

REFINITIV

# DELTA REPORT

## 10-K

PMD - PSYCHEMEDICS CORP

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS	3576
CHANGES	154
DELETIONS	1813
ADDITIONS	1609

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended **December 31, 2022** December 31, 2023

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-13738

PSYCHEMEDICS CORPORATION  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

58-1701987  
(I.R.S. Employer  
Identification No.)

**289 Great 5220 Spring Valley Road**  
**Acton, Massachusetts**  
**Dallas, Texas**  
(Address of Principal Executive Offices)

**01720 75254**  
(Zip Code)

Registrant's Telephone Number Including Area Code: **(978) 206-8220 (800) 527-7424**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock. \$0.005 par value	PMD	The Nasdaq Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by a check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Exchange Act of 1934). Yes ☐ No ☒

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934). Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See definitions of "accelerated filer", "large accelerated filer", "non-accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-Accelerated Filer ☒

Smaller Reporting Company ☒

Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities and Exchange Act of 1934). Yes ☐ No ☒

As of June 30, 2022 June 30, 2023, there were 5,626,196 5,742,761 shares of Common Stock of the Registrant outstanding. The aggregate market value of the Common Stock of the Registrant held by non-affiliates (assuming for these purposes, but not conceding, that all executive officers, directors and 5% shareholders are "affiliates" of the Registrant) as of June 30, 2022 June 30, 2023, was \$26.9 million \$22.1 million, computed based upon the closing price of \$6.34 \$4.56 per share on June 30, 2022 June 30, 2023

As of March 15, 2023 March 25, 2024, there were 5,684,647 5,805,611 shares of Common Stock of the Registrant outstanding.

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Business," "Risk Factors," "Legal Proceedings," "Market for Registrant's Common Stock and Related Stockholder Matters" and "Management Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report on Form 10-K (this "Form 10-K") constitute forward-looking statements under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements made with respect to future earnings, earnings per share, revenues, operating income, cash flows, competitive and strategic initiatives, potential stock repurchases, liquidity needs, cash dividends, future business, growth opportunities, profitability, pricing, new accounts, customer base, market share, test volume, sales volume, sales and marketing strategies, U.S. and foreign drug testing laws and regulations and the enforcement of such laws and regulations, required investments in plant, equipment and people, new test development, and contingencies, including litigation results. These statements involve known and unknown risks, uncertainties and other factors that may cause results, levels of activity, growth, performance, earnings per share or achievements to be materially different from any future results, levels of activity, growth, performance, earnings per share or achievements expressed or implied by such forward-looking statements.

The forward-looking statements included in this Form 10-K and referred to elsewhere are related to future events or our strategies or future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "believe," "anticipate," "future," "potential," "estimate," "encourage," "opportunity," "growth," "leader," "could," "expect," "intend," "plan," "expand," "focus," "through," "strategy," "provide," "offer," "allow," "commitment," "implement," "result," "increase," "establish," "perform," "make," "continue," "can," "ongoing," "include" or the negative of such terms or comparable terminology. All forward-looking statements included in this Form 10-K are based on information available to us as of the filing date of this report, and the Company assumes we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from the forward-looking statements.

Factors that may cause such differences include but are not limited to: (1) intense competition in the drug testing industry, particularly among companies that test utilizing hair samples; (2) risks associated with the development of markets for new products and services offered; (3) pricing policies; (4) risks associated with capacity expansion; (5) risks associated with U.S. government regulations, including, but not limited to, Food and Drug Administration (the "FDA") regulations, (6) risks associated with denial, suspension, or revocation of certifications or other licenses for any of our clinical laboratories; (7) Psychomedics' our ability to maintain its our reputation and brand image; (8) the our ability of Psychomedics to achieve its our business plans, productivity improvements, cost controls, leveraging of its our global operating platform, and acceleration of the rate of innovation;

(9) the direct and indirect impact of the COVID-19 pandemic on our business and operations; (10) information technology system failures and data security breaches; (11) (10) the uncertain global economy; (12) (11) our ability to attract, develop and retain executives and other qualified employees and independent contractors, including distributors; (13) Psychemedics' (12) our ability to obtain and protect the intellectual property rights; (14) used by us; (13) litigation risks; and (15) (14) changes in economic conditions which affect demand for our products and services.

Additional important factors that could cause actual results to differ materially from expectations reflected in our forward-looking statements include those described in Item 1A, "Risk Factors."

Except as otherwise indicated herein or as the context otherwise requires, references in this Annual Report to "Psychemedics," the "Company," "we," "us," "our" and similar references refer to Psychemedics Corporation and, where appropriate, our consolidated subsidiaries.

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PSYCHEMEDICS CORPORATION

FORM 10-K

ANNUAL REPORT

For the Year Ended December 31, 2022

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FORM 10-K

ANNUAL REPORT

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## PART I

## PART I

### Available Information

Psychemedics Corporation (together with its wholly-owned subsidiaries, the “Company” or “Psychemedics”) maintains its principal executive office at 289 Great 5220 Spring Valley Road, Acton, MA 01720, Dallas, TX 75254. Our telephone number is (978) 206-8220 and (800) 527-7424 and internet address is [www.psychemedics.com](http://www.psychemedics.com). Our stock is traded on the NASDAQ Stock Market under the symbol “PMD”. The Company makes We make available, free of charge, on the Investor Information section of its our website, its our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K from time to time, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (the “SEC”). Copies are also available, without charge, from Psychemedics Corporation, Attn: Investor Relations, 289 Great 5220 Spring Valley Road Acton, MA 01720, Suite 230, Dallas, TX 75254. Alternatively, reports filed with the SEC may be viewed or obtained at the SEC Public Reference Room in Washington, D.C., or from the SEC on its our website at [www.sec.gov](http://www.sec.gov). We do not intend for information contained in our website to be part of this Annual Report on Form 10-K.

### Item 1. Business

#### General

Psychemedics Corporation is a Delaware corporation organized on September 24, 1986. The Our consolidated financial statements of the Company include the accounts and results of operations of Psychemedics Corporation and its wholly-owned subsidiary, Psychemedics International, LLC and their jointly-owned subsidiary, Psychemedics Laboratórios Ltd. All significant inter-company balances and transactions have been eliminated in consolidation. All the Company's of our physical assets are located within the United States. The Company provides We provide testing services for the detection of drugs of abuse and other health markers through the analysis of hair samples. The Company's Our testing methods utilize a patented technology that digests the hair and releases drugs and substances trapped in the hair without destroying the drugs. This is fundamental to the entire process because the patented method gets virtually 100% of the drug out of the hair, and if you cannot get hair. Extracting the drug out of the hair, you cannot measure is an essential prerequisite to measuring it. The Company We then performs perform a proprietary custom-designed patented (US 10,539,580) enzyme immunoassay (“EIA”) on the liquid supernatant, with confirmation testing by mass spectrometry.

The Company's Our primary application of its our patented technology is as a testing service that analyzes hair samples for the presence of certain drugs of abuse. The Company's Our customized proprietary EIA procedures to drug test hair samples differ from the more commonly used immunoassay procedures employed by other hair testing companies. The Company's Our testing results provide quantitative information that can indicate the approximate amount of drug ingested as well as historical data, which can show a pattern of individual drug use over a longer period of time, thereby providing superior detection compared to other types of drug testing. This information is useful to employers for both applicant and employee testing, as well as treatment professionals, law enforcement agencies, school administrators, and parents concerned about their children's drug use. The Company provides We provide screening and confirmation by mass spectrometry using industry-accepted practices for cocaine, marijuana, PCP, amphetamines (including ecstasy, eve and Adderall®), opiates opioids (including heroin, 6-acetylmorphine (heroin metabolite), morphine, hydrocodone, hydromorphone, oxycodone, oxymorphone and codeine), synthetic cannabinoids (including (aka K2, Spice, Blaze), benzodiazepines (Xanax®, Valium®, and Ativan®), nicotine, Fentanyl, fentanyl and fentanyl analogs , and alcohol.

Hair drug testing services are currently performed at the Company's our Culver City, California campus facilities located at 5832 Uplander Way and 5750 Hannum Avenue.

#### Background on Drug Testing with Hair

When certain chemical substances enter the bloodstream, the blood carries these substances to the hair where they become “entrapped” in the protein matrix in amounts approximately proportional to the amount ingested. The Company utilizes We utilize a patented drug extraction method followed by a unique patented EIA procedure to identify

drugs in the hair. The patented drug extraction method effectively releases drugs from the hair without destroying the drugs, getting virtually 100% of the drug out of the hair. The patented method can be used with a broad range of immunoassay screen **techniques and mass spectrometry methods, techniques.**

The immunoassays **used by the Company we use** have been patented under the name "Solid Phase Multi-Analyte Assay." The immunoassays produced by **the Psychemedics R&D our research and development** team were uniquely designed specifically to meet and even exceed the standards of radioimmunoassay ("RIAH"), the original testing method created and utilized by **the Company us** prior to 2013. Because Psychemedics is the only hair testing laboratory that manufactures **its our** own screening assays, **it has we have** full control over all aspects of **its our** technology, and that **powerful** advantage facilitated **the Company's our** creation of **its our** EIA assays with equivalence to **its our** own previously FDA-cleared radioimmunoassays.

The EIA screened positive results are then confirmed by mass spectrometry. Depending upon the length of hair, **the Company is we are** able to provide historical information on drug use by the person from whom the sample was obtained. Because head hair grows approximately 1.3 centimeters per month, a 3.9-centimeter head hair sample can reflect drug ingestion over the approximate three months prior to the collection of the sample. Another option is sectional analysis of the head hair sample, in which the hair is sectioned into lengths which approximately correspond to certain time periods, thereby providing information on patterns of drug use.

### Validation of **the Company's Our** Proprietary Testing Methods

The process of analyzing human hair for the presence of drugs has been the subject of numerous peer-reviewed, scientific field studies. Many of the studies have been funded by the National Institute of Justice or the National Institute on Drug Abuse ("NIDA"). Several hundred research articles written by independent researchers have been published supporting the general validity and usefulness of hair analysis.

Some of **the Company's our** customers have also completed their own testing to validate **the Company's our** hair test results compared to other companies' urine test results. These studies consistently confirmed **the Company's our** superior detection rate compared to urinalysis testing. When results from **the Company's our** hair testing methods were compared to urine results in side-by-side evaluations, 5 to 10 times as many drug abusers were accurately identified by **the Company's our** proprietary methods.

In 1998, the National Institute of Justice, utilizing Psychemedics' previously utilized RIAH hair testing assay, completed a Pennsylvania Prison study where hair analysis revealed an average prison drug use level of approximately 7.9% in 1996. Comparatively, urinalysis revealed virtually no positives. After measures to curtail drug use were instituted (drug-sniffing dogs, searches and scanners), the usage level fell to approximately 2% according to the results of hair analysis in 1998. Again, the urine tests showed virtually no positives. The study illustrates the usefulness of hair analysis to monitor populations and the weakness of urinalysis.

**The Company has We have** received 510k clearance from the FDA on nine EIA assays used to test head and body hair for drugs of abuse.

**The Company's Our** decontamination wash protocol and the effects in eliminating surface contamination were analyzed in a study conducted by scientists at the Laboratory of the Federal Bureau of Investigation (the "FBI") and published in August 2014 in the Journal of Analytical Toxicology. The FBI concluded that the use of an extended wash protocol of the type used by **the Company we** will exclude false positive results from environmental contact with cocaine. In the study, the FBI cited Psychemedics' studies published in 1993, 2002, 2004, and 2005, and named our **former** Vice President of Laboratory Operations, and our laboratory, in **its our** acknowledgments. The FBI study also supported the use of metabolites known as hydroxycocaines as evidence of ingestion. These metabolites were first identified in hair by Psychemedics.

### Advantages of Using **the Company's Our's** Patented Method

**The Company asserts We assert** that hair testing using **its our** patented method confers substantive advantages over detection through urinalysis. Although urinalysis testing can provide accurate drug use information, the scope of the information is short-term and is generally limited to the type of drug ingested within a few days of the test. Studies published in many scientific publications have indicated that most drugs disappear from urine within a few days.

In contrast to urinalysis testing, hair testing using **the Company's our** patented method can provide long-term historical drug use information resulting in a significantly wider window of detection. This window may be several months or longer depending on the length of the hair sample. **The Company's Our** standard test offering, however, uses a 3.9-centimeter length head hair sample cut close to the scalp, which measures use for approximately three months prior to collection of the sample.

This wider window enhances the detection efficiency of hair analysis, making it particularly useful in pre-employment and random testing. Hair testing not only identifies more drug users, but it may also uncover patterns and severity of drug use (information most helpful in determining the scope of an individual's involvement with drugs), while serving as a deterrent against drug use. Hair testing employing **the Company's our** patented method greatly reduces the incidence of "false negatives" associated with evasive measures typically encountered with urinalysis testing. For example, urinalysis test results are adversely impacted by excessive fluid intake prior to testing and by adulteration or substitution of the urine sample. Moreover, a drug user who abstains from use for a few days prior to urinalysis testing can usually escape detection. Hair testing is effectively free of these problems, as it cannot be thwarted by evasive measures typically encountered with urinalysis testing. Hair testing is also attractive to customers since sample collection is typically performed under close supervision yet is less intrusive and less embarrassing for test subjects.

Hair testing using the Company's our patented method, along with mass spectrometry confirmation, further reduces the prospects of error in conducting drug detection tests. Urinalysis testing is more susceptible to problems such as "evidentiary false positives" resulting from passive drug exposure or poppy seeds. To combat this problem, in federally mandated testing, the opiate cutoff levels for urine testing were raised 667% (from 300 to 2,000 ng/ml) on December 1, 1998, and testing for the presence of a heroin metabolite, 6-MAM, was required. These requirements, however, effectively reduced the detection time frame for confirmed heroin use, such that 6-MAM in urine can typically only be detected for several hours post drug use. In contrast, the metabolite 6-MAM is stable in hair and can be detected for months.

In the event a positive urinalysis test result is challenged, a test on a newly collected urine sample is not a viable remedy. Unless the forewarned individual continues to use drugs prior to the date of the newly collected sample, a re-test may yield a negative result when using urinalysis testing because of temporary abstinence. In contrast, when the Company's our hair testing method is offered on a repeat hair sample, the individual suspected of drug use cannot as easily affect the results because historical drug use data remains locked in the hair fiber.

When compared to other hair testing methods, not only are the Company's our assays cleared by the FDA for head and body hair, the assays also employ a unique patented method of digesting hair that the Company believes we believe allows for the most efficient release of drugs from the hair without destroying the drugs. The Company's Our method of releasing drugs from hair is a key advantage and results in superior detection rates.

#### Disadvantages of Hair Testing

There are some disadvantages of hair testing as compared to drug detection through urinalysis. Because hair starts growing below the skin surface, drug ingestion evidence does not appear in hair above the scalp until approximately five to seven days after use. Thus, hair testing is not suitable for determining drug presence in "for cause" testing as is done in connection with an accident investigation. It does, however, provide a drug history which can complement urinalysis information in "for cause" testing.

The Company's Our prices for its our tests are generally slightly higher than prices for tests using urinalysis, but the Company believes that its we believe our superior detection rates provide more value to the customer. This higher pricing policy could, however, adversely impact the affect growth of the Company's current base business and failure to obtain new business customers. our revenues.

#### Hair Alcohol Testing

In 2013, the Company we launched a test for alcohol using hair. This test measures average alcohol consumption over a period of approximately three months, indicates the approximate level of alcohol use during that time period, and can provide a behavioral indication of excessive use. The test measures the amount of ethyl glucuronide (EtG) in the hair – a trace metabolite of ethanol and a direct alcohol biomarker.

