there is no assurance that we will be able to generate sufficient cash from operations, to borrow additional funds or to raise additional equity capital. Our inability to obtain additional cash through any of these avenues could have a material adverse effect on our ability to fully implement our business plan as described herein and grow our business to a greater extent than we can with our existing financial resources. The COVID-19 pandemic might create additional liabilities, risks and exposures that could negatively impact our current business, growth prospects and cash flows, and future profitability, while also requiring us to increase our workers' compensation reserve to protect against additional liabilities, all of which could negatively impact our ability to raise additional capital. The effects of the COVID-19 pandemic are ongoing, and our business has been significantly impacted as a result. Most of our current clients are situated in the restaurant and hospitality business sector and concentrated in Southern California. The vast majority of these clients were negatively impacted by the lockdown measures imposed in the State of California starting in March 2020, and continuing to some extent through much of Fiscal 2021. Although lockdown measures were relaxed somewhat throughout Southern California during spring 2021, as the worst of the pandemic receded, new virus variants have recently surfaced which raise the possibility of new lockdowns and restrictions throughout California and elsewhere. As long as these directives remain in place, they are likely to negatively impact our clients' businesses and operations, which, in turn, will likely have a negative impact on our business prospects and operating results. As we expand our business into new geographic areas, and seek to enlist clients outside of the QSR and hospitality industries, we may encounter similar financial obstacles resulting from the spread of COVID-19 variants and resulting governmental regulations or restrictions that negatively impact these areas of business focus. Further, until March 2021, our workers' compensation policy was a self-insurance policy with a limited liability cap of \$ 500,000. In March 2020, the Governor of the State of California issued Executive Order N-62-20, which creates a rebuttable presumption for workers' compensation claims that an employee's COVID-19 related illness arose out of the course of their employment if (i) such infection occurred between March 19 and July 5, 2020, and (ii) the employee was diagnosed with COVID-19 or tested positive within 14 days after performing work for the employer at a location other than the employee's home. While we have not experienced any such claims to date, our workers' compensation rates have increased significantly since the beginning of the pandemic. We have also increased our workers' compensation reserve estimates for Fiscal 2021, and we continue to closely monitor all workers' compensation claims made during the COVID-19 pandemic. While we believe that the steps we have taken are sufficient to protect against materially increased levels of workers' compensation claims related to the pandemic, there can be no guarantee that this will be the case, or that our premium collections will be sufficient to offset our liabilities and achieve profitability should such an increase in claims materialize in the future. We maintain **maintained** limited self-insurance for the workers' compensation services that we provide to our clients. If we experience claims in excess of our collected premiums, we might incur additional losses, higher costs, and reduced margins, resulting in a need for more liquidity. We are responsible for and pay workers' compensation costs for our WSEs. Until March 1, 2021, we self-insured for up to \$ 500,000 per occurrence and we purchased reinsurance for claims in excess of \$ 500,000. After March 1, 2021, our workers' compensation coverage moved to a prepaid premium model that does not require us to record additional reserves. Our workers' compensation billings are designed to cover expected claims based on insurance annuity calculations. These calculations are based on our claims experienced during our limited operating history. At times, these costs have risen substantially as a result of increased claims and claim trends, general economic conditions, changes in business mix, increases in healthcare costs, and government regulations. Although we carry insurance and believe that we currently have reserves sufficient to insulate us against projected losses, any unexpected changes in claim trends, including the severity and frequency of claims, actuarial estimates, and medical cost inflation, could result in us exceeding these projections. If future claims-related liabilities increase due to unforeseen circumstances, or if new laws, rules, or regulations are implemented, costs could increase significantly. There can be no assurance that we will be able to increase the fees charged to our clients in a timely manner and in a sufficient amount to cover increased costs as a result of any changes in claims-related liabilities. **Our business** **There is no guarantee that our current cash position, results of expected revenue growth and anticipated financing transactions will be sufficient to fund our operations for the next twelve months. The Company expects to raise capital from additional sales of its securities during this fiscal year either through registered public offerings or private placements, the proceeds of which the Company intends to use to fund its operations** and financial condition have been and **growth initiatives. There can be no assurance that we** will likely continue to be **able** materially adversely impacted in the event of a widespread public health epidemic, including the recent COVID-19 outbreak. Our business, results of operations and financial condition have been, and will likely continue to **sell securities** be, materially adversely affected by any widespread public health epidemics, such as the COVID-19 outbreak first identified in Wuhan, China in December 2019. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic disease. Potential impacts of the spread of COVID-19 include disruptions or restrictions on **terms** our employees' and WSEs' ability to travel, and temporary closures of our clients' facilities. For example, many of our WSEs perform services in the restaurant and hospitality industries, which have experienced significant declines in traffic since early March 2020. Various states and

municipalities throughout the United States have since declared a state of emergency and imposed substantial restrictions on movement, required restaurants, bars and hotels to close, and advised people not to patronize restaurants or bars or otherwise engage in non-essential travel. In some areas, residents have been instructed to shelter in place to reduce the spread of COVID-19, resulting in many restaurants either closing or limiting their operations to take-out and delivery service. Given that most of **the Company is seeking, our- or clients are businesses in the hospitality and restaurant industries at all. Management believes that its current cash position**, our results of operations are likely to continue to be negatively impacted as long **along** as restrictions arising **with its anticipated revenue growth and proceeds** from the COVID-19 pandemic continue. We **future sales of its securities, when combined with prudent expense management**, cannot **alleviate** at this time predict with any degree of certainty the precise impact these adverse conditions will ultimately have on our operations due to a variety of unknown factors. We continue to monitor the COVID-19 pandemic and will adjust our mitigation strategies as necessary to address any changing health, operational or financial risks that may arise. Any future significant outbreak of contagious diseases could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could affect demand for our products and likely negatively impact our operating results. As of August 31, 2022, the Company had cash of \$ 0.6 million and a working capital deficit of \$ 31.2 million. During this period, the Company used approximately \$ 17.5 million of cash from its continuing operations and incurred recurring losses, resulting in an accumulated deficit of \$ 192.7 million as of August 31, 2022. The recurring losses and cash used in operations are indicators of substantial doubt **about its as to our ability to continue as a going concern and to fund its operations** for at least one year from issuance of the audited **date the** financial statements incorporated **included** in this **report** Form 10-K. Our plans to alleviate substantial doubt are **available** discussed below and elsewhere in this Form 10-K. Historically, our principal source of financing has come through the sale of our common stock and issuance of convertible notes. In May 2020, we successfully completed an underwritten public offering, raising a total of \$ 12 million (\$ 10.3 million net of costs), and closed an additional \$ 1.4 million (\$ 1.2 million net of costs) between June 1, 2020 and July 7, 2020 pursuant to exercise of the underwriter's over-allotment. In October 2020, we closed an additional \$ 12 million equity offering (\$ 10.7 million net of costs). In May 2021, we raised approximately \$ 12 million (\$ 11.1 million net of costs) in connection with the sale of common stock and warrants. More recently, in September 2021, we raised approximately \$ 12 million (\$ 11.1 million net of costs) in connection with the sale of common stock and warrants; in January 2022, we entered into a warrant exercise agreement that raised approximately \$ 5.9 million (\$ 5.4 million net of costs), and in July 2022, we entered into a warrant exercise agreement that raised approximately \$ 1.3 million (\$ 1.2 million net of costs). Our plans and expectations for the next twelve months include raising additional capital in the form of public or private equity offerings to help fund expansion of our operations and strengthening of our sales force strategy by focusing on staffing services as our key driver to improve our margin and the continued support and functionality improvement of our information technology ("IT") and HRIS platform. This expanded go-to-market strategy will focus on building a national account portfolio managed by a newly-formed regional team of senior sales executives singularly focused on sustained quarterly revenue growth and gross profit margin expansion. We expect to continue to invest in our HRIS platform, ShiftPixy Labs, and other growth initiatives, all of which have required and will continue to require significant cash expenditures. We expect our investment in our HRIS platform to continue over the next twelve months, as we believe such investments will be necessary to support our existing clients as well as our future organic growth. While we anticipate that these investments will yield benefits to us in the future in the form of increased revenues and earnings, it is likely that such improved financial results will be delayed or otherwise materially impacted if we are unable to enter successfully into CSAs with new customers. We believe that our current cash position, along with our cost controls, projected revenue growth and anticipated financing from potential institutional investors, will be sufficient to alleviate substantial doubt and fund our operations for at least a year from the date of this Form 10-K. If these sources do not provide the capital necessary **to fund the Company's operations** during the next twelve months, **from the date of the issuance of the financial statement**, we may need to **drastically** curtail certain aspects of **our-its** operations or expansion activities, consider the sale of additional assets, **(although the Company would not expect to obtain the expected proceeds on a forced liquidation)** or consider other means of financing. **We The Company** can give no assurance that **we-it** will be successful in implementing **our-its** business plan and obtaining financing on **advantageous** terms that are **advantageous to us**, or that any such additional financing will be available. **If the Company is not successful in obtaining the necessary financing, we do not currently have the cash resources to meet our operating commitments for the next twelve months. The consolidated financial statements included in this report do not include any adjustments for this uncertainty. Therefore, management has concluded that Company that there is substantial doubt its ability to continue as a going concern for the next twelve months from the date of the issuance of the financial statement. As of August 31, 2023, the Company had cash of \$ 0.1 million and a working capital deficit of \$ 51.0 million. During the year ended August 31, 2023, the Company used approximately \$ 9.2 million of cash from its continuing operations and incurred recurring losses, resulting in an accumulated deficit of \$ 226.4 million. As of August 31, 2023, the Company is delinquent with respect to remitting payroll tax payments to the IRS. The Company has retained tax counsel and has been in near constant communication with the IRS regarding processing its Employee Retention Tax Credits ("ERTCs"). On September 14, 2023, the IRS has a moratorium on processing new ERTC claims and many of the Company's clients are seeking refunds. The Company does not know when the IRS will start processing ERTC claims. In addition, the Company has received notices from the IRS that it has approximately \$ 11.8 million for unpaid tax liabilities including penalties and interest outstanding. This is a partial amount of approximately \$ 22.8 million inclusive of the IRS, states, and local jurisdiction outstanding payroll liabilities as of August 31, 2023. Should the IRS determine the collectability of tax be determined to be in jeopardy, the IRS can, with limited notice, levy the Company's bank accounts and is subject to enforcement collections. ShiftPixy has requested for a collection due process or equivalent hearing, which are subject to enforced collection efforts. ShiftPixy has also filed for an abatement**