#### Intellectual Property

Certain aspects of the hair analysis method we currently used by the Company use are covered by US and foreign patents owned by the Company. The Company has we own. We have been granted a total of twelve US patents, including a patent issued to the Company us in 2011 that focuses on digesting hair and releasing drugs trapped in the hair without destroying the drugs. This patent can be used with a broad range of immunoassay screen techniques, mass spectrometry methods, and chromatographic procedures. In 2012, the Company we received an additional US patent that extended the range of the hair digest patent received in 2011. Two US patents related to integrity testing of hair samples were issued in 2015 and 2016, and a US patent application directed to detection of multiple analytes was allowed. Additional patent applications are currently pending in the U.S. and internationally. 2016. In 2019, US Patent 10,539,580 was issued covering our Solid Phase Multi-Analyte Assay used in all our FDA cleared EIA FDA submissions. submissions, and additional patent applications are currently pending in the U.S. and internationally.

The Company We also relies rely on trade secrets to protect certain aspects of its our proprietary technology. The Company's Our ability to protect the confidentiality of its our trade secrets is dependent upon the Company's our internal safeguards and upon the laws protecting trade secrets and unfair competition.

In the event that patent protection or protection under the laws of trade secrets is not sufficient and the Company's our competitors succeed in duplicating the Company's our products, the Company's our business could be materially adversely affected.

#### Target Markets

#### Workplace

The Company focuses its We focus our primary marketing efforts on the domestic private sector, with particular emphasis on job applicants and employee testing.

Most Drug testing is a widespread practice among businesses use drug testing to screen job applicants and employees. The Hazeldon Foundation A survey from 2007 indicated that 85% of conducted by the Society for Human Resource ("HR") Management (SHRM) found that 79% of HR professionals believe that consider drug testing is to be an effective way to identify substance abuse.

The prevalence of drug screening programs reflects a highlights the concern that about the impact of drug use contributes to on employee health problems and company costs. As According to a report by the same study found that 62% of HR professionals believe that absenteeism is the most significant problem caused by Substance Abuse and Mental Health Services Administration (SAMHSA), substance abuse and addiction, followed at 49% by in the workplace can lead to various problems, including absenteeism, reduced productivity, a lack accidents, and injuries.

The financial implications of trustworthiness at 39%, a negative impact on substance abuse for American businesses are significant. A study published by the company's external image at 32%, missed deadlines at 31%, and in certain industries, safety hazards. It has been National Safety Council estimated that substance abuse costs to American businesses is in the United States more than \$100 billion annually, \$80 billion annually in lost productivity and healthcare expenses.

The principal criticism of employee drug testing programs centers on the effectiveness of the testing program. Most private sector testing programs use urinalysis. Such programs are susceptible to evasive maneuvers and the inability to obtain confirmation through repeat samples in the event of a challenged result. An industry has developed over the Internet, and through direct mail, marketing a wide variety of adulterants, dilutants, clean urine and devices to assist drug users in falsifying urine test results.

Moreover, scheduled tests such as pre-employment testing and some random testing programs provide an opportunity for many drug users to simply abstain for a few days in order to escape detection by urinalysis.

The Company presents its We present our patented hair analysis method to potential clients as a better technology well suited to employer needs. Field studies and actual client results support the accuracy and superior effectiveness of the Company's our patented technology and its our ability to detect varying levels of drug use.

The Company performs We perform a confirmation test of all screened positive results through mass spectrometry. The use of mass spectrometry is an industry accepted practice used to confirm a positive test result from the screening process. The Company offers its We offer our clients an expanded drug screen with mass spectrometry confirmation of cocaine, PCP, marijuana, amphetamines, alcohol, opiates, synthetic cannabinoids and benzodiazepines.

## Schools

The Company currently serves We presently serve hundreds of schools throughout the United States and in several foreign countries. The Company offers its We offer our school clients the same five-drug screen with mass spectrometry confirmation that is used with the Company's our workplace testing service.

## Parents

The Company We also offers offer a personal drug testing service, known as "PDT-90"®, for parents concerned about drug use by their children. It allows parents to collect a small sample of hair from their child in the privacy of the home, send it directly to the Company's our laboratory and have it tested for drugs of abuse by the Company, us. The PDT-90 testing service uses the same patented method that is used with the Company's our workplace testing services.

## Research

The Company is involved in the following ongoing studies involving use of drugs of abuse in various populations: In 2017, the Company partnered with an NIH-funded study titled "Adolescent Brain Cognitive Development" ("ABCD") which expects to enroll 12,000 youths age 9-10 over a 2-2.5 year recruitment period. The objective of the ABCD consortium is to establish a national, multisite, longitudinal cohort and database by studying youth prospectively in order to examine brain and cognitive development in children and adolescents through a period (10 years) when significant development of intellectual and emotional functions occurs. Psychomedics' role in this study is to test hair to detect use of drugs over the time period. The Company is also partnering with Olin Neuropsychiatry Research Center Institute of Living Hartford Hospital in a research study entitled, "Neurochemical and Functional Correlates of Memory in Emerging Adult Marijuana Users." The study is aiming to better characterize the impact of heavy marijuana use on memory and is funded by a grant from NIDA.

## Geographic Scope

Revenues outside the United States were 4% and 3%, 5%, and 9% of consolidated revenues for years ended, 2022, 2021 2023 and 2020, 2022, respectively.

## Distribution

The Company markets its We market our corporate drug testing services through its our own sales force, distributors partners, and webinars. The Company markets its distributors. We market our home drug testing service, PDT-90®, direct-to-consumer through the Internet.

## Significant Customers and Concentration of Credit Risk

The Company We had no customers that represented 10% or more of total revenue for the years ended December 31, 2022, December 31, 2023 and 2022, respectively. We had two customers that represented 13% and 11% as of December 31, 2023, 2021 and 2020, respectively. The Company had one customer that represented 11% and 12% of the total accounts receivable balance as of December 31, 2022 and 2021, respectively.

The Company maintains its We maintain our cash in a bank account at one of the largest financial institutions in the U.S. The individual balance, at times, may exceed federally insured limits. These deposits may be redeemed upon demand, and the Company believes we believe that the financial institution that holds the Company's our cash is financially sound and, accordingly, minimal credit risk exists with respect to cash.

#### Competition

The Company competes We compete directly with numerous commercial laboratories that test for drugs primarily through urinalysis testing. Most of these laboratories, such as Quest Diagnostics, have substantially greater financial resources, market identity, drug testing market share, marketing organizations, facilities, and more personnel than the Company. Psychemedics has we do. Nevertheless, we have developed a strong base of corporate customers and believes believe that future success with new business customers is dependent on the Company's our ability to communicate the advantages of implementing a drug program utilizing the Company's our patented hair analysis method.

#### The Company's

Our ability to compete is also a function of pricing. The Company's Our prices for its our tests are generally slightly higher than prices for tests using urinalysis. However, the Company believes we believe that its our superior detection rates, coupled with the customer's ability to test less frequently due to hair testing's wider window of detection (three months versus approximately three days with urinalysis), provide more value to the customer. This pricing policy could, however, lead to slower volume growth for the Company. us.

The Company We also competes compete with other hair testing laboratories. The Company distinguishes itself We distinguish ourselves from hair testing competitors by emphasizing the superior results the Company obtains we obtain through use of its our unique patented extraction method in combination with the Company's our FDA cleared immunoassay screen.

#### Government Regulation

The Company is We are licensed as a clinical laboratory by the State of California as well as certain other states. All tests are performed according to the laboratory standards established by the Department of Health and Human Services, through the Clinical Laboratories Improvement Amendments, and various state licensing statutes.

A substantial number of states regulate drug testing. The scope and nature of such regulations varies greatly from state to state and is subject to change from time to time. The Company addresses We address state law issues on an ongoing basis.

The Federal Food, Drug and Cosmetic Act, as amended, requires companies engaged in the business of testing for drugs of abuse using a test (screening assay) not previously recognized by the FDA to submit their assay to the FDA for recognition prior to marketing. In addition, the laboratory performing the tests is required to be certified by a recognized agency. In 2002, the Company we received 510k clearance to market all five of its our assays utilizing RIAH technology.

In 2008, the Company we received the first College of American Pathologists certification specifically including hair testing.

In 2011, the Company we received ISO/IEC 17025 International Accreditation for a broad spectrum of laboratory testing including drugs of abuse and forensics in hair and urine specimens. ISO/IEC 17025 accreditation provides formal recognition to laboratories that demonstrate technical competency and maintains this recognition through periodic evaluations to ensure continued compliance.

In 2012, the Company we received 510k clearance from the FDA to market five of its our assays utilizing the Company's our custom developed EIA technology.

In 2013, the Company we received 510k clearance from the FDA to market two additional assays utilizing the Company's our custom developed EIA technology.

In 2016, the Company we received accreditation from the Standards Council of Canada as an accredited testing laboratory.

In 2017, the Company we received 510k clearance from the FDA to market one additional assay utilizing the Company's our custom developed EIA technology.

In 2019, the Company we received 510k clearance from the FDA to market one additional assay utilizing the Company's our custom developed EIA technology.

In 2020, we received 510k clearance from the FDA to market one additional assay utilizing our custom developed EIA technology.

In 2021, we received 510k clearance from the FDA to market four additional assays utilizing our custom developed HEIA technology.

In 2022, we received 510k clearance from the FDA to market one additional assay utilizing our custom developed HEIA technology.

In 2023, we completed the addition of fentanyl analogs to our confirmation process and the addition of Delta-8 cTHC to our confirmation process.

## Research and Development

The Company is We are continuously engaged in research and development activities. During the years ended December 31, 2022, 2021 December 31, 2023 and 2020, \$1.3 million, 2022, we expended \$1.1 million and \$1.3 million, respectively, were expended for research and development. The Company continues We continue to perform research activities to develop new products and services and to improve existing products and services utilizing the Company's our proprietary technology. The Company We also continues continue to evaluate methodologies to enhance its our drug screening capabilities. Additional research using the Company's our proprietary technology is being conducted by outside research organizations through government-funded studies.

## Employees

As of December 31, 2022 December 31, 2023, the Company we employed 133 116 employees, 3 three of whom were in R&D. None of the Company's our employees are is subject to a collective bargaining agreement and the Company believes we believe that overall relations with employees are good.

## Item 1A. Risk Factors

In addition to other information contained in this Form 10-K, the following risk factors should be carefully considered in evaluating Psychemedics Corporation and its our business because such factors could have a significant impact on our business, operating results, and financial condition. Additional risks not presently known to the Company, us, or that it we presently deems deem immaterial, may also negatively impact the Company, us. These risk factors could cause actual results to differ materially differ from those projected in any forward-looking statements.

### Risks Related to Our Business and Operations

**The ongoing COVID-19 pandemic may continue to adversely affect our business, results of operation and financial condition.**

The Company is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business. Fluctuations in the number of COVID-19 cases may have a negative effect on the Company's business and financial performance. Given the continued unpredictability pertaining to the COVID-19 pandemic, the impact on the Company's business continues to be uncertain and depends on a number of evolving factors that the Company may not be able to predict or effectively respond to. These factors include: the timing, extent, trajectory, and duration of any pandemic; increases in COVID-19 infection rates and the geographic location of such increases; the development, availability, distribution and effectiveness of vaccines and treatments; the imposition of protective public safety measures; and the impact of any pandemic on supply chain and the global economy. To the extent the COVID-19 pandemic or any future pandemic adversely affects our business, results of operations and financial condition, it may also have the effect of heightening other risks.

The Company incurred additional costs to implement operational changes in response to this pandemic. The COVID-19 pandemic disrupted, and along with other economic factors, a resurgence in COVID-19 could continue to disrupt, the Company's supply chain, including its ability to secure test collection and testing supplies and equipment and personal protective equipment for its employees.

**Companies may develop products that compete with our products and some of these companies may be larger and better capitalized than we are.**

Many of our competitors and potential competitors are larger and have greater financial resources than we do and offer a range of products broader than our products. Some of the companies with which we now compete or may compete in the future may develop more extensive research and marketing capabilities and greater technical and personnel resources than we do and may become better positioned to compete in an evolving industry. Inability to compete successfully could harm our business and prospects.

**Increased competition, including price competition, could have a material impact on the Company's our net revenues and profitability.**

Our business is intensely competitive, both in terms of price and service. Pricing of drug testing services is a significant factor often considered by customers in selecting a drug testing laboratory. Larger clinical laboratory providers can increase cost efficiencies afforded by large-scale automated testing. This results in greater price competition. The Company We may be unable to increase cost efficiencies sufficiently, if at all, and as a result, its our net earnings and operating cash flows could be negatively impacted by such price competition. The Company We may also face increased competition from companies that do not comply with existing laws or regulations or otherwise disregard compliance standards in the industry. Additional competition, including price competition, could have a material adverse impact on the Company's our net revenues and profitability.

**Inflationary pressures on the costs of direct materials, supplies, and personnel expenses could have a material impact on the Company's our gross profit and profitability.**

Inflationary pressures have resulted in increases in the costs of shipping charges, supplies, and other services that we purchase from vendors, suppliers, and others. Inflationary pressures, along with the competition for labor, have also resulted in an increase **of in** our labor costs, which include the costs of compensation, benefits, and other employee-related expenses. Continuation of the current inflationary environment may adversely impact **the Company, us**.

***Our results of operations are subject in part to variation in our customers' hiring practices and other factors beyond our control.***

Our results of operations have been and may continue to be subject to variation in our customers' hiring practices and job creation, which in turn is dependent, to a large extent, on the general condition of the economy, especially within our major market segments. Results for a particular quarter may vary due to several factors, including but not limited to:

- economic conditions in our markets in general;
- economic **and labor scarcity** conditions affecting our customers and their particular industries;
- the introduction of new products and product enhancements by us or our competitors; and
- pricing and other competitive conditions.

***A failure to obtain and retain new customers, or a loss of existing customers, or a reduction in tests ordered, could impact **the Company's our** ability to successfully grow **its our** business.***

**The Company needs** Our revenues in fiscal 2023 decreased compared to **obtain** our revenues in fiscal year 2022. It is uncertain whether we can identify, win, and retain new customers. In addition, **a customers sufficient to resume revenue growth. A** reduction in tests ordered, without offsetting growth in **its our** customer base, could impact **the Company's our** ability to successfully grow **its our** business and could have a material adverse impact on **the Company's our** net revenues and profitability. We compete primarily based on the quality of testing, timeliness of results, reputation in the industry, the pricing of services and ability to employ qualified personnel. **The Company's Our** failure to successfully compete on any of these factors could result in the loss of customers and a reduction in **the Company's our** ability to expand **its our** customer base.

***Our business could be harmed if we are unable to protect our technology.***

We rely primarily on a combination of trade secrets, patents and trademark laws and confidentiality procedures to protect our technology. Despite these precautions, unauthorized third parties may infringe or copy portions of our technology. In addition, because patent applications in the United States are not publicly disclosed until either: (1) 18 months after the application filing date or (2) the publication date of an issued patent wherein applicant(s) seek only US patent protection, applications not yet disclosed may have been filed which relate to our technology. Moreover, there is a risk that foreign intellectual property laws will not protect our intellectual property rights to the same extent as United States intellectual property laws. In the absence of the foregoing protections, we may be vulnerable to competitors who attempt to copy our products, processes or technology.