of additions to the tax and related interest for the failure to make required deposits and the failure to timely pay required tax that are subject to enforced collection. That request is pending before the IRS Independent Office of Appeals. If the Company can't get a resolution of the payroll tax issues and related ERTC credits, an appeal to the US Tax Court can be filed. There is no assurance that the IRS will abate the Company's penalties, interest, and process new ERTC claims. Some clients have filed suits against the Company, demanding that the Company take action to file for additional ERTCs for certain tax periods. Until the matter is concluded, and the taxes are paid, the IRS could, subject to its standard processes and the Company's right to respond, implement collection actions, including such actions as levying against Company bank accounts, to recover the amounts that it calculates to be due and owing. The Company has taken aggressive steps to reduce its overhead expenses. The Company's plans and expectations for the next twelve months include raising additional capital which may help fund the Company's operations and through acquisitions funded by debt and or stock, as the key driver towards its success. In addition, the Company is changing its business model since it is operating at a loss and not generating positive cash flows from operations. The payroll tax liabilities, interest, and penalties are expected to increase based upon the current Company's business plans may cause the Company to file for bankruptcy in the near future.

Our 29 Our success depends on adoption of our products and services by our various types of customers. If these potential customers do not accept and acquire our products and services, then our revenue will be severely limited. The major customer groups to whom we believe our products and services will appeal (i. e. both clients and WSEs who rely upon shift work), may not embrace our products and services. Acceptance of our products and services will depend on several factors, including cost, ease of use, familiarity of use, convenience, timeliness, strategic partnerships, and reliability. If we fail to adequately meet our customers' needs and expectations, our product offerings may not be competitive and our ability to commence or continue generating revenues could be reduced. We also cannot be sure that our business model will gain wide acceptance among all targeted customer groups. If the market fails to continue to develop, or develops more slowly than we expect, our ability to continue generating revenues could be reduced. Under our typical **CSA customer service agreement**, we assume the obligations to pay the salaries, wages and related benefits costs and payroll taxes for our WSEs. We assume such obligations as an agent, not as a principal, of the client. Our obligations include responsibility for: **•** payment of the salaries and wages for work performed by WSEs, regardless of whether the client timely pays us the associated service fee; and **•** withholding and payment of federal and state payroll taxes with respect to wages and salaries reported by us. If a client does not pay us, our ultimate liability for WSE payroll and benefits costs could have a material adverse effect on our financial condition or results of operations. If we are unable to effectively manage growth and maintain low operating costs, our results of operations and financial condition may be adversely affected. **(we have seen a decline not growth)** We have experienced rapid growth since our inception, and our plans contemplate significant expansion of our business. If we are unable to manage our growth effectively, (including having geographically dispersed offices and employees), or to anticipate and manage our future growth accurately, our business may be adversely affected. If we are unable to manage our expansion and growth effectively, we may be unable to keep our operating costs low or effectively meet the requirements of an ever- growing, geographically dispersed client base. Our business relies on data systems, billing systems and financial reporting and control systems, procedures and controls. Our success in managing our expansion and growth in a cost- effective manner will require us to upgrade and improve these systems, procedures and controls. If we are unable to adapt our systems and put adequate controls in place in a timely manner, our business may be adversely affected. In addition, our growth may place significant demands on our management, and our overall operational and financial resources. A failure on our part to meet any of the foregoing challenges inherent in our growth strategy may have an adverse effect on our results of **our** operations and financial condition. Our targeted customer base is diverse, and we face a challenge in adequately meeting each group's needs. Because we serve both employers and employees, we must work constantly to understand the needs, standards and requirements of each group and must devote significant resources to developing products and services for their interests. If we do not accurately predict our customers' needs and expectations, we may expend valuable resources in developing products and services that do not achieve broad acceptance across the markets, and we may fail to grow our business. **We 30** We face intense competition across all markets for our services, which may lead to lower revenue or operating margins. Competing forms of Gig Economy oriented staffing management products and services may be more desirable to consumers or may make our products and services obsolete. Our competitors range in size from diversified global companies with significant research and development resources to small, specialized firms whose narrower service lines may make them more effective in deploying technical, marketing, and financial resources. Barriers to entry in many of our businesses are low and many of the areas in which we compete evolve rapidly with changing and disruptive technologies, shifting user needs, and frequent introductions of new products and services. Our ability to remain competitive depends on our success in making innovative products, devices, and services that appeal to customers. Companies compete with us based on a growing variety of business models. The competitive pressures described above may cause decreased sales volumes, price reductions, and / or increased operating costs, such as for research and development, marketing, and sales incentives. This may lead to lower revenue, gross margins, and operating income. There are currently several different competing Gig Economy oriented staffing management product and service technologies that are being marketed to our potential customers. Further development of any of these technologies may lead to advancements in technology that will make our products and services obsolete. Consumers may prefer alternative technologies and products and services. We cannot guarantee that users of Gig Economy oriented staffing management products and services who will be using our products and services will continue to grow within the industry as a whole. Any developments that contribute to the obsolescence of our products and services may substantially impact our business, reducing our ability to generate or sustain revenues. We compete in the same markets as many companies that offer not only staffing management products and services focused on the Gig Economy but also more traditional staffing management products and services. There are limited barriers to entry and price competition in the industry, particularly from larger, more traditional industry model competitors, is intense with pricing

pressures from competitors and clients increasing. New competitors entering our markets may further increase pricing pressures. We have observed that clients sometimes competitively bid **on** new contracts, which is a trend that we expect to continue for the foreseeable future. Some of our competitors have greater resources than we, which may enable them to compete more effectively in this market. Our competitors may devote their resources to developing and marketing products and services that will directly compete with our product lines, and new, more efficient competitors may enter the market. If we are unable to successfully compete with existing companies and new entrants to the market, it will have a negative impact on our business and financial condition. The industry in which we operate is characterized by rapidly changing regulatory requirements, evolving industry standards and shifting user and client demands. Our business model is also evolving and is different from models used by other companies in our industry. As a result of these factors, the success and future revenue and income potential of our business is uncertain. Any evaluation of our business and our prospects must be considered in light of these risks and uncertainties, some of which relate to our ability to: **• Expand client and WSE relationships; • Increase the number of our clients and grow our WSE base; • Develop relationships with third- party vendors, HCM providers, and insurance companies; •**