***Our business could be affected by IT system failures or Cybersecurity breaches.***

A computer or IT system failure could affect our ability to perform tests, report test results or properly bill customers for services performed. Failures could occur as a result of the standardization of our IT systems and other system conversions, telecommunications failures, malicious human acts (such as electronic break-ins or computer viruses) or natural disasters. Sustained system failures or interruption of **the Company's our** systems in one or more of its operations could disrupt **the Company's our** ability to process and provide test results in a timely manner and/or bill the appropriate party. Failure of **the Company's our** information systems could adversely affect **the Company's our** business, profitability and financial condition.

Our technologies, systems and networks may be subject to cybersecurity breaches. Although we have experienced occasional, actual or attempted breaches of our cybersecurity, none of these breaches has had a material effect on our business, operations or reputation. If our systems for protecting against cybersecurity risks prove to be insufficient, we could be adversely affected by having our business systems compromised, our proprietary information altered, lost or stolen, or our business operations disrupted. As cyber-attacks continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information systems and related infrastructure security vulnerabilities.

In addition, certain third parties to whom we outsource our services and functions, or with whom we interface, store our confidential patient data or other confidential information as also subject to the same IT risks. A breach or attack affecting these outsourced third parties could negatively impact our business.

**Failure to maintain confidential information could result in a significant financial impact.**

The Company maintains We maintain confidential information regarding the results of drug tests and other information including credit card and payment information from our customers. The failure to protect this information could result in lawsuits, fines or penalties. Any loss of data or breach of confidentiality, such as through a computer security breach, could expose the Company us to a financial liability.

**Adverse results in material litigation could have an adverse financial impact and an adverse impact on our client base and reputation.**

We are or may in the future become subject to a variety of litigation and legal proceedings relating to, among other things: corporate matters; commercial matters; financial and securities regulations; and employment matters. These proceedings may result in substantial monetary damages. Results of legal and regulatory proceedings cannot be predicted with certainty and for some matters, such as class actions, no insurance is cost-effectively available. Regardless of merit, legal and regulatory proceedings may be both time-consuming and disruptive to our operations and could divert the attention of our management and key personnel from our business operations. We estimate loss contingencies and establish accruals as required by generally accepted accounting principles, based on our assessment of contingencies where liability is deemed probable and reasonably estimable, in light of the facts and circumstances known to us at a particular point in time.

**We are subject to, have been, and could be further subject to, governmental investigations or actions by other third parties.**

We are subject to various federal and state laws, including employment laws and regulations, violations of which can involve civil or criminal sanctions. Responding to governmental investigations or other actions may be both time-consuming and disruptive to our operations and could divert the attention of our management and key personnel from our business operations.

**Our future success will depend on the continued service of our key employees.**

Our people are a critical resource. The loss of any of our key personnel including our Chief Executive Officer, executive team and other highly skilled employees, could harm our business and prospects. business. We may not be able to attract and retain the personnel necessary for the development of our business. We do not have key personnel under contract other than 3 officers who have agreements providing for severance and non-compete covenants in the event of termination of employment following a change of control. Further, we do not have any key man life insurance for any of our officers or other key personnel.

**There is a risk that our insurance will not be sufficient to protect us from errors and omissions liability or other claims, or that in the future errors and omissions insurance will not be available to us at a reasonable cost, if at all.**

Our business involves the risk of claims of errors and omissions and other claims inherent to our business. We maintain errors and omissions and general liability insurance subject to deductibles and exclusions. There is a risk that our insurance will not be sufficient to protect us from all such possible claims. An under-insured or uninsured claim could harm our operating results or financial condition.

**Our research and development capabilities may not produce viable new services or products.**

In order to remain competitive, we need to continually improve our products, develop new technologies to replace older technologies that have either become obsolete or for which patent protection is has expired. It is uncertain whether we will continually be able to develop services that are more efficient, effective or that are suitable for our customers. Our ability to create viable products or services depends on many factors, including the implementation of appropriate technologies, the development of effective new research tools, the complexity of the chemistry and biology, the lack of predictability in the scientific process and the performance and decision-making capabilities of our scientists. There is no guarantee that our research and development teams will be successful in developing improvements to our technology.

**Improved testing technologies, or the Company's our customers using new technologies to perform their own tests, could adversely affect the Company's our business.**

Advances in technology may lead to the development of more cost-effective technologies that can be operated by third parties or customers themselves in their own offices, without requiring the services of a freestanding laboratory. Development of such technology and its use by the Company's our customers could reduce the demand for its our testing services and negatively impact our revenues.

**We may not be able to recruit and retain the experienced scientists and management we need to compete in our industry.**

Our future success depends upon our ability to attract, retain and motivate highly skilled scientists and management. Our ability to achieve our business strategies depends on our ability to hire and retain high caliber scientists and other qualified experts. We compete with other testing companies, research companies and academic and research

institutions to recruit personnel and face significant competition for qualified personnel. We may incur greater costs than anticipated, or may not be successful, in attracting new scientists or management or in retaining or motivating our existing personnel.

Our future success also depends on the personal efforts and abilities of the principal members of our senior management and scientific staff to provide strategic direction, to manage our operations and maintain a cohesive and stable environment.

**Our facilities and practices may fail to comply with government regulations.**

Our testing facilities and processes must be operated in conformity with current government regulations. These requirements include, among other things, quality control, quality assurance and the maintenance of records and documentation. If we fail to comply with these requirements, we may not be able to continue our services to certain customers, or we could be subject to fines and penalties, suspension of production, or withdrawal of our certifications. We operate a facility that we believe conforms to all applicable requirements. This facility and our testing practices are subject to periodic regulatory inspections to ensure compliance.

**Our business could be harmed from the loss or suspension of any licenses.**

The forensic laboratory testing industry is subject to significant regulation and many of these statutes and regulations are subject to change. The Company We cannot assure that applicable statutes and regulations will not be interpreted or applied by a regulatory authority in a manner that would adversely affect its our business. Potential sanctions for violation of these regulations could include the suspension or loss of various licenses, certificates and authorizations, which could have a material adverse effect on the Company's our business. In addition, potential delays in renewals of licenses could also harm the Company. us.

**If our use of chemical and hazardous materials violates applicable laws or regulations or causes personal injury, we may be liable for damages.**

Our drug testing activities, including the analysis and synthesis of chemicals, involve the controlled use of chemicals, including flammable, combustible, and toxic materials that are potentially hazardous. Our use, storage, handling, and disposal of these materials is are subject to federal, state and local laws and regulations, including the Resource Conservation and Recovery Act, the Occupational Safety and Health Act and local fire codes, and regulations promulgated by the Department of Transportation, the Drug Enforcement Agency, the Department of Energy, and the California Department of Public Health and Environment. We may incur significant costs to comply with these laws and regulations in the future. In addition, we cannot completely eliminate the risk of accidental contamination or injury from these materials, which could result in material unanticipated expenses, such as substantial fines or penalties, remediation costs or damages, or the loss of a permit or other authorization to operate or engage in our business. Those expenses could exceed our net worth and limit our ability to raise additional capital.

**Our operations could be interrupted by damage to our laboratory facilities.**

Our operations are dependent upon the continued use of our laboratories and equipment in Culver City, California. Catastrophic events, including earthquakes, fires, or explosions, could damage our laboratories, equipment, scientific data, work in progress or inventories of chemicals and may materially interrupt our business. We employ safety precautions in our laboratory activities in order to reduce the likelihood of the occurrence of certain catastrophic events; however, we cannot eliminate the chance that such events will occur. Rebuilding our facilities could be time consuming time-consuming and result in substantial delays in fulfilling our agreements with our customers. We maintain business interruption insurance to cover continuing expenses and lost revenue caused by such occurrences. However, this insurance does not compensate us for the loss of opportunity and potential harm to customer relations that our inability to meet our customers' needs in a timely manner could create.

**Agreements we have with our employees, consultants and customers may not afford provide adequate protection for our trade secrets, confidential information and other proprietary information.**

In addition to patent protection, we also rely on copyright and trademark protection, trade secrets, know-how, continuing technological innovation and licensing opportunities. In an effort to maintain the confidentiality and ownership of our trade secrets and proprietary information, we require our employees, consultants and advisors to execute confidentiality and proprietary information agreements. However, these agreements may not provide us with adequate protection against improper use or disclosure of confidential information and there may not be adequate remedies in the event of unauthorized use or disclosure. Furthermore, we may from time to time hire scientific personnel formerly employed by other companies involved in one or more areas similar to the activities we conduct. In some situations, our confidentiality and proprietary information agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants or advisors have prior employment or consulting relationships. Although we require our employees and consultants to maintain the confidentiality of all proprietary information of their previous employers, these individuals, or we, may be subject to allegations of trade secret misappropriation or other similar claims as a result of their prior affiliations. Finally, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets. Our failure or inability to protect our proprietary information and techniques may inhibit or limit our ability to compete effectively or exclude certain competitors from the market.

**International trade policies may impact demand for our products and our competitive position.**

Government policies on international trade and investment such as import quotas, capital controls or tariffs, whether adopted by individual governments or addressed by regional trade blocs, can affect the demand for our services, impact the competitive position of our products or prevent us from being able to sell products in certain countries. The implementation of more restrictive trade policies, such as more detailed inspections, higher tariffs or new barriers to entry, could negatively impact our business, results of operations and financial condition. For example, a government's adoption of "buy national" policies or retaliation by another government against such policies could have a negative impact on our results of operations.

**Global operations are subject to extensive trade and anti-corruption laws and regulations.**

The U.S. Foreign Corrupt Practices Act and similar foreign anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to improperly influence foreign government officials for the purpose of obtaining or retaining business or obtaining an unfair advantage. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws. Our operations outside the United States could increase the risk of such violations. Violations of anti-corruption laws or regulations by our employees or by intermediaries acting on our behalf may result in severe criminal or civil sanctions, could disrupt our business, and result in an adverse effect on our business and results of operations or financial condition.

**Our approach to environmental, social, and governance (ESG) matters may not satisfy all our stakeholders.**

We assess opportunities and risks related to environmental, social and governance (ESG) matters. As part of this process, we may make decisions related to ESG matters and may set goals and targets related to ESG matters. We have a broad range of stakeholders, including our stockholders, employees, schools, and communities we serve, some of whom increasingly focus on ESG matters. Certain stakeholders may not be satisfied with our decisions related to ESG matters, the goals we set regarding ESG matters, our progress towards these goals or the resulting outcomes. This could lead to negative perceptions of, or loss of support for our business, difficulty recruiting or attracting new employees and our stock price being negatively impacted.

#### Risks Related to Our Stock

**Our quarterly operating results could fluctuate significantly, which could cause our stock price to decline.**

Our quarterly operating results have fluctuated in the past and are likely to fluctuate in the future. Our results are impacted by the extent to which we **are able to can** gain new customers, competitive pricing, and on the hiring practices of our existing customers, including seasonality. Demand for drug testing can be impacted by changes in government requirements regarding testing for drugs of abuse, delays in implementation of such requirements, as well as general economic conditions. Entering into new customer contracts can involve a long lead time. Accordingly, negotiation can be lengthy and is subject to a number of significant risks, including customers' budgetary constraints and internal reviews. Due to these and other market factors, our operating results could fluctuate significantly from quarter to quarter. In addition, we may experience significant fluctuations in quarterly operating results due to factors such as general and industry-specific economic conditions that may affect the budgets and the hiring practices of our customers.

Due to the possibility of fluctuations in our revenue and expenses, we believe that quarter-to-quarter comparisons of our operating results are not necessarily a good indication of our future performance. Our operating results in some quarters may not meet the expectations of stock market analysts and investors. If we do not meet analysts' or investors' expectations, our stock price could decline.

#### **Payment of a cash dividend could decline or cease.**

**With some interruptions during the COVID pandemic, the Company has historically paid cash dividends. Any cessation of our program or reduction in our cash dividend could affect our stock price. If we cease this practice or reduce the amount of the regular cash dividend, due to operating or economic conditions, our stock price could suffer. Further, if the Company ceases its future cash dividends, a return on investment in our common stock would depend entirely upon future appreciation. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.**

**Our stock price could experience substantial volatility.**

The market price of our common stock has historically experienced and may continue to experience extensive volatility. Our quarterly operating results, the success or failure of future development efforts, changes in general conditions in the economy or the financial markets and other developments affecting our customers, our distributors, our competitors or us could cause the market price of our common stock to fluctuate substantially. This volatility may adversely affect the price of our common stock. In the past, securities class action litigation has often been instituted following periods of volatility in the market price of a company's securities. A securities class action suit against us could result in potential liabilities, substantial costs and the diversion of management's attention and resources, regardless of whether we win or lose.

#### **Item 1B. Unresolved Staff Comments**

Not applicable.

### Item 1C. Cybersecurity

Our business depends on the availability, reliability, and security of our information systems, networks, data, and intellectual property. Any disruption, compromise, or breach of our systems or data due to a cybersecurity attack or incident, such as a data breach, ransomware, malware, phishing, or other form of cybercrime, could adversely affect our operations, customer service, product development, and competitive position. Such incidents may also result in a breach of our contractual obligations or legal duties to protect the privacy and confidentiality of our stakeholders. They could expose us to business interruption, lost revenue, ransom payments, remediation costs, liabilities to affected parties, cybersecurity protection costs, lost assets, litigation, regulatory scrutiny and actions, reputational harm, customer dissatisfaction, harm to our vendor relationships, or loss of market share.

At Psychomedics, the Vice President of Information Technology also serves in a dual capacity as the Chief Information Security Officer (VPIT & CISO) overseeing our information security program. The VPIT & CISO's team is tasked with the development and implementation of cybersecurity strategy, policy, standards, architecture, and processes. Our cybersecurity program is aligned with industry standards and best practices, such as the CIS Critical Security Controls ("CIS 18") Implementation Group 1 ("IG1") guidelines. We maintain an incident response and recovery plan, including measures for responding to and recovering from cybersecurity incidents. To minimize the threat surface, we strategically limit the use of third-party service providers with access to personal, confidential, or proprietary information. Also, we evaluate these providers and take steps to help mitigate risks associated with their use and minimize the potential for supply chain attacks. Employing a risk-based approach, we are committed to continuously reassessing our cybersecurity posture and improving our defenses in response to evolving and emerging threats. While we have not experienced any known material incident in the past year, we acknowledge that we have limited resources dedicated to identifying and mitigating cybersecurity risks and that an information security plan is not infallible.

At least twice each calendar year, the VPIT & CISO will report on the health and status of our information security program to our Board of Directors, or a committee thereof, as well as to our Chief Executive Officer and other members of our senior management as appropriate. These reports typically include a high-level overview of current and emerging cybersecurity risks; an assessment of the organization's overall security posture; incident reports; an update on our compliance with relevant cybersecurity laws, regulations, and standards; an overview of ongoing and planned initiatives to strengthen the organization's cybersecurity defenses; and strategic recommendations.

### Item 2. Properties

The Company maintains its corporate office at 289 Great 5220 Spring Valley Road, Acton, Massachusetts, 01720; Dallas, TX 75254; the office consists of six thousand two hundred square feet and is leased through February 2024, March 2025.

The Company leases two facilities for laboratory testing, customer care, and information technology purposes in Culver City, California. The first is fourteen thousand square feet of space with an additional ten thousand square feet of storage space. This facility is leased through December 2024, 2026. The second facility of sixteen thousand square feet is leased through March 2025.

We lease one other office in Las Vegas, Nevada, with a lease through November 2026.

### Item 3. Legal Proceedings

Information pertaining to legal proceedings can be found in Item 8. Financial Statements and Supplementary Data Note 9 - "Commitments and Contingencies" to the Consolidated Financial Statements included in this Annual Report.