31 • Expand operations and implement and improve our operational, financial and management controls; • Raise capital at attractive costs, or at all; • Attract and retain qualified management, employees and independent service providers; • Successfully introduce new processes, technologies, products and services, and upgrade our existing processes, technologies, products and services; **• Protect our proprietary processes and technologies and our intellectual property rights; and • Respond to government regulations relating to the internet, personal data protection, email, software technologies, cyber security and other regulated aspects of our business.** If we are unable to successfully address the challenges posed by operating in an immature and rapidly evolving industry and having a relatively new business model, our business could suffer. We are subject to a variety of claims and lawsuits. These claims arise from a wide variety of business practices, significant business transactions, operational claims, and employment practices. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. Such litigation and other claims are subject to inherent uncertainties and management’ s view of these matters may change in the future. A material adverse impact on our consolidated financial statements could occur for the period in which the effect of an unfavorable outcome becomes probable and reasonably estimable. We have identified material weaknesses in our internal control over financial reporting. If our internal control over financial reporting is not effective, we may not be able to accurately report our financial results or file our periodic reports in a timely manner, which may cause adverse effects on our business, may cause investors to lose confidence in our reported financial information and may lead to a decline in stock price. Effective internal control over financial reporting is necessary to provide reliable financial reports in a timely manner. In connection with the audit of our consolidated financial statements for Fiscal **2022-2023**, we concluded that there were material weaknesses **in**. **The Company did not properly or internal maintain effective entity level monitoring control controls over financial reporting relating to our IT environment and lacked segregation of duties. In addition, the Company did not properly design, implement and constantly operate effective controls over the completeness and accuracy of its penalty procedures, accounting for our capitalized software and interest calculation associated with its outstanding payroll tax liabilities discontinued operations, segregation of duties and corporate oversight functions.** A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. **The Company has limited staff in its financial department and the plans on effective; remediating these deficiencies is to engage third- party experts to first review the Company’ s financial operations, consider what is the most cost- effective way to assist ShiftPixy to perform the following: • Review, asses and effectively design the Company’ s s internal controls for reliable financial reporting; • Review the Company’ s 10- Q and 10- K prior to submission to the auditors for compliance over financial reporting and • Review the detailed calculations of interest and penalties associated with the outstanding payroll tax liabilities for accuracy, completeness and compliance to the IRS, states and local to the applicable guidelines. In addition, the Company did not design or maintain effective controls over its’ service organizations and IT vendors. More specifically, the company did not properly design or implement appropriate user access controls or have controls in place to review applicable complementary user entity controls described in service organizations’ reports for their potential impact on the Company’ s financial reporting.** If we are unable to successfully remediate our material weaknesses or identify any future significant deficiencies or material weaknesses, the accuracy and timing of our financial reporting may be adversely affected, a material misstatement in our consolidated financial statements could occur, or we may be unable to maintain compliance with securities law requirements regarding timely filing of periodic reports, all of which could adversely affect our business and cause our stock price to decline as a result. In addition, even if we remediate our material weaknesses, we will be required to expend significant time and resources to further improve our internal controls over financial reporting, including by further expanding our finance and accounting staff to meet the demands that are placed upon us as a public company, including the requirements of the Sarbanes- Oxley Act. If we fail to adequately staff our accounting and finance function to remediate our material weaknesses or fail to maintain adequate internal control over financial reporting, any new or recurring material weaknesses could prevent us from concluding that our internal control over financial reporting is effective and impair our ability to prevent material misstatements in our consolidated financial statements, which could cause our business to suffer. **We 32We** are required to obtain and maintain various types of insurance coverage for our business, in particular health and workers’ compensation insurance related to our employment of WSEs. Although we have contracts with all types of providers currently necessary for our business, if in the future we are unable to secure the insurance coverage required for our business operations, or if we lose any existing coverage, we may not be able to offer some of our services and our revenues could be reduced. In addition, any increases in the cost of insurance coverage we are required to maintain could reduce our profitability (or increase our net losses). We may be subject to penalties and interest payable on taxes

as a result of data entry into our software or manual error. Our input of data in our tax processing software must be entered properly to process the data and payments correctly with regard to clients, co- employees and applicable tax agencies. If we input incorrect data or input accurate data incorrectly, we could inadvertently overbill or underbill our clients or overpay or underpay applicable taxes, resulting in the loss of net income and / or clients and / or the incurrence of tax penalties and interest. Despite our efforts to reconcile taxes on a monthly basis, we may incur additional taxes, penalties and interest for which we may or may not bill our clients . **We may be subject to increases in penalties and interest payable on our payroll taxes due to delinquent payroll taxes to the Internal Revenue Service, states and local jurisdiction. The Company has outstanding delinquent payroll tax liabilities to the Internal Revenue Service, states and local authorities that have increased from August 31, 2022 to August 31, 2023 from not paying the required current and past payroll taxes from \$ 12. 9 million to \$ 22. 8 million as of August 31, 2022 and August 31, 2023, respectively. The accrued penalty and interest have increased from \$ 0. 9 million to \$ 6. 5 million as of August 31, 2022 to August 31, 2023, respectively, The IRS, states and local jurisdictions can levy the Company's bank accounts and is subject to enforcement collections. ShiftPixy has requested for a collection due process or equivalent hearing, that are subject to enforced collection. ShiftPixy has also filed for an abatement of additions to tax and related interest for the failure to make required deposits and the failure to timely pay required tax that are subject to enforced collection. That request is pending before the IRS Independent Office of Appeals .** We record our State Unemployment Tax (" SUI ") expense based on taxable wages and tax rates assigned by each state. SUI tax rates vary by state and are determined, in part, based on prior years' compensation experience in each state. Prior to the receipt of final tax rate notices, we estimate our expected SUI tax rate in those states for which tax rate notices have not yet been received for purposes of pricing. In a period of adverse economic conditions state unemployment funds may experience a significant increase in the number of unemployment claims. Accordingly, SUI tax rates would likely increase substantially. Some states have the ability under law to increase SUI tax rates retroactively to cover deficiencies in the unemployment fund. In addition, taxes under the Federal Unemployment Tax Act (" FUTA ") may be retroactively increased in certain states in the event the state fails to timely repay federal unemployment loans. Employers in such states are experiencing higher FUTA tax rates as a result of not repaying their unemployment loans from the federal government in a timely manner. The credit reduction is an additional tax on the FUTA wage base for employers in states that continue to have outstanding federal unemployment insurance loans beginning with the fifth year in which there is a balance due on the loan. States have the option to apply for a waiver before July 1st of the year in which the credit reduction is applicable. Generally, our contractual agreements allow us to incorporate such statutory tax increases into our service fees upon the effective date of the rate change. However, our ability to fully adjust service fees in our billing systems and collect such increases over the remaining term of the clients' contracts could be limited, resulting in a potential tax increase not being fully recovered. As a result, such increases could have a material adverse effect on our financial condition or results of operations. ~~We have invested a substantial amount of our time and resources in developing ShiftPixy Labs and its related services and technology. Commercialization of ShiftPixy Labs will require additional development, customer engagement, significant marketing efforts and ongoing investment before it can provide us with any additional revenue. Despite our efforts, ShiftPixy Labs may not become commercially successful. Failure to successfully deploy and commercialize ShiftPixy Labs could adversely affect our operating results and financial condition.~~

Risks ~~33~~**Risks** Relating to Technology We collect, use, transmit and store personal and business information with the use of data service vendors, and a security or privacy breach may damage or disrupt our businesses, result in the disclosure of confidential information, damage our reputation, increase our costs or cause losses. In connection with our business, we collect, use, transmit and store with data services vendors large amounts of personal and business information about our clients and shift employees, including payroll information, healthcare information, personal and limited business financial data, social security numbers, bank account numbers, tax information and other sensitive personal and business information. In addition, as we continue to grow the scale of our business, we will process and store with data services vendors an increasing volume of personally identifiable information **of from** our users. Our data services vendors include PrismHR, Amazon Web Services, Microsoft OneDrive, ShareFile, Dropbox, Egnyte, Smartsheet, Sage Intacct, MasterTax, Microsoft Outlook, Microsoft Office 365, DocuSign and RightSignature. We believe these vendors implement industry standard or more stringent data security measures to protect the data that we transmit through and / or store with them. Despite our efforts to protect customer data, perceptions that the collection, use, and storage of personal information are not satisfactorily protected could inhibit sales and limit adoption of our services. In addition, the continued occurrence of high- profile data breaches provides evidence of an external environment increasingly hostile to information security. We are focused on ensuring that our operating environments safeguard and protect personal and business information, and we will devote significant resources to maintaining and regularly updating our systems and processes. The cost to maintain these safeguards is significant and may increase as we grow, which may limit our ability to employ our resources elsewhere and slow our ability to grow. Despite our efforts to maintain security controls across our business, it is possible our security controls over personal data, our training of employees and vendors on data security, and other practices we follow may not prevent the improper disclosure of customer data that we or our vendors store and manage. In addition, attacks on information technology systems continue to grow in frequency, complexity and sophistication, and we may be targeted by unauthorized parties using malicious tactics, code and viruses. We engage third party contractors who monitor our activities in a manner designed to prevent, detect and respond to data security incidents. However, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures. In addition, hardware, software, or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise the confidentiality, integrity or availability of data or our systems. Unauthorized parties may also attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud, trickery, or other methods of deceiving our employees, contractors, or