### Item 4. Mine Safety Disclosures

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Company's common stock is traded on the NASDAQ Stock Market under the symbol "PMD". As of March 15, 2023, March 25, 2024, there were 157,146 record holders of the Company's common stock. The number of record owners was determined from the Company's stockholder records maintained by the Company's transfer agent and does not include beneficial owners of the Company's common stock whose shares are held in the names of various security holders, dealers and clearing agencies. The Company believes that the number of beneficial owners of the Company's common stock held by others as or in nominee names exceeds 3,100,300.

The following table sets forth for the periods indicated the range of prices for the Company's common stock as reported by the NASDAQ Stock Market and cash dividends declared by the Company.

	High	Low	Dividends
<b>Fiscal 2022:</b>			
First Quarter	\$ 7.77	\$ 6.25	\$ -
Second Quarter	7.21	6.01	0.07
Third Quarter	6.94	6.05	0.07
Fourth Quarter	6.70	4.85	0.07
<b>Fiscal 2021:</b>			
First Quarter	\$ 7.90	\$ 4.95	\$ -
Second Quarter	8.36	6.20	-
Third Quarter	8.60	8.05	-
Fourth Quarter	8.90	6.76	0.05

The Company most recently declared a cash dividend of \$0.07 per share on March 21, 2023, which will be paid on April 10, 2023.

	High	Low	Dividends
<b>Fiscal 2023:</b>			
First Quarter	\$ 6.75	\$ 4.87	\$ 0.07
Second Quarter	5.63	4.51	0.07
Third Quarter	5.15	3.51	-
Fourth Quarter	3.97	2.06	-
<b>Fiscal 2022:</b>			
First Quarter	\$ 7.77	\$ 6.25	\$ -
Second Quarter	7.21	6.01	0.07
Third Quarter	6.94	6.05	0.07
Fourth Quarter	6.70	4.85	0.07

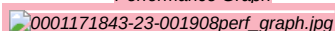
#### Issuer Purchases of Equity Securities

During 2022, the Company 2023, we did not repurchase any common shares for treasury.

#### Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of common stock of the Company during 2022.

#### Performance Graph



Calculated by the Company using www.yahoo.com/finance historical prices.

	2017	2018	2019	2020	2021	2022
PSYCHEMEDICS CORPORATION	100.00	80.54	51.36	32.49	42.12	32.12
Russell 2000 RUSSELL 2000 INDEX	100.00	87.82	108.66	128.61	146.23	114.12
NASDAQ NASDAQ COMPOSITE INDEX	100.00	96.12	129.97	186.69	226.63	151.12

- (1) The above graph assumes a \$100 investment on December 31, 2017, through the end of the 5-year period ended December 31, 2022, in the Company's Common Stock the Russell 2000 Index and the NASDAQ Composite Index. The prices all assume the reinvestment of cash dividends.
- (2) The Russell 2000 Index is composed of the smallest 2,000 companies in the Russell 3,000 Index. The Company has been unable to identify a peer group of companies that engage in testing of drugs of abuse, except for large pharmaceutical companies where such business is insignificant to such companies' other lines of businesses. The Company therefore uses in its proxy statements a peer index based on market capitalization.
- (3) The NASDAQ Composite Index includes companies whose shares are traded on the NASDAQ Stock Market.

#### Item 6. Reserved

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with the more detailed business information and financial statements and related notes that appear elsewhere in this annual report on Form 10-K. This annual report may contain certain "forward-looking" information within the meaning of the Private Securities Litigation Reform Act of 1995. This information involves risks and uncertainties. Actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Item 1A — Risk Factors.

### Overview

Psychemedics Corporation is the world's largest leading provider of hair testing for drugs of abuse, utilizing a patented hair analysis method involving digestion of hair, enzyme immunoassay technology and confirmation by mass spectrometry to analyze human hair to detect abused substances. The Company's Our customers include Fortune 500 companies, as well as small to mid-size corporations, schools, and governmental entities, located in the United States and internationally. During the year ended December 31, 2022 December 31, 2023, the Company's our revenues were \$25.2 million \$22.1 million, an increase a decrease of 1% 12% from \$24.9 million \$25.2 million in 2021. 2022. The increase decrease was primarily due to higher organic growth a decrease in the Company's largest market segment offset by a decline in Brazil revenues, including the Brazil driver license volumes from our business.

Under the provisions of the CARES Act signed into law on March 27, 2020, and the subsequent extension of the CARES Act, the Company was eligible for a refundable employee retention credit subject to certain criteria through the fiscal year ended December 31, 2021. The Company recognized \$2.6 million of employee retention credits during fiscal year 2021 of which \$1.8 million was included in cost of revenues and \$0.8 million in operating expenses in the statement of operations.

As the Company has disclosed previously, most recently in its Quarterly Report on Form 10-Q in the third quarter of 2022, the Company's Board of Directors authorized the Company to explore shareholder enhancement opportunities, including strategic alternatives, such as the potential sale or merger of the Company, capitalization optimization and cash dividend strategies. Management and the Board of Directors are committed to continuing to evaluate all avenues for enhancing shareholder value. There can be no assurances that the shareholder enhancement review process will result in a transaction or other strategic change or outcome. The Company has not set a timetable for the conclusion of its review of strategic alternatives, and it does not intend to comment further unless and until the Board has approved a specific course of action or the Company has otherwise determined that further disclosure is appropriate or required by law. The Company's Board of Directors has designated a subcommittee of the Board to review shareholder enhancement opportunities. The Company has retained investment banking firms and corporate transaction legal advisors in connection with its exploration of shareholder enhancement opportunities.

The following table sets forth, for the periods indicated, the selected statements of operations data as a percentage of total revenue:

	Year Ended December 31,			Year Ended December 31,	
	2022	2021	2020	2023	2022
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	63.2%	58.8%	77.1%	61.9%	63.2%
Gross profit	36.8%	41.2%	22.9%	38.1%	36.8%
Operating Expenses:					
General & administrative	23.2%	24.6%	28.5%	32.5%	23.2%
Marketing & selling	12.6%	11.3%	16.7%	13.6%	12.6%
Research & development	5.3%	4.5%	6.0%	5.2%	5.3%
Total Operating Expenses	41.1%	40.4%	51.2%	51.3%	41.1%
Operating (loss) income	-4.3%	0.8%	-28.3%	-13.2%	-4.3%
Other Income (Expense):					
Gain on forgiveness of PPP Loan	0.0%	8.8%	0.0%	0.0%	0.0%
Settlements	0.0%	-12.6%	0.0%	-2.0%	0.0%
Other income (expense)	0.2%	-0.2%	-0.7%	0.0%	0.2%
Total Other Income (Expense)	0.2%	-4.0%	-0.7%	-2.0%	0.2%
Net loss before provision for (benefit from) income taxes	-4.1%	-3.2%	-29.0%	-15.2%	-4.1%
Provision for (benefit from) income taxes	0.2%	-0.6%	-11.0%	3.2%	0.2%

Net loss	-4.3%	-2.6%	-18.0%	-18.4%	-4.3%
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#### Revenue by Geographic Region

	Year Ended December 31,	
	2023	2022
Consolidated Revenue:		
United States	\$ 21,216	\$ 24,509
International	882	731
Total Revenue	\$ 22,098	\$ 25,240

#### Revenue by Geographic Region

	Year Ended December 31,		
	2022	2021	2020
Consolidated Revenue:			
United States	\$ 24,509	\$ 23,584	\$ 19,486
International	731	1,325	1,874
Total Revenue	\$ 25,240	\$ 24,909	\$ 21,360

Results for the Year Ended **December 31, 2022** **December 31, 2023**, Compared to Results for the Year Ended **December 31, 2021** **December 31, 2022** (in thousands)

	2022	2021	Change	%	2023	2022	Change	%
Revenues	\$ 25,240	\$ 24,909	\$ 331	1%	\$ 22,098	\$ 25,240	\$ (3,142)	-12%
Cost of revenues	15,949	14,645	1,304	9%	13,685	15,949	(2,325)	-14%
Gross profit	9,291	10,264	( 973)	-9%	8,413	9,291	(817)	-9%
Operating Expenses:								
General & administrative	5,857	6,126	( 269)	-4%	7,192	5,857	1,335	23%
Marketing & selling	3,191	2,799	392	14%	2,998	3,191	(132)	-6%
Research & development	1,326	1,130	196	17%	1,144	1,326	(182)	-14%
Total Operating Expenses	10,374	10,055	319	3%	11,334	10,374	1,021	9%
Operating (loss) income	( 1,083)	209	( 1,292)	-618%				
Operating loss					(2,921)	(1,083)	(1,838)	-170%
Other Income (Expense):								
Gain on forgiveness of PPP Loan	-	2,181	( 2,181)	-100%				
Settlements	-	( 3,150)	3,150	-100%	(507)	-	(507)	100%
Other income (expense)	43	( 61)	104	-170%	(10)	43	(53)	-123%
Total Other Income (Expense)	43	( 1,030)	1,073	-104%	(517)	43	(560)	-1,302%
Net loss before provision for (benefit from) income taxes	( 1,040)	( 821)	( 219)	27%				
Provision for (benefit from) income taxes	44	( 156)	200	-128%				
Net loss before provision for income taxes					(3,438)	(1,040)	(2,398)	231%
Provision for income taxes					716	44	672	1,527%
Net loss	\$ ( 1,084)	\$ ( 665)	\$ ( 419)	63%	\$ (4,154)	\$ (1,084)	\$ (3,070)	283%

**Revenue:** **Revenue:** The revenue ~~increase~~ decrease of ~~1%~~12% was primarily ~~due~~ attributed to a ~~6%~~ increase in average revenue per sample, ~~offset by a 5%~~ decrease in ~~volume~~. ~~volumes from our base business~~. Domestic revenues ~~increased~~ decreased by ~~4%~~13% compared to the prior year period, ~~due~~ while international revenues increased by 22%. The decrease in domestic revenue can be attributed to two primary factors. Firstly, there was an increase in ~~average revenue per sample with similar volumes~~. International revenues decreased by 45% compared employee retention within our client base, leading to the prior year period, a decline in new hiring from existing clients. Secondly, there was a general decline in hiring activities among current clients due to ~~decline~~ economic uncertainties. Conversely, the increase in ~~volume from unfavorable market forces~~ international

revenue can be attributed to strategic sales expansion efforts through partnerships. These partnerships enabled us to enter new markets and to expand our customer base, resulting in Brazil. See geographic breakdown of revenue above. The Company does not expect any material change a percentage increase in its Brazil driver license business as this market continues to be considerably uncertain. international sales.

Gross profit: The 9% decrease in gross profit was due to an increase in personnel and related costs, which was primarily due to the recognition of the refundable Employee Retention Tax Credits in 2021. lower total revenue offset by cost reduction programs.

General and administrative ("G&A") expenses: G&A expenses decreased 4% increased 23% from 2021 2022 to 2022, 2023, primarily driven by reductions in higher costs associated with legal expenses related to lawsuit settlements fees, CEO succession plan execution, accounting and the exploration of possible strategic alternatives in the prior year. The decrease was also attributed to lower professional consulting fees, related to the employee retention tax credit recognized in 2021. and business insurance premiums. As a percentage of revenue, G&A expenses represented 32.5% in 2023 compared to 23.2% in 2022 compared to 24.6% in 2021. 2022.

Marketing and selling expenses: Marketing and selling expenses increased 14% decreased 6% from 2021 2022 to 2022, 2023, primarily driven by higher lower personnel costs due to the employee retention tax credit recognized in 2021. costs. As a percentage of revenue, marketing and selling expenses represented 13.6% in 2023 compared to 12.6% in 2022 because the percentage decrease in revenues from 2022 to 2023 exceeded the percentage decrease in marketing and selling expenses.

Research & development (R&D): Research & development expenses decreased 14% from 2022 to 2023, primarily driven by lower personnel costs. As a percentage of revenue, R&D expenses represented 5.2% in 2023 compared to 11.3% 5.3% in 2021. 2022.

Other income (expense): During the year ended December 31, 2023, we recorded other income (expense) of \$517 thousand. Other income (expense) increased \$560 thousand from 2022 to 2023, primarily driven by higher settlement expense.

Income Taxes: During the year ended December 31, 2022 December 31, 2023, the Company we recorded a tax expense of \$0.04 million \$0.7 million representing a an effective tax rate of (4%) 21% compared to a tax rate of 19% 4% in 2021. 2022. For information regarding additional matters related to our taxes, please see Note 5 — "Income Taxes" to the Consolidated Financial Statements included in this Annual Report.

Results for the Year Ended December 31, 2021, Compared to Results for the Year Ended December 31, 2020 (in thousands)

	2021	2020	Change	%
Revenues	\$ 24,909	\$ 21,360	\$ 3,549	17
Cost of revenues	14,645	16,474	( 1,829 )	-11
Gross profit	10,264	4,886	5,378	110
Operating Expenses:				
General & administrative	6,126	6,095	31	0
Marketing & selling	2,799	3,577	( 778 )	-22
Research & development	1,130	1,280	( 150 )	-12
Total Operating Expenses	10,055	10,952	( 897 )	-8
Operating income (loss)	209	( 6,066 )	6,275	104
Other (Expense) Income:				
Gain on forgiveness of PPP Loan	2,181	-	2,181	100
Settlements	( 3,150 )	-	( 3,150 )	100
Other expense	( 61 )	( 140 )	79	-5
Total Other (Expense) Income	( 1,030 )	( 140 )	( 890 )	63
Net loss before benefit from income taxes	( 821 )	( 6,206 )	5,385	-87
Benefit from income taxes	( 156 )	( 2,347 )	2,191	-94
Net loss	\$ ( 665 )	\$ ( 3,859 )	\$ 3,194	-83

Revenue: The revenue increase of 17% was primarily due to a 9% increase in volume, compounded by an 8% increase in average revenue per sample, primarily as a result of business mix and increased domestic volumes. Domestic revenues increased by 21% compared to the prior year period, due to an increase in volume and growth in the base business. International revenues decreased by 29% from 2020 to 2021, due to decline in volume from unfavorable market forces in Brazil and the COVID-19 pandemic. See geographic breakdown of revenue above. The Company does not expect any material change in its Brazil driver license business as this market continues to be considerably uncertain.

Gross profit: The 110% increase in gross profit was due to higher sales volume and lower personnel costs. Higher volume and lower personnel costs was the primary factor in the gross profit percentage increase from 23% in 2020 to 41% in 2021. The decrease in lower labor and related costs was primarily due to the recognition of the

refundable employee retention tax credits in 2021 and the retention of certain laboratory employees during 2020, to qualify for PPP Loan forgiveness with no offsetting proportional revenue.

General and administrative ("G&A") expenses: G&A expenses increased 1% from 2020 to 2021, primarily driven by higher legal expenses related to the exploration of possible strategic alternatives in an effort to enhance shareholder value. As a percentage of revenue, G&A expenses represented 24.6% in 2021 compared to 28.5% in 2020.

Marketing and selling expenses: Marketing and selling expenses decreased 22% from 2020 to 2021, primarily driven by cost reduction initiatives; specifically, lower personnel related costs (including less travel and meals) and in addition refundable employee retention tax credits. As a percentage of revenue, marketing and selling expenses represented 11.3% in 2021 compared to 16.7% in 2020.

Income Taxes: During the year ended December 31, 2021, the Company recorded a tax benefit of \$0.2 million representing a tax rate of 19% compared to a tax rate of 38% in 2020. For information regarding additional matters related to our taxes, please see Note 5 — "Income Taxes" to the Consolidated Financial Statements included in this Annual Report.