temporary staff. As these threats continue to evolve, we may be required to invest significant additional resources to modify and enhance our information security and controls or to investigate and remediate any security vulnerabilities. In addition, while our operating environment is designed to safeguard and protect personal and business information, we do not have the ability to monitor the implementation of similar safeguards by our clients, vendors or their respective employees, and, in any event, third parties may be able to circumvent those security measures. Any cyber- attack, unauthorized intrusion, malicious software infiltration, network disruption, denial of service, corruption of data, theft of non- public or other sensitive information, any similar act by a malevolent party, or inadvertent acts by our own employees, could result in the disclosure or misuse of confidential or proprietary information, harm our reputation, and could have a materially adverse effect on our business operations, or that of our clients, create financial liability, result in regulatory sanction, or generate a loss of confidence in our ability to serve clients or cause current or potential clients to choose another service provider, or subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue. Although we believe that through our third party contractors, we maintain an adequate program of information security and controls and any threats that we might have encountered to date have not materially impacted us, the impact of a data security incident could have a materially adverse effect on our business, results of operations and financial condition. In addition, any further security measures we may undertake to address further protections may cause higher operating expenses. We are also subject to various federal and state laws, rules and regulations relating to the collection, use, transmission and security of personal and business information. In addition, the possession and use of personal information and data in conducting our business subjects us to laws that may require notification to regulators, clients or employees in the event of a privacy breach and may impose liability on us for privacy deficiencies, including but not limited to liability under laws that protect the privacy of personal information, such as HIPAA, and regulatory penalties. These laws continue to develop, the number of jurisdictions adopting such laws continues to increase, and these laws may be inconsistent from jurisdiction to jurisdiction. The future enactment of more restrictive laws, rules or regulations could have a materially adverse impact on us through increased costs or restrictions on our businesses and noncompliance could result in regulatory penalties and significant legal liability. In addition, enforcement actions and investigations by regulatory authorities related to data security incidents and privacy violations continue to increase. Some of the activities in which our shift workers could become involved include health care information- related responsibilities that could invoke the need for compliance with HIPAA as amended by the HITECH Act. The United States Department of Health and Human Services has issued regulations that establish uniform standards governing the conduct of certain electronic health care transactions and protect the privacy and security of protected health information used or disclosed by health care providers and other covered entities. Three principal regulations with which we are required to comply have been issued in final form under HIPAA: privacy regulations, security regulations, and standards for electronic transactions, which establish standards for common health care transactions. The privacy regulations cover the use and disclosure of protected health information by health care providers. They also set forth certain rights that an individual has with respect to his or her protected health information maintained by a health care provider, including the right to access or amend certain records containing protected health information or to request restrictions on the use or disclosure of protected health information. The security regulations establish requirements for safeguarding the confidentiality, integrity, and availability of protected health information that is electronically transmitted or electronically stored. The HITECH Act, among other things, establishes certain health information security breach notification requirements. A covered entity must notify any individual whose protected health information is breached. The HIPAA privacy and security regulations establish a uniform federal “ floor ” and do not supersede state laws that are more stringent or provide individuals with greater rights with respect to the privacy or security of, and access to, their records containing protected health information. These laws contain significant fines and other penalties for wrongful use or disclosure of protected health information. Additionally, to the extent that we submit electronic health care claims and payment transactions that do not comply with the electronic data transmission standards established under HIPAA and the HITECH Act, payments to us may be delayed or denied. We may be vulnerable to security breaches that could disrupt our operations and adversely affect our business. Despite security measures and business continuity plans, our information technology networks, and infrastructure may be vulnerable to damage, disruptions, or shutdowns due to unauthorized access, computer viruses, cyber-attacks, distributed denial of service, and other security breaches. An attack on our security breach of our network could result in interruption or cessation of access and services, our inability to meet our access and service level commitments, and potentially compromise customer data transmitted over our network. We cannot guarantee that our security measures will not be circumvented, resulting in network failures or interruptions that could impact our network availability and have a material adverse effect on our business, financial condition, and results. We may be required to expend significant resources to protect against such threats. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed, and we could lose customers. Any such events could result in legal claims or penalties, disruption in operations, misappropriation of sensitive data, damage to our reputation, and / or costly response measures, which could adversely affect our business. If we are unable to protect our proprietary and technology rights our operations will be adversely affected. Our success will depend in part on our ability to protect our proprietary rights and technologies, including those related to our products and services. Protecting our intellectual property rights and combating unlicensed copying and use of our software and other intellectual property is difficult. Except as otherwise noted herein, we have not obtained any formal patent, trademark or similar protection. Our failure to adequately protect our proprietary rights may adversely affect our operations. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our services or to obtain and use trade secrets or other information that we regard as proprietary. Based on the nature of our business, we may or may not be able to adequately protect our rights through patent, copyright and trademark laws. Our means of protecting our proprietary rights in the United States or abroad may not be adequate, and competitors may independently develop similar technologies. In addition, litigation may be necessary in the future to: • Enforce intellectual property rights; • Protect our

trade secrets; • Determine the validity and scope of the rights of others; or • Defend against claims of infringement or invalidity. Any such litigation could result in substantial costs if we are held to have willfully infringed upon another party's intellectual property, or to expend significant resources to develop non-infringing technology and would divert the attention of management from the implementation of our business strategy. Furthermore, the outcome of any litigation is inherently difficult to predict, and we may not prevail in any litigation in which we become involved. We currently use PrismHR software for our payroll processing. We also use MasterTax to process our tax reports and filings, and a host of other software products in the course of conducting our business. Our mobile application, along with the client portal and the ShiftPixy Command Hub, constitute our proprietary software and contain components that are licensed from third parties that constitute public domain software. Our payroll processing software and other software products that we use in our business, including our mobile application, could contain undetected design faults and software errors, or "bugs" that are discovered only after they have been installed and used by a significant number of customers. Any such defect or error in new or existing software or applications could cause delays in delivering our technology or require design modifications. These developments could adversely affect our competitive position and cause us to lose potential customers or opportunities. Since our technologies are intended to be utilized to supply human resources related services, the effect of any such bugs or delays will likely have a detrimental impact on us. In addition, given that our specialized human resources software and services have yet to gain widespread acceptance in the market, any delays or other problems caused by software bugs would likely have a more detrimental impact on our business than if we were a more established company. If a contract relating to our mission-critical software services, such as that applicable to payroll and payroll tax processing, is terminated or not renewed, and we do not have an effective replacement software, our business and revenues will suffer. Although there are other software vendors we can use, it may take time to negotiate an agreement and make any replacement software operational. Accordingly, if the software agreements that we use in our business are terminated or not renewed, our business could be seriously disrupted, and our revenues significantly reduced until we locate replacement software and make it operational. Our systems may be subject to disruptions that could have a materially adverse effect on our business and reputation. Our business is and will continue to be highly dependent on our ability to process, on a daily basis, a large number of complicated transactions. We rely heavily on our payroll, financial, accounting, and other data processing systems. We may not be successful in preventing the loss of client data, service interruptions or disruptions to our operations from system failures. If any of these systems fail to operate properly or become disabled even for a brief period of time, we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention, or damage to our reputation, any of which could have a materially adverse effect on our results of operation or financial condition. **Because** we store data in the cloud with providers such as Microsoft and Amazon, any disruptions in our ability to access this data or any breach of security concerning this data in the cloud could have a materially adverse effect on our business and reputation. Our business is and will continue to be highly dependent on data storage in the cloud with providers such as Microsoft and Amazon. These cloud storage systems may fail to operate properly or become disabled. **We expect our use of data to increase, including through the use of analytics, artificial intelligence (AI) and machine learning.** There could also be security breaches of our data stored in the cloud. If there is loss of client data, service interruptions or disruptions to our operations related to our cloud data storage, even for a brief period of time, we could suffer financial loss, a disruption of our business, liability to **clients, regulatory intervention, or damage to our reputation, any of which could have a materially adverse effect on our results of operation or financial condition.** We ~~make~~ **made** significant investments in our software that may not meet our expectations. Developing new technologies is complex. It can require long development and testing periods. Significant delays in new releases or significant problems in creating new products or services could adversely affect our revenue. Source code, the detailed program commands for our operating systems and other software programs, is critical to our business. We take significant measures to protect the secrecy of large portions of our source code. If a significant portion of our source code leaks, we could lose future trade secret protection for that source code. It may become easier for third parties to compete with our products by copying functionality, which could adversely affect our revenue and operating margins. Unauthorized disclosure of source code also could increase the security risks described in the next paragraph. Our increasing user traffic, growth in services, and the complexity of our services demand more computing power. We spend substantial amounts to build, purchase, or lease data centers and equipment and to upgrade our technology and network infrastructure to handle more data. These demands continue to increase as we grow our workforce. Maintaining, securing, and expanding this infrastructure is expensive and complex. It requires that we maintain an internet connectivity infrastructure that is robust and reliable within competitive and regulatory constraints that continue to evolve. Inefficiencies or operational failures, including temporary or permanent loss of customer data or insufficient internet connectivity, could diminish the utility or functionality of our products, and adversely impact the quality of our services and user experience, resulting in contractual liability, claims by users and other third parties, regulatory actions, damage to our reputation, and loss of current and potential users, subscribers, and advertisers, each of which could have a materially adverse impact on our operating results and financial condition. Our software may experience quality or supply problems. Our software may experience quality or reliability problems. The highly sophisticated software we have been developing may contain bugs and other defects that interfere with their intended operation. Any defects we do not detect and fix in pre-release testing could cause reduced sales and revenue, damage to our reputation, repair or remediation costs, delays in the release of new products or versions, or legal liability. Although our license agreements typically contain provisions that limit our exposure to liability, there is no assurance these provisions will withstand legal challenge. We intend to use open source blockchain technology in our technology platform. This technology has been scrutinized by regulatory agencies and therefore we may be impacted by unfavorable regulatory action in one or more jurisdictions. We intend to use open source blockchain technology as a secure repository for "device reputation" information acquired by our technology platform. Blockchain technologies have been the subject of scrutiny by various regulatory bodies around the world. We could be impacted by one or more regulatory inquiries or actions, including but not limited to restrictions

on the use of blockchain technology, which could impede or limit the use of this technology within our product offerings. **37**We use and leverage open source technology..... Risks Relating to Management and Personnel We depend heavily on Scott W. Absher, our Chief Executive Officer and a director. The loss of his services could harm our business. Our future business and results of operations depend in significant part upon the ~~continued~~ **continue** contributions of Scott W. Absher, our Chief Executive ~~Officer~~ **Office** and Chair of our ~~board~~ **board** of directors. If we lose his services, or if he fails to perform in his current position, or if we are ~~not able~~ **unable** to attract and, retain skilled employees in addition to Mr. ~~Absher~~ **Abwehr**, this could adversely affect the development and implementation of our business plan and harm our business. While in our client engagements we sometimes arrange for our clients to act as sponsor of employee benefit plans, we also sponsor the benefit plans applicable to their WSEs. For us to sponsor employee benefit plan offerings for WSEs, we must qualify as an employer for certain purposes under the Code and ERISA. In addition, our status as an employer is important for **the** purposes of ERISA's preemption of certain state laws. The definition of **an** employer under various laws is not uniform, and under both the Code and ERISA, the term is defined in part by complex multi-factor tests. Generally, these tests are designed to evaluate whether an individual is an independent contractor or employee, and they provide substantial weight to whether a purported employer has the right to direct and control the details of an individual's work. Some factors that the IRS has considered important in the past have included the employer's degree of behavioral control (the extent of instructions, training and the nature of the work), the financial control and the economic aspects of the relationship, and the intent of the parties, as evidenced by (i) the specific benefit, contract, termination and other similar arrangements between the parties, and (ii) the "on-going" versus "project-oriented" nature of the work to be performed. However, a definitive judicial interpretation of "employer" in the context of employer relationships such as those in which we engage has not been established. For ERISA purposes, for example, courts have held that test factors relating to ability to control and supervise an individual are less important, while the U. S. Department of Labor has issued guidance that certain entities in the HR outsourcing industry do not qualify as common law employers for ERISA purposes. Moreover, when our mobile application is fully functional, the scope of our employer status will increase, changing the legal analysis. Although we believe that we qualify as an employer of WSEs under ERISA, and the U. S. Department of Labor has not provided guidance otherwise, we are not able to predict the outcome of any future regulatory challenge. **38**If we are not recognized as an employer under the Code or ERISA, we may be required to change the method by which we report and remit payroll taxes to the tax authorities and the method by which we provide, or discontinue providing, certain employee benefits to WSEs, which could have a material adverse effect on our business and results of operations. We may also need to qualify as an employer of WSEs under state regulations, which govern licensing, certification and registration requirements. Nearly all states have enacted laws and regulations in this regard. While we believe that we qualify as an employer of WSEs under these state regulations, these requirements vary from state to state and change frequently and if we are not able to satisfy existing or future licensing requirements or other applicable regulations of any states, we may be prohibited from doing business in that state. Lapses in our WSE screening process may harm our reputation or relationship with clients, or result in litigation, which may impact our financial condition. Our business model is dependent on hiring WSEs who will provide high quality service for our clients. Lapses in our screening process may result in WSEs being hired who do not meet the standard expected by our clients. This may hurt our relationship with our clients or result in them placing their business elsewhere, which would negatively impact **on** our ability to remain in business. Criminal behavior by our WSEs resulting from a lapse in our screening process may subject us to litigation from our clients or government regulators, which may also be costly and / or damage our reputation. We are in the business of providing WSEs to clients, and there is a risk that we will be sued and / or held liable for claims resulting from actions by or against our WSEs. Our WSEs perform their jobs in the workplaces of our clients. Our ability to control the workplace environment of our clients is extremely limited. Further, many WSEs have access to our clients' information systems and confidential information. Based on our relationship with these WSEs, we incur a risk of liability arising from various workplace events, including claims of physical injury, discrimination, harassment or failure to protect confidential personal information. Other inherent risks include possible claims of errors and omissions; intentional misconduct; release, misuse or misappropriation of client intellectual property; employment of undocumented immigrants; criminal activity; torts; or other claims. These claims can carry significant financial penalties and damages. We have not experienced significant claims for damages or losses to date arising from the actions of WSEs. However, there is a risk that we will be subject to such claims in the future and may be held liable even if our contribution to the injury is minimal or absent. We may also be required to indemnify our clients against claims brought against them by or against WSEs. Even if we are successful in defending against these claims, the costs of mounting our defense might be significant and damaging to us. We may incur reputational costs and / or be subject to investigations by public agencies, which could result in associated negative publicity. We may also lose clients as a result of claims against us. Risks Relating to Regulations and Compliance Failure to comply with, or changes in, laws and regulations applicable to our business, particularly potential changes to the ACA, could have a materially adverse effect on our marketing plan as well as our reputation, results of operations or financial condition, or have other adverse consequences. Our business is subject to a wide range of complex laws and regulations. For example, many states regulate entities offering ~~the~~ employment related services such as those offered by us directly or through our subsidiaries and require licenses as a prerequisite to **the** operation of such enterprises in their respective jurisdictions. There can be no assurance that either we or our subsidiaries will be successful in either securing or maintaining a license or licenses in compliance with a particular state's laws and regulations. Further, many states require that workers' compensation policies offered by employment related firms such as ours be managed according to strict rules and / or that unemployment insurance filings be administered according to strict rules. ~~Failure~~ **39**~~Failure~~ to comply with such laws and regulations could result in the suspension or revocation of licenses or registrations, the limitation, suspension or termination of services, and the imposition of consent orders or civil and criminal penalties, including fines, that could damage our reputation and have a materially adverse effect on our results of operation or financial condition. In addition, changes in laws or regulations, or changes in the

interpretation of laws or regulations by a regulatory authority, may decrease our revenues and earnings and may require us to change the manner in which we conduct some aspects of our business. For example, a change in regulations either decreasing the amount of taxes to be withheld or allowing less time to remit taxes to government authorities would adversely impact interest income from investing client funds before such funds are remitted to the applicable taxing authorities. Changes in taxation regulations could adversely affect our effective tax rate and our net income. Changes in laws that govern the co-employment arrangement between a PEO and its WSEs may also require us to change the manner in which we conduct some aspects of our business. Changes to the ACA, as amended, related state laws, and the regulations adopted or to be adopted thereunder, have the potential to impact substantially the way that employers provide health insurance to employees and the health insurance market for the small and mid-sized businesses that constitute our clients and prospects. The repeal or replacement of the ACA, the elimination of employer mandates and similar employer requirements currently imposed by the ACA, and other regulatory changes could in the future reduce our revenues. Amendments to money transmitter statutes have required us to obtain licenses in some jurisdictions. The adoption of new money transmitter statutes in other jurisdictions, changes in regulators' interpretation of existing state and federal money transmitter or money services business statutes or regulations, or disagreement by a regulatory authority with our interpretation of such existing statutes or regulations, could require additional registration or licensing, limit certain business activities until they are appropriately licensed, and expose us to financial penalties. These occurrences could also require changes to our compliance programs and to the manner in which we conduct some aspects of our money movement business or client funds investment strategy, which could adversely impact interest income from investing client funds before such funds are remitted. Some states require licensure or registration of businesses offering **professional employer offering** "PEO" services. While some elements of our service offering overlap with PEO services, we believe that our human capital platform is more in line with a traditional staffing model. However, if we need and are unable to secure registration or licensure of such service offerings in a particular state, our ability to grow that segment of our business in such state would be impaired and could affect our ability to increase our revenues and meet certain customer requirements in such states. We may be subject to Private Attorney General's Act ("PAGA") claims which we may require additional capital to defend. Our work force currently resides mostly in the State of California. Employment laws in the State of California can be complex and undefined where a direct employment or co-employment relationship exists, both of which are contemplated to some extent in our current business and, (to a lesser extent), our future plans. PAGA allows plaintiffs to bring class action-like lawsuits against employers that can result in substantial costs to defend and can result in large fines for seemingly insignificant or inadvertent clerical errors. As our business expands, the risk will increase that such PAGA claims will be filed and litigated, which may result in increased costs to us. Laws related to the classification of Gig Economy workers are changing, and we may be subject to state and local regulations impacting how we classify our workers. A significant portion of our business is located in the State of California which recently passed AB-5 relating to the classification of certain gig workers as employees instead of independent contractors. This legislation, to the extent it applied to "app-based drivers", was repealed by Proposition 22, which restored these drivers to the status of independent contractors. Nevertheless, Proposition 22 also instituted various labor and wage policies that are specific to app-based drivers and their employers that do not apply to other independent contractors, including: (i) minimum wage requirements; (ii) working hours limitations; (iii) requiring companies to pay healthcare subsidies under certain circumstances; and (iv) requiring companies to provide or make available occupational accident insurance and accidental death insurance to their app-based drivers. Other states such as New York and New Jersey, two of our potential markets, are also considering legislation designed to change the status of gig workers from independent contractors to employees, or at least provide some of the wage, hour and benefit guarantees currently provided to traditional employees to gig workers. We anticipate that classification status will continue to be an unsettled area of law for the foreseeable future. Changes in classification can result in a change to various requirements associated with the payment of wages, tax withholding, and the provision of unemployment, health, and other traditional employer-employee related benefits. While we currently classify all WSEs as employees, our business plans potentially include the use of large numbers of independent contractors. **H-401f** we are unable to utilize independent contractors, or the cost to use independent contractors becomes more expensive, our future growth opportunities may be limited or reduced. Costs or delays associated with revising our services to account for changes in the status of employees and independent contractors may have a significant impact on our future growth. Changes to the law may impact the desirability or applicability of our business model, which could impact our ability to continue as a going concern.