#### Liquidity and Capital Resources

The Company We had \$4.8 million \$2.0 million and \$2.0 million \$4.8 million of cash as of December 31, 2022 December 31, 2023, and 2021, 2022, respectively. The Company's Our operating activities generated used net cash of \$4.9 \$1.5 million and \$0.4 million generated \$4.9 million in 2022 2023 and 2021, 2022, respectively. Investing activities used net cash of \$0.2 million and used \$0.2 million in both 2023 and 2022, and 2021, respectively. Financing activities used net cash of \$1.2 million and \$1.9 million in 2023 and \$1.0 million 2022, respectively.

Operating cash used in operations of \$1.5 million in 2023 primarily reflected the net loss of \$4.2 million adjusted for depreciation and amortization of \$1.7 million and stock compensation expense of \$0.9 million. Cash used in operations was also affected by the following changes in assets and liabilities: collection of a tax receivable of \$0.3 million, increase in accounts payable of \$0.3 million, decrease in accounts receivable of \$0.1 million, partially offset by a decrease in accrued expenses of \$1.3 million. The \$6.4 million change in operating cash from a positive \$4.9 million in 2022 to a negative \$1.5 million in 2023 was primarily driven by the higher net loss in 2023 and 2021, respectively. changes in operating assets and liabilities described above.

Operating cash generated in operations of \$4.9 million in 2022 primarily reflected the net loss of \$1.1 million adjusted for depreciation and amortization of \$2.4 million and stock compensation expense of \$0.9 million. Cash generated in operations was also affected by the following changes in assets and liabilities: collection of a tax receivable of \$2.3 million, accounts receivable of \$0.4 million, prepaid expenses of \$0.4 million, and an increase in accrued expenses of \$0.7 million. The \$4.5 million change in operating cash from a positive \$0.4 million in 2021 to a positive \$4.9 million in 2022 was primarily driven by the income tax receivable in 2022 and the forgiveness of the PPP loan in 2021.

Operating cash generated in operations of \$0.4 million in 2021 primarily reflected the net loss of \$0.7 million adjusted for PPP Loan forgiveness of \$2.2 million, depreciation and amortization of \$2.8 million and stock compensation expense of \$0.7 million. Cash generated in operations was also affected by the following changes in assets and liabilities: an increase in accounts receivable of \$0.8 million and an increase in accrued expenses of \$1.4 million. The \$4.5 million change in operating cash from a negative \$4.1 million in 2020 to a positive \$0.4 million in 2021 was primarily driven by improved operating results in 2021.

Cash used in (provided by) investing activities primarily reflected the purchase of capital expenditures, expenditures, offset by changes in other assets. Capital expenditures were \$0.2 million and \$0.2 million in 2022 2023 and 2021, 2022, respectively. In both 2022 2023 and 2021, 2022, the expenditures related principally to laboratory equipment, machinery, leasehold improvements, and computer software.

During 2023 and 2022, and 2021, the Company we did not repurchase any shares of common stock for treasury. The Company has We had authorized 750,000 shares for repurchase since June of 1998, of which 250,000 shares of common stock were authorized in March of 2008 for repurchase. Since 1998, a total of 550,684 shares have been repurchased. The Company We distributed cash dividends to its our shareholders of \$0.8 million in 2023 and \$1.2 million in 2022 and \$0.3 million in 2021, 2022. Cash flows used in financing activities also reflected repayments under the Equipment Loan Arrangement of \$0.3 million and \$0.7 million in both 2023 and 2022, and 2021, respectively.

During the last three consecutive first two quarters of 2022, the Company's 2023, our Board of Directors declared a quarterly cash dividend of \$0.07 per common share. In March August of 2023 the Company we announced that the Board of Directors authorized a had suspended the declaration of quarterly cash dividend of \$0.07 per share, payable in April 2023. There can be no assurance that the Company will pay dividends in the future. The Company will continue to evaluate the dividend as it moves forward. dividends.

At December 31, 2022 December 31, 2023, the Company's our principal sources of liquidity from operations included \$4.8 million \$2.0 million of cash on hand. Management As of the date of this report, management currently believes that such funds, together with future operating profits, should be adequate to fund anticipated working capital requirements, including debt obligations, and capital expenditures for at least the next 12 months. However, the terms of our existing equipment financing no longer provide for future borrowing and we have no existing line of credit or other fixed source of capital reserves. Depending upon the Company's our results of operations, its our future capital needs and available marketing opportunities, the Company we may use be required to seek various financing sources to raise additional funds. Such sources could include but are not limited to, issuance of common stock or debt financing, lines of credit, equipment leasing or equipment leasing; a strategic transaction; although there is no assurance that such financings will be available to the Company us on terms it deems we deem acceptable, if at all.

On May 4, 2020, the Company borrowed \$2.2 million from Bank of America, N.A., pursuant to the PPP, established under the CARES Act. These funds were used If we are unable to maintain sufficient financial resources, our business, financial condition, and results of operations including the employment of both exempt and non-exempt employees, in order to meet the drug testing needs of our customers and adhere to strict quality standards in the midst of the worldwide COVID-19 pandemic.

During the third quarter of 2021, the PPP Loan and accrued interest was 100% forgiven by the SBA. The PPP Loan exceeded \$2.0 million audit threshold established by the SBA, and therefore, could ~~would~~ be subject to audit by the SBA in the future. ~~materially adversely affected.~~

#### Purchase Commitment

Operating leases consist of rent obligations for ~~the company's~~ ~~our~~ facilities and corporate office. ~~The Company has~~ ~~We have~~ no significant contractual obligation for supply agreements as of ~~December 31, 2022~~ ~~December 31, 2023~~.

#### Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles require ~~the Company's~~ ~~our~~ management to make judgments, assumptions and estimates that affect the amounts ~~reported.~~ ~~reported, including Income Taxes.~~ Note 2, "Summary of Significant Accounting Policies," of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K describes the significant accounting policies and methods used in the preparation of ~~the Company's~~ ~~our~~ consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances. Actual results may differ from these estimates, and such differences may be material.

#### Recent Accounting Pronouncements

See Note 2 – "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further detail on recent accounting pronouncements.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not required.

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#### Item 8. Financial Statements and Supplementary Data

(a) Financial Statements:

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<a href="#">Consolidated Balance Sheets as of <del>December 31, 2022</del> <del>December 31, 2023</del> and <del>2021</del> 2022</a>	19
<a href="#">Consolidated Statements of Operations and Comprehensive Loss for the Years Ended <del>December 31, 2022, 2021</del> <del>December 31, 2023</del> and <del>2020</del> 2022</a>	20
<a href="#">Consolidated Statements of Shareholders' Equity for the Years Ended <del>December 31, 2022, 2021</del> <del>December 31, 2023</del> and <del>2020</del> 2022</a>	21
<a href="#">Consolidated Statements of Cash Flows for the Years Ended <del>December 31, 2022, 2021</del> <del>December 31, 2023</del> and <del>2020</del> 2022</a>	22
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#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors  
Psychemedics Corporation  
~~Acton, Massachusetts~~ ~~Dallas, Texas~~

## Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Psychomedics Corporation (the "Company") and subsidiaries as of **December 31, 2022** **December 31, 2023** and **2021, 2022**, the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for each of the **three two** years in the period ended **December 31, 2022** **December 31, 2023**, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at **December 31, 2022** **December 31, 2023** and **2021, 2022**, and the results of its operations and its cash flows for each of the **three two** years in the period ended **December 31, 2022** **December 31, 2023**, in conformity with accounting principles generally accepted in the United States of America.

## Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

## Critical Audit **Matters Matter**

**Critical** **The critical** audit **matters are matters** **matter communicated below is a matter** arising from the current period audit of the consolidated financial statements that **were was** communicated or required to be communicated to the audit committee and that: (1) **relate relates** to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. **We determined that there are no** **The communication of the critical audit matters.** **matter does not alter** in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### Realizability of Deferred Tax Assets

As described in Note 5 to the Company's consolidated financial statements, during the year ended December 31, 2023, the Company recorded a full valuation allowance on the remaining portion of its deferred tax assets. As of December 31, 2023, the Company had gross deferred tax assets of \$3.5 million and gross deferred tax liabilities of \$0.9 million, resulting in net deferred tax assets of \$2.6 million with an offsetting valuation allowance of \$2.6 million. In evaluating the realizability of deferred tax assets, the Company considered the available positive and negative evidence, including being in a three-year cumulative loss position, projected future pre-tax book (loss) income and other quantitative and qualitative information.

We identified the Company's evaluation of the realizability of deferred tax assets as a critical audit matter. Significant management judgments were required in evaluating and weighing the collective positive and negative evidence that were used to assess the realizability of deferred tax assets, which included various assumptions surrounding projected future taxable income. Auditing these elements involved complex and subjective auditor judgment due to the nature and extent of audit effort required to address these matters, including the need to involve personnel with specialized skill and knowledge.

The primary procedures we performed to address this critical audit matter included:

- Assessing the Company's ability to generate future taxable income and utilize the deferred tax assets by evaluating the forecast of future revenue, gross profit, and operating expenses that support pre-tax book (loss) income using the Company's historical performance.
- Utilizing personnel with specialized skill and knowledge in taxes to assist in the evaluation of the Company's assessment of positive and negative evidence, and whether the estimated future sources of taxable income were sufficient to utilize the deferred tax assets in the relevant time period.

/s/ BDO USA, **LLP P.C.**

We have served as the Company's auditor since 2004.

Boston, Massachusetts

**PSYCHEMEDICS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except par value)

	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 4,750	\$ 1,992	\$ 1,964	\$ 4,750
Accounts receivable, net of allowance for doubtful accounts of \$87 and \$89 at December 31, 2022 and 2021, respectively	3,739	4,116		
Accounts receivable, net of allowance for credit losses of \$64 and \$87 at December 31, 2023 and 2022, respectively			3,687	3,739
Prepaid expenses and other current assets	1,136	1,499	1,136	1,136
Income tax receivable	339	2,678	18	339
Total Current Assets	9,964	10,285	6,805	9,964
Property and equipment:				
Computer software	4,648	4,521	4,774	4,648
Office furniture and equipment	2,247	2,195	2,253	2,247
Laboratory equipment	16,013	16,005	16,038	16,013
Leasehold improvements	3,629	3,629	3,629	3,629
	26,537	26,350	26,694	26,537
Accumulated depreciation and amortization	( 21,964)	( 19,659)	(23,633)	(21,964)
	4,573	6,691	3,061	4,573
Other assets	823	864	632	823
Deferred tax assets	691	160	-	691
Operating lease right-of-use assets	2,681	3,552	1,828	2,681
Total Assets	\$ 18,732	\$ 21,552	\$ 12,326	\$ 18,732
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current Liabilities:				
Accounts payable	\$ 448	\$ 994	\$ 752	\$ 448
Accrued expenses	3,939	3,188	2,604	3,939
Current portion of long-term debt	294	664	305	294
Current portion of operating lease liabilities	1,037	984	1,048	1,037
Total Current Liabilities	5,718	5,830	4,709	5,718
Long-term debt	305	599	-	305
Long-term portion of operating lease liabilities	1,938	2,880	945	1,938
Total Liabilities	7,961	9,309	5,654	7,961

Commitments and Contingencies (Note 9)

Shareholders' Equity:

Preferred stock, \$0.005 par value, 873 shares authorized, no shares issued or outstanding	-	-		
Common stock, \$0.005 par value; 50,000 shares authorized 6,349 shares and 6,257 shares issued at December 31, 2022 and 2021, respectively, 5,681 shares outstanding and 5,589 shares outstanding at December 31, 2022 and 2021, respectively	32	31		
Preferred stock, \$0.005 par value, 873 shares authorized, no shares issued or outstanding			-	-
Common stock, \$0.005 par value; 50,000 shares authorized 6,474 shares and 6,349 shares issued at December 31, 2023 and 2022, respectively, 5,806 shares outstanding and 5,681 shares outstanding at December 31, 2023 and 2022, respectively			32	32
Additional paid-in capital	34,275	33,478	35,129	34,275
Less - Treasury stock, at cost, 668 shares	(10,082)	(10,082)	(10,082)	(10,082)
Accumulated deficit	(11,820)	(9,550)	(16,773)	(11,820)
Accumulated other comprehensive loss	(1,634)	(1,634)	(1,634)	(1,634)
Total Shareholders' Equity	10,771	12,243	6,672	10,771
Total Liabilities and Shareholders' Equity	\$ 18,732	\$ 21,552	\$ 12,326	\$ 18,732

The accompanying notes are an integral part of these Consolidated Financial Statements.

**PSYCHEMEDICS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**COMPREHENSIVE LOSS**  
(in thousands, except per share amounts)

	Year Ended December 31,			Year Ended December 31,	
	2022	2021	2020	2023	2022
Revenues	\$ 25,240	\$ 24,909	\$ 21,360	\$ 22,098	\$ 25,240
Cost of revenues	15,949	14,645	16,474	13,685	15,949
Gross profit	9,291	10,264	4,886	8,413	9,291
Operating Expenses:					
General & administrative	5,857	6,126	6,095	7,192	5,857
Marketing & selling	3,191	2,799	3,577	2,998	3,191
Research & development	1,326	1,130	1,280	1,144	1,326
Total Operating Expenses	10,374	10,055	10,952	11,334	10,374
Operating (loss) income	(1,083)	209	(6,066)	(2,921)	(1,083)
Other Income (Expense):					
Gain on forgiveness of PPP Loan	-	2,181	-		
Settlements	-	(3,150)	-	(507)	-
Other income (expense)	43	(61)	(140)	(10)	43
Total Other Income (Expense)	43	(1,030)	(140)	(517)	43
Net loss before provision for (benefit from) income taxes	(1,040)	(821)	(6,206)	(3,438)	(1,040)
Provision for (benefit from) income taxes	44	(156)	(2,347)	716	44
Net loss	\$ (1,084)	\$ (665)	\$ (3,859)		
Net loss and comprehensive loss				\$ (4,154)	\$ (1,084)

Other Comprehensive Loss:				
Foreign currency translation, net of taxes	-	-	( 10)	
Total Comprehensive Loss	<u>\$ (1,084)</u>	<u>\$ (665)</u>	<u>\$ (3,869)</u>	
Basic net loss per share	<u>\$ (0.19)</u>	<u>\$ (0.12)</u>	<u>\$ (0.70)</u>	
Diluted net loss per share	<u>\$ (0.19)</u>	<u>\$ (0.12)</u>	<u>\$ (0.70)</u>	
Dividends declared per share	<u>\$ 0.21</u>	<u>\$ 0.05</u>	<u>\$ 0.18</u>	
Basic and diluted net loss per share				<u>\$ (0.72) \$ (0.19)</u>
Weighted average common shares outstanding:				
Basic	<u>5,626</u>	<u>5,549</u>	<u>5,524</u>	<u>5,740 5,626</u>
Diluted	<u>5,626</u>	<u>5,549</u>	<u>5,524</u>	<u>5,740 5,626</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**PSYCHEMEDICS CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(in thousands, except per share amounts)

	Common Stock			Treasury Stock		Accumulated Other Comprehensive			Common Stock			Treasury Stock		
	\$0.005	Paid-In			Accumulated	Comprehensive			\$0.005	Paid-In			Accumulated	
	Shares	par Value	Capital	Shares	Cost	Deficit	Income (loss)	Total	Shares	par Value	Capital	Shares	Cost	Deficit
BALANCE, December 31, 2019	6,185	\$ 31	\$32,249	668	\$ 10,082	\$ ( 3,754)	\$ ( 1,624)	\$ 16,820						
Shares issued	—	20	-	-	-	-	-	-						
vested														
Tax withholding related to vested shares from employee stock plans	-	-	( 9)	-	-	-	-	( 9)						
Stock compensation expense	-	-	563	-	-	-	-	563						
Cash dividends declared (\$0.18 per share)	-	-	-	-	-	( 993)	-	( 993)						
Net loss	-	-	-	-	-	( 3,859)	-	( 3,859)						