Our sponsorship of the SPACs creates a risk that we will be categorized as an investment company that is subject to registration under the Investment Company Act of 1940 (the "1940 Act"). If we are deemed to be an investment company under the Investment Company Act of 1940, we may be required to institute burdensome compliance requirements and our activities may be restricted, which may make it difficult for us to conduct our operating business and our IHC sponsorship activities. On April 29, 2021, we announced our sponsorship, through our wholly-owned subsidiary, ShiftPixy Investments, Inc. ("Investments"), of four SPACs: Vital Human Capital, Inc. ("Vital"), TechStackery, Inc. ("TechStackery"), Firemark Global Capital, Inc. ("Firemark"), and Industrial Human Capital, Inc. ("IHC"). Each SPAC was seeking to raise approximately \$150 million in capital investment, through an IPO, to acquire companies in the healthcare, industrial and technology segments of the staffing industry, as well as one or more insurance entities. In comment letters to two of our registration statements, the SEC inquired as to whether our activities in relation to the SPACs might cause the Company to be classified as an investment company. Section 3(a)(1)(A) of the Investment Company Act 1940 (the "1940 Act") defines as an investment company any issuer that is or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the 1940 Act defines "investment company" to mean any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in securities, and owns or proposes to acquire investment securities having a value exceeding 40% of the value of such issuer's total assets. Such investment companies are required to register and meet other requirements promulgated under the 1940 Act. Our investment in IHC and the other SPACs

discussed above could give rise to a determination that we are or were an investment company subject to registration under the 1940 Act. Such a determination could have a material adverse effect on our business operations, projected revenues and earnings, and growth prospects. We believe that we are not an investment company, and we always intended to conduct our operations so that we will not be deemed to be an investment company. In this regard, we note, first, that we are and hold ourselves out to be an HCM platform that provides real-time business intelligence along with HR services on a fee-based business model. Our HR services include human resources, employment compliance, employment related insurance, payroll, and operational employment services solutions for our clients and WSEs. In sum, our business is HCM using technology, not investing, reinvesting or trading in securities. In addition, each SPAC IPO registration statement and related prospectus included an exception permitting us to transfer our ownership in the founder shares at any time to the extent that we determine, in good faith, that such transfer is necessary to ensure that we comply with the 1940 Act. Ultimately, however, on March 18, 2022, the IPO registration statements related to three of the SPACs we had sponsored, Vital, TechStackery, and Firemark were withdrawn. However, the analysis as to the investment of our subsidiary, ShiftPixy Investments, Inc., in the Founder's Shares of IHC is different. We acquired the Founder Shares on April 22, 2021, and we believe that we exceeded the 40% Threshold on October 19, 2021, in connection with the pricing of IHC's IPO exclusive of Government securities and cash items. Investments acquired 4,312,500 Founder Shares on April 22, 2021, for an aggregate purchase price of \$25,000, or approximately \$0.006 per share. Prior to the pricing of IHC's IPO on October 19, 2021, there was substantial doubt as to whether the IPO would be completed on the proposed terms, or at all, and therefore, the fair market value of the Founder Shares owned by us had significantly less value than \$10.00 per unit, the IPO price. On October 19, 2021, upon pricing of IHC's IPO, the Founder Shares had a market value of \$21,100,000 based on the \$10.00 per unit offering price. Accordingly, we believe that October 19, 2021, is the beginning of the one-year temporary safe harbor under Rule 3a-2 promulgated under the 1940 Act, as described below. Rule 3a-2 provides a temporary safe harbor from application of the 1940 Act's provisions to certain issuers that are in transition to a non-investment company business. Specifically, Rule 3a-2 deems an issuer that meets the definition of "investment company" in Section 3(a)(1)(A) or 3(a)(1)(C) of the 1940 Act not to be an investment company for a period not to exceed one year, provided that the conditions of the rule are satisfied. Pursuant to Rule 3a-2, the one-year period begins on the earlier of: (i) the date on which an issuer owns securities and/or cash having a value exceeding 50% of the value of such issuer's total assets on either a consolidated or unconsolidated basis; or (ii) the date on which an issuer owns or proposes to acquire investment securities having a value exceeding the 40% Threshold. Accordingly, we believe that our IHC sponsorship activities fall within the safe harbor under Rule 3a-2 of the 1940 Act, which allows a 3(a)(1)(C) investment company (as a "transient investment company") a grace period of one year from the date of classification, to avoid registration under the 1940 Act. The SEC's IM Guidance Update No. 2017-03 (March 2017) specifically states that the "purpose of Rule 3a-2 is to temporarily relieve certain issuers that are in transition to a non-investment company business from the registration and other requirements of the 1940 Act." In that guidance, the Staff of the SEC also acknowledged that the "one-year period for transient investment companies should be available to issuers that have a bona fide intent to be engaged primarily in a non-investment company business." As provided in Rule 3a-2, during the one-year period, the issuer must undertake activities that are consistent with an objective to no longer be an "investment company" by the end of this period. In addition, the issuer's board of directors must adopt a resolution that commits the issuer to undertake activities in order to achieve this objective. With these considerations in mind, on May 13, 2022, we issued a press release announcing a special distribution of shares of common stock of IHC to all ShiftPixy shareholders of record as of May 17, 2022. The shares in IHC were expected to be distributed to eligible ShiftPixy shareholders as soon as practicable following the completion of the IBC, subject to a registration statement covering the IHC shares being declared effective by the SEC. We believed that in the event of such distribution of the IHC shares, we would no longer own such shares and would accordingly ensure that we and/or any of our parents, subsidiaries or affiliates are in compliance with the 1940 Act. While we anticipated the disposition of our subsidiary's securities in IHC by October 19, 2022, we believe that certain events nullified the need for that action. Specifically, in connection with the vote of the Shareholders of IHC at the meeting on October 14, 2022, regarding extending IHC, shareholders holding 11,251,347 public shares of IHC exercised their right to redeem their shares for a pro rata portion of the funds in the Trust Account, leaving only 248,653 of IHC's remaining public shares outstanding and the amount in the Trust Account substantially below the \$5,000,001 minimum net tangible asset amount required by IHC's Amended and Restated Certificate of Incorporation to be available upon consummation of its initial business combination. IHC's efforts to secure the decisions of some shareholders to reverse their redemptions were unsuccessful, prompting the following consequences: (a) IHC's sponsor declined to fund the extension, (b) the board of directors of IHC adopted resolutions to immediately cease operations and proceed to dissolve and unwind, (c) IHC cancelled the extension amendment as filed with the Secretary of State of Delaware, (d) in accordance with the Amended and Restated Certificate of Incorporation of IHC, because the corporate existence was not extended, IHC's existence ceased as of October 22, 2022—the date by which IHC was required to have completed its initial business combination, (e) 100% of the public shareholders will have their public shares redeemed, (f) our subsidiary's investment in IHC has been rendered worthless, (g) the NYSE has initiated the delisting process as to all securities of IHC, (h) the final franchise taxes for IHC have been paid, (i) the Certificate of Dissolution for IHC was filed with the Secretary of State of Delaware on November 14, 2022, and (j) IHC is otherwise completing its wind down procedures. Thus, although the Company technically held shares in IHC past October 19, 2022, the date by which we anticipated our subsidiary to have disposed of the IHC shares, we believe that IHC terminated, for all practical purposes, as of the meeting date of October 14, 2022, such that IHC has been in the dissolution and wind-up process since that date. The Company accordingly believes that did not fall within the purview of the 1940 Act, because the securities held by the Company's subsidiary in IHC and the net assets of IHC effectively became worthless on October 14, 2022. However, because our subsidiary held securities in IHC past October 19, 2022, there can be no assurances that we will not be deemed to be an investment company under the 1940 Act. If we are deemed to be an investment company under the 1940

Act of by virtue of our IHC sponsorship activities or based upon a determination that we exceeded the 40 % Threshold prior to October 19, 2021, or after October 19, 2022, our future activities may be restricted, including: • restrictions on the nature of our investments; and • restrictions on the issuance of securities, each of which may make it difficult for us to conduct our business and raise working capital. In addition, we may have imposed upon us burdensome requirements, including: • registration as an investment company with the SEC; • adoption of a specific form of corporate structure different from our current operating structure; and • reporting, record keeping, voting, proxy and disclosure requirements and other rules and regulations that we are currently not subject to. Compliance with these additional regulatory burdens would require additional expenses for which we have not allotted funds and may hinder our ability to operate our business, and make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business, financial condition and results of operations.