Foreign currency translation, net of taxes	-	-	-	-	-	-	( 10)	( 10)							
BALANCE, December 31, 2020	6,205	31	32,803	668	( 10,082)	( 8,606)	( 1,634)	12,512							
Shares issued	51	-	-	-	-	-	-	-							
Exercise of stock options	1	-	4	-	-	-	-	4							
Tax withholding related to vested shares from employee stock plans	-	-	( 72)	-	-	-	-	( 72)							
Stock compensation expense	-	-	743	-	-	-	-	743							
Cash dividends declared (\$0.05 per share)	-	-	-	-	-	( 279)	-	( 279)							
Net loss	-	-	-	-	-	( 665)	-	( 665)							
BALANCE, December 31, 2021	6,257	31	33,478	668	( 10,082)	( 9,550)	( 1,634)	12,243	6,257	31	33,478	668	(10,082)	(9,550)	
Shares issued	91	1	( 1)	-	-	-	-	-	91	1	(1)	-	-	-	
Exercise of stock options	1	-	4	-	-	-	-	4	1	-	4	-	-	-	
Tax withholding related to vested shares from employee stock plans	-	-	( 78)	-	-	-	-	( 78)	-	-	(78)	-	-	-	
Stock compensation expense	-	-	872	-	-	-	-	872	-	-	872	-	-	-	
Cash dividends declared (\$0.21 per share)	-	-	-	-	-	( 1,186)	-	( 1,186)							

Cash dividends declared (\$0.21 per share)										-	-	-	-	-	(1,186)
Net loss	-	-	-	-	-	(1,084)	-	(1,084)	-	-	-	-	-	-	(1,084)
BALANCE, December 31, 2022	6,349	\$ 32	\$ 34,275	668	\$ 10,082	\$ (11,820)	\$ (1,634)	\$ 10,771	6,349	32	34,275	668	(10,082)		(11,820)
Shares issued	-								125	-	-	-	-		-
Tax withholding related to vested shares from employee stock plans									-	-	(54)	-	-		-
Stock compensation expense									-	-	908	-	-		-
Cash dividends declared (\$0.14 per share)									-	-	-	-	-		(799)
Net loss									-	-	-	-	-		(4,154)
BALANCE, December 31, 2023									6,474	\$ 32	\$ 35,129	668	\$ (10,082)	\$	(16,773)

The accompanying notes are an integral part of these Consolidated Financial Statements.

**PSYCHEMEDICS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Year Ended December 31,			Year Ended December 31,	
	2022	2021	2020	2023	2022
Cash flows from operating activities:					
Net loss	\$ (1,084)	\$ (665)	\$ (3,859)	\$ (4,154)	\$ (1,084)
Adjustments to reconcile net loss to net cash provided by operating activities:					
Forgiveness of PPP loan	-	(2,181)	-		
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:					
Depreciation and amortization	2,367	2,784	2,691	1,731	2,367
ROU asset amortization	949	906	935	939	949
Deferred income taxes	(531)	(371)	(339)	691	(531)

Loss on sale of fixed assets	-	-	94		
Stock compensation expense	872	743	563	908	872
Loss on disposal of patents				131	-
Changes in operating assets and liabilities:					
Accounts receivable	377	( 760)	424	52	377
Prepaid expenses and other current assets	363	( 585)	392	-	363
Income tax receivable	2,339	( 183)	( 2,013)	321	2,339
Accounts payable	( 546)	417	( 281)	304	(546)
Operating lease liabilities	( 967)	( 1,078)	( 914)	(1,068)	(967)
Accrued expenses	751	1,387	( 1,776)	(1,335)	751
Net cash provided by (used in) operating activities	4,890	414	( 4,083)	(1,480)	4,890
Cash flows from investing activities:					
Proceeds from sale of fixed assets	-	-	140		
Other assets	( 21)	( 38)	( 7)		
Purchases of other assets				(2)	(21)
Purchases of property and equipment and capitalized software development costs	( 187)	( 182)	( 991)	(157)	(187)
Net cash used in investing activities	( 208)	( 220)	( 858)	(159)	(208)
Cash flows from financing activities:					
Cash dividends paid	( 1,186)	( 279)	( 993)	(799)	(1,186)
Proceeds from stock options and tax withholding related to vested shares from employee stock plans	( 74)	( 68)	( 9)	(54)	(74)
Proceeds from PPP Loan	-	-	2,181		
Payments of equipment financing	( 664)	( 688)	( 678)	(294)	(664)
Net cash (used in) provided by financing activities	( 1,924)	( 1,035)	501		
Net cash used in financing activities				(1,147)	(1,924)
Effect of exchange rate changes on cash	-	-	( 10)		
Net increase (decrease) in cash	2,758	( 841)	( 4,450)	(2,786)	2,758
Cash, beginning of year	1,992	2,833	7,283	4,750	1,992
Cash, end of year	\$ 4,750	\$ 1,992	\$ 2,833	\$ 1,964	\$ 4,750
Supplemental disclosures of cash flow information:					
Cash paid for income taxes	\$ -	\$ 405	\$ 249		
Cash paid for interest	\$ 33	\$ 50	\$ 75	\$ 18	\$ 33
Cash paid for operating leases	\$ 1,044	\$ 1,151	\$ 1,038	\$ 1,167	\$ 1,044
Right-of-use assets acquired through operating leases	\$ 78	\$ 172	\$ 2,346	\$ 86	\$ 78
Non-cash investing and financing activities:					
Purchases of equipment through accounts payable and accrued liabilities	\$ -	\$ -	\$ 241		

The accompanying notes are an integral part of these Consolidated Financial Statements.

**PSYCHEMEDICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2022 2023

**1. Nature of Business**

## Company Overview

Psychemedics Corporation (the "Company," "Company," "we," "us," or "our") provides hair testing for drugs of abuse, utilizing a patented hair analysis method involving digestion of hair, enzyme immunoassay and mass spectrometry to analyze hair to detect abused substances. The Company's Our customers include Fortune 500 companies, as well as small to mid-size corporations, schools and governmental entities located in the United States and Internationally.

### COVID-19 Pandemic

The outbreak of coronavirus ("COVID-19") which was declared by the World Health Organization to be a pandemic, has, and is expected to continue to impact worldwide economic activity. COVID-19 has had a significant impact on our entire operations. Additionally, COVID-19's effect on the overall economy has had an adverse impact on hiring, which is having a negative impact on our testing volume.

The Coronavirus Aid, Relieve and Economic Security Act ("CARES") Act, enacted on March 27, 2020, and the Families First Coronavirus Response Act, in each case modified by the Consolidated Appropriations Act enacted in December 2020, were emergency economic stimulus packages that included spending provisions and tax cuts to strengthen the United States economy and to fund a nationwide effort to curtail the effect of COVID-19. The principal impact of the CARES Act and subsequent legislation was the adoption of the Paycheck Protection Program ("PPP"). The CARES Act, together with subsequent legislation, also provided sweeping tax changes in response to the COVID-19 pandemic, including amendments to certain provisions of the previously enacted Tax Cuts and Jobs Act. The Company recognized a benefit of \$2.6 million and \$0.2 million for the years ended December 31, 2021, and December 31, 2020, respectively, as a reduction to cost of revenues and operating expenses related to the employee retention credit which was a tax provision in the CARES Act and subsequent legislation. Additionally, the CARES Act allowed the Company to fully carryback the 2020 net operating loss, for a refund of corporate income taxes previously paid.

### Liquidity and Management's Plans

At December 31, 2022, the Company's December 31, 2023, our principal sources of liquidity from operations included \$4.8 million \$2.0 million of cash on hand. Management As of the date of this report, management currently believes that such funds, together with future operating profits, should be adequate to fund anticipated working capital requirements, including debt obligations, and capital expenditures for at least the next 12 months. However, the terms of our existing equipment financing no longer provide for future borrowings and we have no existing line of credit or other fixed source of capital reserves. Depending upon the Company's our results of operations, its our future capital needs and available marketing opportunities, the Company we may use be required to seek various financing sources to raise additional funds. Such sources could include but are not limited to, issuance of common stock or debt financing, lines of credit, or equipment leasing or a strategic transaction; although there is no assurance that such financings will be available to the Company us on terms it deems we deem acceptable, if at all. If we are unable to maintain sufficient financial resources, our business, financial condition and results of operations would be materially adversely affected.

## 2. Summary of Significant Accounting Policies

### Risks and Uncertainties

The Company is We are subject to a number of risks and uncertainties similar to those of other companies, such as those associated with the continued expansion of the Company's our sales and marketing network, technological developments, intellectual property protection, development of markets for new products and services offered by the Company, us, the economic health of our principal customers of the Company, financial and operational risks associated with expansion of testing facilities used by the Company, we use, government regulation (including, but not limited to, FDA regulations, proposed laws and regulations, and delays in implementation of laws and regulations), competition and general economic conditions.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates, including those related to bad debts, long-lived asset lives, income tax valuation and share based compensation, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Changes in estimates are recorded in the period in which they become known.

### Cash and Cash Equivalents

The Company considers We consider all highly liquid investments with original maturities at the date of purchase of 90 days or less as cash equivalents. As of December 31, December 31, 2023, and 2022, and 2021, there were no investments classified as cash equivalents.

### Property and Equipment

Property & equipment are recorded at cost. Depreciation and amortization is computed over the estimated useful lives of the assets, using the straight-line method. Repair and maintenance costs are expensed as incurred. The estimated useful lives of the assets are:

**PSYCHEMEDICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2022**

**2. Summary of Significant Accounting Policies(continued)**

Computer software	3 to 5 years
Office furniture and equipment	3 to 7 years
Laboratory equipment	5 to 7 years
Leasehold improvements	Lesser of estimated useful life or lease term

The Company We recorded depreciation and amortization related to property and equipment and capitalized software of \$2.4 million \$1.7 million, \$2.8 million, \$2.4 million in 2023 and \$2.7 million in 2022, 2021 and 2020, respectively. The Company We had \$0.5 million \$613 thousand of capitalized software and equipment that was not placed in service as of December 31, 2022, December 31, 2023, which is included as a component of computer software on the accompanying consolidated balance sheets.

**Capitalized Software Development Costs**

We capitalize costs related to significant software projects developed or obtained for internal use, including costs incurred in a cloud computing arrangement. Costs incurred during the preliminary project work stage or conceptual stage, such as determining the performance requirements, system requirements and data conversion, are expensed as incurred. Costs incurred in the application development phase, such as coding, testing for new software and upgrades that result in additional functionality, are capitalized and are amortized using the straight-line method over the useful life of the software for three to five years. Costs incurred during the post-implementation/operation stage, including training costs and maintenance costs, are expensed as incurred. In accordance with Company policy, during the years ended December 31, December 31, 2023, and 2022, and 2021, we capitalized internally developed software costs of \$127 thousand and \$99 \$127 thousand, respectively. Amortization expense related to software development costs was \$150 thousand and \$282 thousand \$421 thousand in 2023 and \$293 thousand in 2022, 2021 and 2020, respectively. Determining whether particular costs incurred are more properly attributable to the preliminary or conceptual stage, and thus expensed, or to the application development phase, and thus capitalized and amortized, depends on subjective judgments about the nature of the development work, and our judgments in this regard may differ from those made by other companies. General and administrative costs related to developing or obtaining such software is are expensed as incurred.

**Other Assets**

Other assets primarily consist of capitalized legal costs relating to patent applications. The Company amortizes We amortize these costs over the lesser of the legal life or estimated useful life of the patent from the date of grant of the applicable patent. The typical life is twenty years. As of December 31, 2022, the Company December 31, 2023, we had capitalized legal costs relating to patent applications of \$0.9 million with accumulated amortization of \$0.4 million, for a net balance of \$0.5 million. As of December 31, 2022, we had capitalized legal costs relating to patent applications of \$1.1 million with accumulated amortization of \$0.5 million, for a net balance of \$0.6 million. As of December 31, 2021, the Company had capitalized legal costs relating to patent applications of \$1.1 million with accumulated amortization of \$0.4 million, for a net balance of \$0.7 million. Amortization expense was \$62 thousand, \$62 thousand and \$62 thousand in 2022, 2021 2023 and 2020, 2022, respectively. Based on payments made as of December 31, 2022, December 31, 2023, remaining amortization expense is expected to be \$62 \$208 thousand for each of the five years ending December 31, 2027 December 31, 2028, and \$109 \$61 thousand thereafter.

**Allowance for Doubtful Accounts Credit Losses**

The allowance for doubtful accounts credit losses is based on management's assessment of the ability to collect amounts owed to it us by its our customers. Management reviews its the collectability of our accounts receivable aging and establishes an allowance for doubtful accounts estimated losses that could result from the inability of our customers to make required payments, taking into consideration customer credit history and uses a methodology based on calculating the allowance using a combination of factors including the age of the receivable along with management's judgment to identify accounts that may not be collectible. The Company routinely assesses the financial strength of its customers condition, industry and as a consequence, believes that its accounts receivable market segment information, credit risk exposure is limited. The Company maintains reports, and economic trends and conditions. We maintain an allowance for potential credit losses but historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area. Bad debt expense has been within management's expectations.

**Revenue Recognition**

The Company is We are in the business of performing drug testing services and reporting the results thereof. The Company's Our services are primarily drug and alcohol testing for its our customers for an agreed-upon fee per unit tested. The revenues are recognized when the drug test is performed and reported to the customer.

Revenue is recognized when control of the services is transferred to our customers, in an amount that reflects the consideration ~~(none~~(none of which is variable) ~~the Company expects we expect~~ to be entitled to in exchange for those services. ~~The Company~~ We typically ~~invoices~~ ~~invoice~~ customers monthly for services provided and payments are generally due within 30 to 60 days of the invoice date.

**PSYCHEMEDICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2022**

**2. Summary of Significant Accounting Policies(continued)**

The table below disaggregates our external revenue by major source (in thousands). For additional revenue detail relating to geographic breakdown of sales, see Note 13 – “Business Segment Reporting” to the Consolidated Financial Statements included in this Annual Report.

	Year Ended December 31,			Year Ended December 31,	
	2022	2021	2020	2023	2022
Consolidated Revenue:					
Testing	\$ 21,608	\$ 21,894	\$ 19,068	\$ 18,661	\$ 21,608
Shipping / Collection (hair)	3,476	2,847	2,174	3,316	3,476
Other	156	168	118	121	156
Total Revenue	<u>\$ 25,240</u>	<u>\$ 24,909</u>	<u>\$ 21,360</u>	<u>\$ 22,098</u>	<u>\$ 25,240</u>

Testing Revenue

Drug and alcohol tests for drugs of abuse using hair, performed in ~~the Company's~~ ~~our~~ forensic laboratory in California, represents our primary service. Sales to customers are initiated through sales agreements, most of which have standard terms. Most tests are identified through a chain of custody form (“CCF”) and can therefore be uniquely tracked. Revenue is recognized when performance obligations under the terms of the contract with a customer are satisfied; generally, this occurs with the transfer of control of our service, which occurs at a specific point-in-time. The specific point-in-time is the completion of the test and availability of test results to the customer. Most tests are completed the same day that the hair specimen is received.