Financial Market Risks Our Common Stock is thinly traded, which can cause volatility in its price. Our Common Stock is listed for trading on the Nasdaq Stock Market, LLC (“ Nasdaq ”), and is thinly traded. Thinly traded stock can be more susceptible to market volatility. This market volatility could significantly affect the market price of our common stock without regard to our operating performance. Securities markets worldwide experience significant price and volume fluctuations. In addition, the price of our common stock could be subject to wide fluctuations in response to the following factors, among others: • a deviation in our results from the expectations of public market analysts and investors; • statements by research analysts about our common stock, our company or our industry; • changes in market valuations of companies in industries to which our company is compared and market evaluations of our industries in which our company is deemed to be operating generally; • actions taken by our competitors; • sales or other issuances of common stock by us, our senior officers, directors or other affiliates; • trading activity by investment speculators in various securities related to the Company, including trading in call options, put options, or engaging in “ short selling ”, which may or may not be related to the Company’s actual business condition or operating results; or • other general economic, political or market conditions, many of which are beyond our control. The market price of our Common Stock will also be impacted by our quarterly operating results, which can fluctuate from quarter to quarter. A controlling stake of our common stock is closely held by our board of directors Chair and CEO, Scott W. Absher, which may limit a minority shareholder from influencing corporate governance. **Our President, CEO and director, Scott W. Absher, currently owns approximately 1.583 as of December 11, 2023, 88 % of our the issued and outstanding shares of the Company’s common stock ; accordingly is held by one of our board of directors Chair, he may be deemed to control the Company** Chief Executive Officer, and one of our founders, Scott W. Absher as **a result of his voting power August 31, 2022, without giving effect to the potential exercise of options for shares of preferred stock and conversion otherwise has significant influence over the voting matters of shares the shareholders of preferred stock into the Company’s common stock, including but not limited to as discussed below. (Mr. Absher is the beneficial owner power to elect directors and approve other actions of approximately 94.46 % of our outstanding voting securities, assuming that require stockholder approval. he exercises all of his outstanding Notwithstanding options for shares of preferred stock and then converts all of his outstanding 8,600,000 shares of preferred stock into shares of common stock. As discussed in Note 17, Subsequent Events to the Consolidated Financial Statements, which is incorporated herein by reference, Mr. Absher did in fact exercise all of his outstanding options for shares of preferred stock and converted all of his outstanding shares of preferred stock on or after September 1, 2022.) As a controlling shareholder, Mr. Absher can continue to possess significant influence and likely can elect and continue to elect a majority of our board of directors and authorize or prevent proposed significant corporate transactions. Mr. Absher’s share ownership percentage, no action has been taken to seek the Controlled Company Exemption available under Nasdaq Listing Rule 5615I (2). If the Company were to seek Controlled Company status, (a) we would not be required to comply with certain governance requirements set forth in the listing standards, including requiring a majority of independent Directors on our Board, the determination of the compensation of our executive officers solely b’ independent Directors, and control may the recommendation of nominees for Director solely by independent Directors, and (b) as a result, the Company’s stockholders would not have certain of the same protections as a stockholder of other publicly- traded companies, and the market price of the Company’s common stock could be adversely affected. The concentration of ownership with respect to the Company’s common stock also results have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other there being business combination, or discourage a potential acquirer from making a tender offer. Individual shareholders with a minority, non- controlling stake may have limited influence over shareholder matters trading volume, which may make it more difficult for stockholders to sell their shares and increase the price volatility of the Company’s common stock . Our 41Our common stock currently trades on Nasdaq, where it is subject to various listing requirements. During Fiscal 2022, prior Prior to effecting the one- for- twenty- four (1 for 100 ; 24) reverse stock split , which was finalized on September 1 October 14 , 2022- 2023 , we were notified by Nasdaq that we were not in compliance with certain of this listing requirement. On October 30, 2023, Nasdaq notified us that we had achieved compliance with Nasdaq Listing Rule 5550 (a) (2) in as much as the closing bid price of the Company’s common stock had been at \$ 1.00 per share or greater for the requisite period. On June 5, 2023, Nasdaq notified us that we are not in compliance with Nasdaq Listing Rule 5550 (b) (1) in as much as our listed securities have a market value of less than \$ 35 million. In addition, we do not currently meet the alternative compliance standards relating to stockholders’ equity or net income from continuing operations. On August 2, 2023, Nasdaq notified the Company that we were not in compliance NASDAQ’s Listing Rule 560. This was due to the resignation of our independent director who was a member of the Company’s audit committee. The Company does not presently comply with NASDAQ’s requirement that a majority of the Company’s board of directors be comprised of independent directors, and that the Company has an audit committee comprised of at least three independent directors, one of which “ has past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial**

sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. This does not have any immediate effect on the listing of the Company's common stock on the Nasdaq Capital Market, and the Company has until the earlier of the Company's next annual shareholders' meeting or July 25, 2024 (or, if the next annual shareholders' meeting is held before January 22, 2024, then by that date), to regain compliance, the "Compliance Period"). If the Company does not achieve compliance within the Compliance Period, it will receive written notice from Nasdaq that its securities are subject to delisting, which is a determination that the Company could appeal to the Nasdaq Hearings Panel. If we are unable to achieve and maintain compliance with this listing standards or other Nasdaq listing requirements, and that failure to correct these deficiencies would result in delisting. We have taken action, including the reverse stock split, cutting expenses, and other actions, to address Nasdaq's concerns and to regain full compliance with all of its listing requirements. If we are not able to meet Nasdaq's listing standards in the future, we could be subject to suspension and delisting proceedings. A delisting of our common stock and our inability to list on another national securities market could negatively impact us by: (i) reducing the liquidity and market price of our common stock; (ii) reducing the number of investors willing to hold or acquire our common stock, which could negatively impact our ability to raise equity financing; (iii) limiting our ability to use a certain registration statement statements to offer and sell freely tradable securities, thereby preventing us from limiting our ability to accessing access the public capital markets; and (iv) impairing our ability to provide equity incentives to our employees. 42If we are unable to pay delinquent payroll taxes and interest to the Internal Revenue Service, states and local tax jurisdictions. We are responsible for remitting payroll taxes for our clients on a timely basis. As of August 31, 2023, we have approximately \$ 29. 5 million related to outstanding payroll taxes and associated penalties and interest. The IRS, states and local jurisdictions can place liens on our Company. Although the Company is appealing penalties and interest, there is no assurance that this will occur. Our bank accounts can be frozen, and the Company may be forced to file for bankruptcy. 43Our success depends on the adoption of our products and services by our various types of customers. If these potential customers do not accept and acquire our products and services, then our revenue will be severely limited. If we are unable to effectively manage growth and maintain low operating costs, the results of operations and financial condition may be adversely affected. (we have seen a decline not growth) Since our inception, our plans contemplate significant expansion of our business. If we are unable to manage our growth effectively, (including having geographically dispersed offices and employees), or to anticipate and manage our future growth accurately, our business may be adversely affected. If we are unable to manage our expansion and growth effectively, we may be unable to keep our operating costs low or effectively meet the requirements of an "emerging ever- growing, geographically dispersed client base. Our business relies on data systems, billing systems and financial reporting and control systems, procedures and controls. Our success in managing our expansion and growth company" under in a cost- effective manner will require us to upgrade and improve the these systems JOBS Act, procedures and controls. If we cannot are unable to adapt our systems and put adequate controls in place in a timely manner, our business may be adversely affected. In addition, our certain if the reduced disclosure requirements applicable to emerging growth companies may place significant demands on our management, and our overall operational and financial resources. A failure on our part to meet any of the foregoing challenges inherent in our growth strategy may have an adverse effect on our results of our operations and financial condition. 44There are currently several different competing Gig Economy oriented staffing management product and service technologies that are being marketed to our potential customers. Further development of any of these technologies may lead to advancements in technology that will make our common stock less products and services obsolete. Consumers may prefer alternative technologies and products and services. We cannot guarantee that users of Gig Economy oriented staffing management products and services who will be using our products and services will continue to grow within the industry as a whole. Any developments that contribute to the obsolescence of our products and services may substantially impact on our business, reducing our ability to generate or sustain revenues. We have observed that clients sometimes competitively bid new contracts, which is a trend that we expect to continue for the foreseeable future. Some of our competitors have greater resources than we, which may enable them to compete more effectively in this market. Our competitors may devote their resources to developing and marketing products and services that will directly compete with our product lines, and new, more efficient competitors may enter the market. If we are unable to successfully compete with existing companies and new entrants to the market, it will have a negative impact on our business and financial condition. 45 · Expand client and WSE relationships; · Increase the number of our clients and grow our WSE base; · Develop relationships with third- party vendors, HCM providers, and insurance companies; · Expand operations and implement and improve our operational, financial and management controls; · Raise capital at attractive costs, or at all; · Attract and retain qualified management, employees and independent service providers; · Successfully introduce new processes, technologies, products and services, and upgrade our existing processes, technologies, products and services; · Protect our proprietary processes and technologies and our intellectual property rights; and · Respond to investors government regulations relating to the internet, personal data protection, email, software technologies, cyber security and other regulated aspects of our business . We We use and leverage open - source technology in our technology platform which may create risks of security weaknesses. Some parts of our technology that we currently use, and that we intend to develop in the future, incorporate (or may incorporate in the future) open- source technology, including the blockchain technology that we intend to use in our technology platform. There is a risk that the development team, or other third parties may, intentionally or unintentionally, introduce weaknesses or bugs into the core infrastructure elements of our technology solutions that interfere with the use of such technology which, in turn, could have a material negative impact on our business and operations. Risks Relating to Management and Personnel We are not able to attract and will remain retain skilled employees in addition to Mr. Absher, this could adversely affect the development

and implementation of our business plan and harm our business. While in our client engagements we sometimes arrange for our clients to act as sponsor of employee benefit plans, we also sponsor the benefit plans applicable to their WSEs. For us to sponsor employee benefit plan offerings for WSEs, we must qualify as an "emerging growth company" employer for certain purposes under the Code and ERISA. In addition, our status as an employer is important for the purposes of ERISA's preemption of certain state laws. The definition of an employer under various laws is not uniform, and under both the Code and ERISA, the term is defined in part by complex multi-factor tests. 47 Our WSEs perform the their jobs in JOBS Act until the earlier workplaces of (a) the last day of the fiscal year (i) following the fifth anniversary of the completion of our first sale clients. Our ability to control the workplace environment of common equity securities under our clients is extremely limited. Further, many WSEs have access to our clients' information systems and confidential information. Based effective Securities Act registration statement, which occurred on October 29, 2018, (ii) in which we have total annual gross revenue of at least \$ 1.07 billion, or our relationship with (iii) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds \$ 700 million as of the prior August 31; and (b) the date on which we have issued more than \$ 1.0 billion in non-convertible debt during the prior three- these WSEs -year period. As long as we remain an "emerging growth company," we may take advantage incur a risk of certain exemptions liability arising from various reporting requirements that are applicable workplace events, including claims of physical injury, discrimination, harassment or failure to protect confidential personal information. Other inherent risks include possible claims of errors and omissions; intentional misconduct; release, misuse or misappropriation of client intellectual property; employment of undocumented immigrants; criminal activity; torts; or other claims public companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. We cannot predict if investors will find our common stock less attractive because we rely on some or all of these These claims exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. In addition, Section 107 of the JOBS Act also provides that an "emerging growth company" can carry significant take advantage of the extended transition period provided in Section 7 (a) (2) (B) of the Securities Act of 1933, as amended (the "Securities Act") for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We will take advantage of the extended transition period for complying with new or revised accounting standards, which may make it more difficult for investors and securities analysts to evaluate us since our financial penalties statements may not be comparable to companies that comply with public company effective dates, which may result in less investor confidence. We are also a "smaller reporting company" and damages, as a result of the reduced disclosure and governance requirements applicable to such companies, our common stock may be less attractive to investors. We are a smaller reporting company, (i. e. a company with less than \$ 250 million of public float) and we are eligible to take advantage of certain exemptions from various reporting requirements applicable to other public companies. We have elected not experienced significant claims for damages or losses to adopt date arising from the actions of WSEs. However, there is a risk that we will be subject to such claims in the future and may be held liable even if our contribution to the injury is minimal or absent. We may also be required to indemnify our clients against claims brought against them by or against WSEs. Even if we are successful in defending against these reduced disclosure claims, the costs of mounting our defense might be significant and damaging to us. We may incur reputational costs and / or be subject to investigations by public agencies, which could result in associated negative publicity. We may also lose clients as a result of claims against us. 48 Some states require licensure or registration of businesses offering PEO services. While some elements of our service offering overlap with PEO services, we believe that our human capital platform is more in line with a traditional staffing model. However, if we need and are unable to secure registration or licensure of such service offerings in a particular state, our ability to grow that segment of our business in such state would be impaired and could affect our ability to increase our revenues and meet certain customer requirements in such states. We cannot predict if investors will find our common stock less attractive as a result of our taking advantage of these exemptions. If some investors find our common stock less attractive as a result of our choices, there may be a less active trading market for our common stock and our stock price may be more volatile. General 49 General Risk Factors Third parties may claim we infringe their intellectual property rights. From time to time, others claim we infringe their intellectual property rights. The number of these claims may grow because of constant technological change in the markets in which we compete, the extensive patent coverage of existing technologies and the rapid rate of issuance of new patents. To resolve these claims, we may enter into royalty and licensing agreements on terms that are less favorable than currently available, stop selling or redesign affected products or services, or pay damages to satisfy indemnification commitments to our customers. These outcomes may cause operating margins to decline. Besides money damages, equitable relief is available in some jurisdictions that, if granted, could limit or eliminate our ability to import, market, or sell our products or services that contain infringing technologies. Our 50 Our business depends on our ability to attract and retain talented employees. Our business is based on successfully attracting and retaining talented employees. The market for highly skilled workers and leaders in our industry is extremely competitive. If we are less successful in our recruiting efforts, or if we cannot retain key employees, our ability to develop and deliver services successfully may be adversely affected. If we cannot hire additional qualified personnel, we may continue to have internal control weaknesses. Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution. How employment-related laws are interpreted and applied to our workforce practices may result in increased operating costs and less flexibility in how we meet our workforce needs. Catastrophic events or geopolitical conditions may disrupt our business. Monetary and fiscal policies and political and economic conditions may substantially change. When there is a slowdown in the economy, employment levels may decrease with a corresponding impact on our

businesses. Clients may react to worsening conditions by reducing their spending on payroll and other outsourcing services or renegotiating their contracts with us. Worsening economic conditions, including inflation, recession, or other changes in economic conditions, may cause businesses to rely less on vendors in our business, which could adversely affect our revenue. If demand for our services declines, or business spending for such services declines, our revenue will be adversely affected. Challenging economic conditions also may impair the ability of our customers to pay for products and services they have purchased. As a result, allowances for doubtful accounts and write-offs of accounts receivable may increase. We are dependent upon various large banks to execute Automated Clearing House and wire transfers as part of our client payroll and tax services. A systemic shutdown of the banking industry would impede our ability to process funds on behalf of our payroll and tax services clients and could have an adverse impact on our financial results and liquidity. A disruption or failure of our systems or operations because of a major earthquake, weather event, cyber-attack, terrorist attack, fire, pandemic, (including the COVID-19 pandemic), or other catastrophic event could cause delays in completing sales, providing services, or performing other critical functions. A significant portion of our research and development activities and certain other essential business operations are located in the Irvine, California area, which is a seismically active region, and the Miami, Florida area, which is subject to extreme seasonal weather events such as hurricanes and flooding. A catastrophic event that results in the destruction or disruption of any of our critical business or IT systems could harm our ability to conduct normal business operations. California has also experienced destructive fires recently. As a result of these fires, power and utilities are occasionally shut off to parts of the state. A fire or risk of fire may result in damage to our facilities, the temporary or permanent shut down of our or our clients' facilities, disruption to our power supply or utilities, or other disruptions that may harm our ability to conduct business. Abrupt political change and terrorist activity may pose threats to our business and increase our operating costs. These conditions also may add uncertainty to the timing and budget for technology investment decisions by our customers and may cause supply chain disruptions for hardware manufacturers. Geopolitical change may result in changing regulatory requirements that could impact our operating strategies, hiring, and profitability. ~~Changes 51~~Changes in tax laws or regulations that are applied adversely to us or our customers may have a material adverse effect on our business, cash flow, financial condition, or results of operations. In response to the COVID-19 pandemic, the CARES Act was signed into law in March 2020. The CARES Act modifies certain of the changes made by the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). Changes in corporate tax rates, the realization of net deferred tax assets relating to our U. S. operations, and the deductibility of expenses under the Tax Act, as amended by the CARES Act, or future tax reform legislation could have a material impact on the value of our deferred tax assets, could result in significant one-time charges in the current or future taxable years, and could increase our future U. S. tax expense. The foregoing items, as well as any other future changes in tax laws, could have a material adverse effect on our business, cash flow, financial condition, or results of operations. In addition, it is uncertain if and to what extent various states will conform to the Tax Act, as amended by the CARES Act, or any newly enacted federal tax legislation.