Substantially all tests are completed within a few days once received for processing at our laboratory in California. As the tests are performed in a forensic laboratory, the exact date and time of each test completion is available and used in the timing of recognition of revenue.

Revenue is measured as the amount of consideration ~~the Company expects we expect~~ to receive in exchange for providing services. Sales taxes ~~the Company pays we pay~~ concurrent with revenue-producing activities are excluded from revenue.

Shipping and Hair Collection Revenue

Shipping revenue represents the amount billed to customers related to shipping of the hair specimen and CCF (collectively called the “sample”) to ~~the Company's~~ ~~our~~ laboratory. Collection revenue represents the amount billed to customers related to the collection of the hair specimen. This collection is done by third parties who ~~we have contracted with the Company, with,~~ Shipping and hair collection revenue is recognized when performance obligations under the terms of the contract with a customer are satisfied; generally, this occurs with the transfer of control of ~~the Company's~~ ~~our~~ service, which occurs at a specific point-in-time. The specific point-in-time is the completion of the test (associated with the shipping or hair collection charge) and availability of test results to the customer.

Revenue is measured as the amount of consideration ~~the Company expects we expect~~ to receive in exchange for providing services. As ~~the Company controls we control~~ the service before transferring to the customer, ~~it is we are~~ considered a principal in the transaction, and therefore ~~records record~~ revenues on ~~a~~ gross basis, with shipping and hair collection costs in costs of revenues.

Other Revenue

Other revenue represents several items including: urine testing performed by other labs, medical review officer charges, legal/testifying services, and other miscellaneous charges. The total of all these items is less than 1% of total revenue. The amounts are generally billed to customers as services are performed, which occurs at a specific point-in-time.

## Practical Expedients and Exemptions

The Company We generally expenses expense sales commissions when incurred as they are typically not related to costs to fulfill customer contracts but relate to overall sales targets. These costs are recorded within marketing and selling expense on the accompanying consolidated statements of operations.

### Research and Development Expenses

The Company expenses We expense all research and development costs as incurred.

### Contingencies

Loss contingencies from legal proceedings and claims may occur from government investigations, shareholder lawsuits, product liability, contractual claims, tax and other matters. Accruals are recognized when it is probable that a liability will be incurred, and the amount of loss can be reasonably estimated. Legal fees are expensed as incurred.

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## PSYCHEMEDICS CORPORATION Income Taxes

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022

### 2. Summary of Significant Accounting Policies(continued)

#### Income Taxes

The Company accounts We account for income taxes using the liability method pursuant to ASC 740, "Income Taxes". Under this method, the Company recognizes we recognize deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. The Company evaluates We evaluate uncertain tax positions annually and considers consider whether the amounts recorded for income taxes are adequate to address the Company's our tax risk profile. The Company analyzes We analyze the potential tax liabilities of specific transactions and tax positions based on management's judgment as to the expected outcome.

### Concentration of Credit Risk and Off-Balance Sheet Risk

Financial instruments that potentially subject the Company us to concentrations of credit risk are principally cash and accounts receivable. The Company's Our policy is to place its our cash in high quality financial institutions. At times, including presently, these deposits may exceed or be exempt from federally insured limits. The Company does We do not believe significant credit risk exists with respect to these institutions. Concentration of credit risk with respect to accounts receivable is limited to certain customers to whom the Company makes we make substantial sales. To reduce risk, the Company we routinely assesses assess the financial strength of its our customers and, as a consequence, believes believe that its our accounts receivable credit risk exposure is limited. The Company maintains We maintain an allowance for potential credit losses but historically has have not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area. The Company does We do not require collateral. The Company has We have no significant off-balance-sheet risk such as foreign exchange contracts, option contracts, or other foreign hedging arrangements.

#### Significant Customers and Concentration of Credit Risk

The Company We had no customers that represented 10% or more of total revenue for the years ended December 31, December 31, 2023 and 2022, 2021, and 2020, respectively. The Company We had two customers that represented 13% and 11% as of December 31, 2023, and one customer that represented 11% and 12% of the total accounts receivable balance as of December 31, 2022 and 2021, December 31, 2022, respectively.

### Stock-Based Compensation

The Company accounts We account for equity awards in accordance with ASC 718, "Compensation — Stock Compensation" ("ASC 718"). ASC 718 requires employee equity awards to be accounted for under the fair value method. It also requires the measurement of compensation cost at fair value on the date of grant and recognition of compensation expense over the service period for awards expected to vest. Accordingly, share-based compensation is measured at the grant date based on the fair value of the award. The Company uses We use the straight-line method to recognize share-based compensation over the service period of the award, which is generally equal to the vesting period. The Company uses We use the simplified approach to calculate the expected exercise date of options, which is one of the components used to determine the fair value of the options. This approach is used due to the small number of recipients receiving stock options not providing a reasonable basis for estimating expected term. In 2016, the Company adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows. As

a result, we We recognize the impact of forfeitures when they occur with no adjustment for estimated forfeitures and recognize excess tax benefits as a reduction of income tax expense regardless of whether the benefit reduces income taxes payable.

Stock compensation expense by statements of operations account is as follows (in thousands):

	Year Ended December 31,			Year Ended December 31,	
	2022	2021	2020	2023	2022
Cost of revenues	\$ 63	\$ 63	\$ 50	\$ 40	\$ 63
General & administrative	626	503	380	756	626
Marketing & selling	113	114	74	47	113
Research & development	70	63	59	65	70
Total stock compensation	\$ 872	\$ 743	\$ 563	\$ 908	\$ 872

See Note 7 – “Stock-Based Awards” to the Consolidated Financial Statements included in this Annual Report for additional information relating to the Company’s stock plan.

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**PSYCHEMEDICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2022**

**2. Summary of Significant Accounting Policies(continued)**

**Basic and Diluted Net Loss per Share**

Basic net loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares and dilutive common stock equivalents outstanding during the period. The number of dilutive common stock equivalents outstanding during the period has been determined in accordance with the treasury-stock method. Common equivalent shares consist of common stock issuable upon the exercise of outstanding options and the unvested portion of stock unit awards (“SUAs”).

Basic and diluted weighted average common shares outstanding are as follows (in thousands):

	2022	2021	2020	2023	2022
Weighted average common shares outstanding, basic	5,626	5,549	5,524	5,740	5,626
Dilutive common equivalent shares	-	-	-	-	-
Weighted average common shares outstanding, assuming dilution	5,626	5,549	5,524	5,740	5,626

For the years ended December 31, December 31, 2023, and 2022, 2021 and 2020, options to purchase 508 thousand, 574 512 thousand and 588 508 thousand common shares were outstanding but not included in the dilutive common equivalent share calculation as their effect would have been anti-dilutive.

The following outstanding common stock equivalents were not included in the dilutive common equivalent share calculation as their effect would have been anti-dilutive (in thousands):

	2023	2022
Options	512	508
SUAs	140	238
	652	746

**Fair Value Measurements**

The fair values of the Company’s cash, accounts receivable and accounts payable approximate their carrying values due to their short maturities. The carrying value of the Company’s note payable long term debt approximates its fair value, as it is based on current market rates at which the Company we could borrow funds with similar terms.

**Basis of Preparation and Consolidation**

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries and have been prepared using accounting principles generally accepted in the United States ("U.S. GAAP"). All intercompany transactions and balances have been eliminated.

Segment Reporting

The Company manages its We manage our operations as one segment, drug testing services. As a result, the financial information disclosed herein materially represents all of the financial information related to the Company's our principal operating segment. See Note 1413 – "Business Segment Reporting" to the Consolidated Financial Statements included in this Annual Report for geographic breakdown of revenue.

PSYCHEMEDICS CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2022

2. Summary of Significant Accounting Policies(continued)  
Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-13, 2016-13, Financial Instruments – Credit Losses (Topic 326) 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"2016-13"), which modifies the measurement of expected credit losses on certain financial instruments. The Company will adoptWe adopted ASU 2016-132016-13 in its our first quarter of 2023. Based on the Company's historical credit loss activity, the The adoption of ASU 2016-13 will 2016-13 did not have a material impact on its our consolidated financial statements.

In November 2023, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The ASU requires disclosures to include significant segment expenses that are regularly provided to the chief operating decision maker, among other provisions. The ASU is effective for fiscal year periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted and the ASU requires retrospective application to all prior periods presented in the financial statements. We are currently evaluating the standard to determine the impact of adoption to our consolidated financial statements and disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvement to Income Tax Disclosures to enhance the transparency and decision usefulness of income tax disclosures. The ASU primarily enhances and expands both the income tax rate reconciliation disclosure and the income taxes paid disclosure. The ASU is effective for annual periods beginning after December 15, 2024 on a prospective basis. Early adoption is permitted. We are currently evaluating the standard to determine the impact of adoption to our consolidated financial statements and disclosures.

3. Accounts Receivable

The Company maintainsWe maintain an allowance for uncollectible accounts receivable credit losses based on management's assessment of the collectability of its our customer accounts by reviewing customer payment patterns and other relevant factors. The Company reviewsWe review the adequacy of the allowance for uncollectible accounts credit losses on a quarterly basis and adjusts the balance as determined necessary. Write-offs are recorded at the time a customer account is deemed uncollectable. The following is a rollforward of the Company's our allowance for doubtful accounts credit losses (in thousands):

	As of December 31,		As of December 31,	
	2022	2021	2023	2022
Balance, beginning of period	\$ 89	\$ 37	\$ 87	\$ 89
Provision for doubtful accounts	9	55		
Provision for credit losses			(15)	9
Write-offs	( 11)	( 3)	( 8)	(11)
Balance, end of period	\$ 87	\$ 89	\$ 64	\$ 87

4. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	As of December 31,	
	2022	2021
Accrued compensation and employee benefits	\$ 442	\$ 552
Accrued vacation expense	409	317
Accrued taxes	771	21
Accrued shipping expense	338	409
Accrued legal settlement	1,150	1,150
Other accrued expenses	829	428
Total Accrued Expenses	\$ 3,939	\$ 3,116

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**PSYCHEMEDICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2022**

	As of December 31,	
	2023	2022
Accrued compensation and employee benefits	\$ 640	\$ 442
Accrued vacation expense	317	409
Accrued taxes	553	771
Accrued shipping expense	113	338
Accrued legal settlement	167	1,150
Other accrued expenses	814	829
Total Accrued Expenses	\$ 2,604	\$ 3,939

**5. Income Taxes**

The income tax provision consists of the following (in thousands):

	Year Ended December 31,			Year Ended December 31,	
	2022	2021	2020	2023	2022
Current					
Federal	\$ 552	\$ 131	\$ (2,006)	\$ 99	\$ 552
State	23	84	(2)	(75)	23
Total Current	575	215	(2,008)	24	575
Deferred					
Federal	(959)	(704)	(13)	146	(959)
State	428	333	(326)	546	428
Total Deferred	(531)	(371)	(339)	692	(531)
Income Tax Provision	\$ 44	\$ (156)	\$ (2,347)	\$ 716	\$ 44

A reconciliation of the effective rate with the federal statutory rate is as follows:

	Year Ended December 31,			Year Ended December 31,	
	2022	2021	2020	2023	2022
Federal statutory rate	21.0 %	21.0 %	21.0 %	21.0 %	21.0 %
State income taxes, net of federal benefit	12.0 %	10.4 %	4.4 %	2.1 %	12.0 %
Permanent differences	(0.4%)	47.6 %	0.0 %	(0.1)%	(0.4)%
Stock based compensation	0.5 %	1.4 %	(0.4%)	(1.2)%	0.5 %
Federal R&D Credits	8.9 %	0.0 %	1.6 %	3.5 %	8.9 %

State R&D Credits				2.9 %	0.0 %
Foreign taxes, net of federal benefit	0.0 %	(10.9%)	(2.2%)	0.0 %	0.0 %
Difference in tax rate for carryback claim	0.0 %	0.0 %	13.4 %	0.0 %	0.0 %
Increase/(decrease) in valuation reserve	(46.2%)	(50.5%)	0.0 %		
Change in valuation reserve				(48.9)%	(46.2)%
Effective tax rate	-4.2 %	19.0 %	37.8 %	(20.8)%	(4.2)%

The change in effective tax rate from 20212022 to 20222023 was primarily driven by the Company's 2021 non-taxable debt forgiveness from federal and state R&D credits generated during the Paycheck Protection Plan year. While the amount of credit generated is consistent year over year, the impact on the rate is less significant in 2021 that was included in 2023 due to the larger book loss incurred. As of December 31, 2023, we had no federal net operating loss carryforwards. As of December 31, 2023, we had \$1.6 million of state net operating loss carryforwards, of which \$1.0 million expire at various dates between 2030 and 2043, and \$0.6 million do not expire. As of December 31, 2023, we had no federal tax credit carryforwards and \$1.5 million of California tax credit carryforwards relating to the years 2013 through 2023 which have an unlimited carryforward period. In 2023, the 4.3% state income for GAAP purposes partially tax benefit effective rate primarily consisted of California research tax credits benefit of 2.9%.

The difference between the statutory rate of 21% and our effective tax rate is primarily driven by the benefits related to state taxes and tax credits generated which are offset by the decrease in foreign taxes in 2022.provision related to our valuation allowance. During the year ended December 31, 2023, we recorded a full valuation allowance on the remaining portion of our deferred tax assets. As of December 31, 2022, December 31, 2023, we had gross deferred tax assets of \$3.5 million and gross deferred tax liabilities of \$0.9 million, resulting in net deferred tax assets of \$2.6 million with an offsetting valuation allowance of \$2.6 million. In evaluating the Company realizability of deferred tax assets, we considered the available positive and negative evidence, including being in a three-year cumulative loss position, projected future pre-tax book income (loss) and other quantitative and qualitative information. As of December 31, 2023, we had no federal net operating loss carryforwards. As of December 31, 2022, the Company December 31, 2023, we had \$1.3 million \$1.6 million of state net operating loss carryforwards, of which \$1.2 million \$1.0 million expire at various dates between 2030 and 2040,2043, and \$0.1 million \$0.6 million do not expire. As of December 31, 2022, the Company December 31, 2023, we had no federal tax credit carryforwards and \$1.4 million \$1.5 million of California tax credit carryforwards relating to the years 2013 through 20222023 which have an unlimited carryforward period. In 2022, the 12.0% state income tax effective rate primarily consisted of California research tax credits of 8.3%.

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The components of the net deferred tax liabilities included in the accompanying balance sheets are as follows (in thousands):

	As of December 31,		As of December 31,	
	2022	2021	2023	2022
Deferred Tax Assets				
Allowance for doubtful accounts	\$ 21	\$ 21		
Allowance for credit losses			\$ 15	\$ 21
Accrued expenses	414	129	154	414
Stock-based compensation	381	325	358	381
R&D tax credits	1,086	1,083	1,193	1,086
Operating lease	701	944	488	701
Capitalized research expenses	404	-	1,228	404
NOL carryforward	72	219	87	72
Gross Deferred Tax Assets	3,079	2,721	3,523	3,079
Valuation Allowance	( 895)	( 414)	(2,579)	(895)
Deferred Tax Assets After Valuation Allowance	2,184	2,307	944	2,184
Deferred Tax Liabilities				
Excess of tax over book depreciation and amortization	( 783)	( 1,249)	(447)	(783)
Prepaid expenses	( 78)	( 61)	(70)	(78)
Operating lease	( 632)	( 837)	(427)	(632)
Gross Deferred Tax Liabilities	( 1,493)	( 2,147)	(944)	(1,493)
Net Deferred Tax Assets	\$ 691	\$ 160	\$ -	\$ 691

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**PSYCHEMEDICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2022**

**5. Income Taxes (continued)**

Income taxes are recorded in accordance with FASB ASC Topic 740, Income Taxes ("ASC 740"), which provides for deferred taxes using an asset and liability approach. **The Company recognizes** **We recognize** deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided, if, based upon the weight of available evidence, it is more likely than not that some or all of the net deferred tax assets will not be realized. **The Company adopted ASU 2019-12 as of January 1, 2021, with no material impact to the Company's consolidated financial statements.**

ASC 740 contains a **two-step two-step** approach to recognizing and measuring uncertain tax positions (tax contingencies). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on an audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. **The Company considers** **We consider** many factors when evaluating and estimating **the Company's our** tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes. **The Company We** had immaterial uncertain tax positions at **December 31, December 31, 2023, and 2022, and 2021,** respectively.

**The Company operates** **We operate** within multiple taxing jurisdictions and could be subject to audit in these jurisdictions. These audits may involve complex issues, which may require an extended period of time to resolve. **The Company has** **We have** provided for **its our** estimated taxes payable in the accompanying financial statements. **The Company's Our** policy is to recognize interest and penalties related to income tax matters as a general and administrative expense, when and if incurred. Interest and penalties for the years ended **December 31, December 31, 2023, 2022, 2021 or 2020 2021** were not material.

**6. Preferred Stock**

The Board of Directors has the authority to designate authorized preferred shares in one or more series and to fix the relative rights and preferences without vote or action by the stockholders. The Board of Directors has no present plans to designate or issue any shares of preferred stock.

**7. Stock-Based Awards**

The 2006 Incentive Plan initially adopted in 2006 provides for grants of options with terms of up to ten years, grants of restricted stock or stock unit awards ("SUAs"), issuances of stock bonuses or grants other stock-based awards plus cash-based awards, to officers, directors, employees, and consultants. Such shares are issuable out of **the Company's our** authorized but unissued common stock. In May 2021, the 2006 Incentive Plan was amended to increase the total number of shares issuable thereunder from 1.2 million to 1.6 million. As of **December 31, 2022, 183 December 31, 2023, 576** thousand shares remained available for future grant under the 2006 Incentive Plan.

**On August 17, 2023, we granted Brian Hullinger, in connection with the commencement of his employment as our Chief Executive Officer and President, as an inducement grant outside of the 2006 Incentive Plan, under Nasdaq Listing Rule 5635(c)(4), options to acquire 300,000 shares of common stock. The options have a ten-year term and an exercise price of \$4.64 per share, the closing price per share of Psychemedics Corporation common stock as reported by Nasdaq on August 17, 2023. The options were awarded in three tranches. Under the first tranche, option awards covering up to 100,000 shares vest over two years, with 50% of the original number of shares underlying the option vesting on the one-year anniversary of the date of grant and 50% on the two-year anniversary of the grant, subject to continued service with the Company through the applicable vesting dates. Under the second and third tranches, options to acquire 100,000 shares each were granted and each becomes exercisable in full only upon the attainment and continuation in effect for a specified period of time of a particular stock price on the Nasdaq Stock Market.**

**In addition, on September 21, 2023, we granted Shannon Shoemaker, in connection with the commencement of her employment as our Chief Revenue Officer, grants of options to acquire 120,000 shares of common stock. The options have a ten-year term and an exercise price of \$3.66 per share, the closing price per share of Psychemedics Corporation common stock as reported by Nasdaq on September 21, 2023. The options were awarded in three tranches. Under the first tranche, option awards covering up to 40,000 shares vest over two years, with 50% of the original number of shares underlying the option vesting on the one-year anniversary of the date of grant and 50% on the two-year anniversary of the grant, subject to continued service with the Company through the applicable vesting dates. Under the second and third tranches, options to acquire 40,000 shares each were granted and each becomes exercisable in full only upon the attainment and continuation in effect for a specified period of time of a particular stock price on the Nasdaq Stock Market.**

The fair value of the SUAs is determined by the closing price on the date of grant. The fair value of options **is determined** **granted with only service conditions** are estimated on **the date of grant using a Black-Scholes option pricing model. The fair value of options granted with market conditions** are estimated at the grant date using a Monte Carlo simulation model. The SUAs and options **with only service conditions** vest over a period of two to four years and are convertible or exercisable into an equivalent number of shares of the Company's common stock provided that the employee receiving the award remains continuously employed throughout the vesting period. **The Company records** **As described**

above, certain options vest and become exercisable upon the attainment of certain market conditions of the Company's common stock. We record stock compensation expense related to the SUAs and options on a straight-line basis over the vesting term. Employees are issued shares upon vesting of SUAs, net of tax withholdings. As a result of our adoption of ASU 2016-09 in 2016, we term or requisite service period. We recognize the impact of forfeitures when they occur with no adjustment for estimated forfeitures and recognize excess tax benefits as a reduction of income tax expense regardless of whether the benefit reduces income taxes payable.

**PSYCHEMEDICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. Stock-Based Awards (continued)**

On April 4, 2022, the Company April 4, 2022, we granted SUAs covering two thousand shares of common stock. On May 20, 2022, the Company granted SUAs covering 126 thousand shares of common stock. On August 12, 2022, the Company May 20, 2022, we granted SUAs covering 125 thousand shares of common stock. On August 12, 2022, we granted SUAs covering 18 thousand shares of common stock.

The following table represents all shares granted by the Company under the 2006 Incentive Plan, and under inducement awards outside of any plan, for the last threetwo years (shares in thousands):

Grant Date	Type	Shares	Fair Value Per Share
August 12, 2022	SUA	18	\$
May 20, 2022	SUA	126	\$
April 4, 2022	SUA	2	\$
May 13, 2021	SUA	116	\$
March 16, 2021	SUA	2	\$
January 25, 2021	SUA	2	\$
December 16, 2020	SUA	5	\$
November 11, 2020	Options	40	\$
November 11, 2020	SUA	190	\$

Grant Date	Type	Shares	Weighted Average Fair Value Per Share (1)
September 21, 2023	Options	120	\$ 1.66
August 17, 2023	Options	300	\$ 2.04
August 17, 2023	SUA	91	\$ 4.64
August 12, 2022	SUA	18	\$ 6.65
May 20, 2022	SUA	126	\$ 6.51
April 4, 2022	SUA	2	\$ 7.04

(1) (1) The fair value for the SUA's SUAs is the closing price of the Company's stock on that date. The fair value for options represents the fair value calculated using either the Black-Scholes model, model or a Monte Carlo simulation. Options have contractual lives of 10 years. The options granted on November 11, 2020, in 2023 have a fair value of \$1.13 per share based on the \$4.07 grant date and exercise prices and assuming 6.25 and 5.75 year estimated terms, 45% volatility, 0.9% interest rate and a 4.0% dividend yield rate. No options were granted during fiscal years ended December 31, 2022, and 2021. For options granted during fiscal year ended December 31, 2020, the weighted average grant date fair value was \$3.47. of \$1.93 per share assuming 1.53 year weighted average estimated service period, 36.4% volatility, 4.7% interest rate and a 0% dividend yield rate. No options were granted during fiscal year ended December 31, 2022. For SUAs granted during fiscal years ended December 31, December 31, 2023 and 2022, 2021 and 2020, the weighted average grant date fair values were \$6.53, \$6.55, \$4.64 and \$4.89, \$6.53, respectively.

A summary of the Company's stock option activity is as follows (in thousands, except price per share):

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (2)	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (2)
Outstanding, December 31, 2021	574	\$ 14.23	6.1 years	\$ 100				
Outstanding, December 31, 2022					508	\$ 14.19	5.1	\$ 25
Granted	-	\$ -			420	\$ 4.36		
Exercised	(1)	\$ 4.07						
Forfeited	(1)	\$ 4.07			(12)	\$ 1.13		
Canceled	(64)	\$ 15.03			(404)	\$ 14.26		
Outstanding, December 31, 2022	508	\$ 14.19	5.1 years	\$ 25				
Outstanding, December 31, 2023					512	\$ 6.32	8.7	\$ -
Exercisable, December 31, 2022	467	\$ 14.70	4.9 years	\$ 14				
Exercisable, December 31, 2023					90	\$ 15.53	4.0	\$ -

(2) (2) The aggregate intrinsic value on this table was calculated based on the amount, if any, by which the closing market price of the Company's stock on December 31 of the applicable year exceeded the exercise price of any of the underlying options, multiplied by the number of shares subject to each such option. The closing stock price as of December 31, December 31, 2023, and 2022 was \$2.96 and 2021 was \$4.90, and \$7.02, respectively.

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**PSYCHEMEDICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. Stock-Based Awards (continued)**

A summary of the Company's stock unit award activity is as follows (in thousands, except price per share):

Number of Shares	Weighted Average	
	Number of Shares	Weighted Grant-Date per S
Outstanding & Unvested, December 31, 2021	224	\$
Granted	146	\$
Converted to common stock	(90 )	\$
Cancelled	(12 )	\$
Forfeited	(30 )	\$
Outstanding & Unvested, December 31, 2022	238	\$
Granted	91	\$
Converted to common stock	(127 )	\$
Cancelled	(11 )	\$
Forfeited	(51 )	\$
Outstanding & Unvested, December 31, 2023	140	\$

(3) (3) Weighted average price per share is the weighted grant price based on the closing market price of each of the stock grants related to each weighted average share price times the number of shares.

The fair value of stock unit award vesting was \$548 thousand, \$296 \$786 thousand and \$274 \$548 thousand for the years ended December 31, 2022, 2021, and 2020, respectively. The intrinsic value of stock unit awards converted to common stock was based on the stock price on the vesting date and amounted to \$650 thousand, \$5 ended December 31, 2022, 2021, and 2020, respectively.

As of December 31, 2022, a total of 1,032 thousand shares of common stock were reserved for issuance under 2006 Incentive Plan. As of December 31, 2022, the value of outstanding options and awards was \$1.2 million to be amortized over a weighted average period of 2.3147 years.

The Board of Directors approved the accelerated vesting of 3550 thousand SUAs to the former Chief Executive Officer and a certain directors and Directors of the Company during the year ended December 31, 2022. The Company December 31, 2023. We determined the value of the modifications to compensation in the accompanying consolidated financial statements, for the year ended December 31, 2022. December 31, 2023.

## 8. Employee Benefit Plan

The Psychemedics Corporation 401(k) 401(k) Savings and Retirement Plan (the "401(k) 401(k) Plan") is a qualified defined contribution plan in accordance with the Internal Revenue Code. All employees over the age of 21 are eligible to make pre-tax contributions up to a specified percentage of their compensation. Under the 401(k) 401(k) Plan, the Company matches a portion of the employees' contributions up to a defined maximum. Matching No matching contributions of zero, zero, and \$198 thousand were made in 2020, 2021, and 2022, respectively. December 31, 2023 or 2022.

## 9. Commitments and Contingencies

### Commitments

The Company leases We lease certain of its our facilities and equipment under operating lease agreements expiring on various dates through December 31, 2023. Scheduled increases, are charged to operations on the straight-line basis over the life of the respective lease. Rent expense was \$1.0 million, \$1.1 million, and \$1.2 million in 2020, 2021, and 2022, respectively. See Note 10 – "Operating Leases" to the Consolidated Financial Statements included in this Annual Report for commitments remaining at December 31, 2022.

### Contingencies

In the normal course of business, we are subject to contingencies, such as legal proceedings and claims arising out of our business, that cover a wide range of matters, including investigations, shareholder lawsuits, product liability, contractual claims and tax matters. We recognize accruals for such contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. These estimates are subject to uncertainties that are difficult to predict and, as such, actual results could vary from these estimates.

### Settlements

On December 6, 2021, the Company entered into a binding Memorandum of Understanding (the "MOU") November 2, 2023, we paid \$1.2 million to settle certain California wage and hour laws. The the lawsuit Enma Sagastume v. Psychemedics Corporation, Case No.2:20-CV-06624-DSF, is 20-CV-06624-DSF, filed in the U.S. District Court for the Central District of California (the "California Lawsuit") and California. This matter is similar to numerous lawsuits filed against employers with respect to California wage and hour laws.

In the binding MOU, the parties agreed to settle this matter for a payment by the Company As of \$1.2 million in exchange for the dismissal of the California Lawsuit, subject only to final court approval and the process described below. Factoring in that process, the Company estimates that the settlement funds will be dispersed within 90 days of final court approval.

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Although the Company believes that the allegations in the California Lawsuit lack merit, it agreed at a mediation to enter into the binding MOU to settle the California Lawsuit, which includes payment of potentially significant legal fees, other expenses, and management time that would have to be devoted to protracted litigation in California regarding the California Lawsuit, in part by new California case law in February 2021 regarding meal period compliance. The allegations in the California Lawsuit relate to alleged violations of California law and other alleged compliance discrepancies relating to the California wage and hour laws with respect to non-exempt hourly employees since June 9, 2017. The California Lawsuit sought recovery of wages, penalties, interest, attorneys' fees and other alleged damages. As part of the settlement, the Company agreed to discontinue its wrongdoing with respect to the claims made in the California Lawsuit.

The MOU assumes class certification for purposes of the settlement only. The settlement amount of \$1.2 million, which includes plaintiff attorneys' fees and costs, is subject to any adjustments in the final class size and the exact period to be covered, as determined by the court's final approval. However, the Company's obligation to settle the California Lawsuit is immaterial. Once court approved, in exchange for the settlement payment, the plaintiff and all class members who do not opt out of the settlement will be released from the subject matter of the California Lawsuit, including any claims of such persons under California's Private Attorneys' General Act of 2004. Such release is subject to final court approval as is customary, the MOU expressly provides that it is binding on and enforceable by each of the parties thereto, including the Company and its successor to the Company. The Company has the right to revoke the settlement prior to court approval in the event opt-outs, if any, from the class members. As of December 31, 2022, the Company has a \$1.2 million liability reserve December 31, 2023, we paid \$334 thousand in connection with the California Lawsuit as a previously disclosed contract dispute. The remaining balance of December 31, 2022, and 2021 \$167 thousand, is due on or before December 31, 2024, which is included in accrued expenses.

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**PSYCHEMEDICS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**10. Operating Leases**

The Company has **We have** five operating leases for office and laboratory space used to conduct business. The exercise of lease renewal options is lease terms included in our Right-Of-Use ("ROU") assets and lease liabilities as they are not reasonably certain of exercise. The Company **We** regularly exercise lease renewal options that are reasonably certain of exercise. As most of the Company's **our** leases do not provide an implicit rate, the Company uses **we use** the incremental borrowing rate at the commencement date in determining the net present value (NPV) of the lease payments.

The weighted average discount rate used for leases as of December 31, 2022, **December 31, 2023, is 3.8% 3.9%**. The weighted average lease term for leases as of December 31, 2022, **December 31, 2023, and 2022, was \$1.1 million and 2021, was \$1.0 million**.

Maturities and balance sheet presentation of the Company's **our** lease liabilities for all operating leases as of December 31, 2022, **December 31, 2023**

Total lease payable
Less:
Present value of lease liability
Current operating lease liability
Long-term operating lease liability

**11. Debt and Other Financing Arrangements**

On March 20, 2014, the Company **March 20, 2014, we** entered into an equipment financing arrangement with Banc of America Leasing & Capital, most recently on March 23, 2021, **March 23, 2021, including** a Master Loan and Security Agreement and related documentation (collectively the "Equipment Loan Arrangement") with the ability to finance, at its **our** option, up to \$16 million of new and used equipment purchases. Each such purchase financed under the Equipment Loan Arrangement was secured by a first priority security interest in the equipment purchased. The equipment note with a maturity date of 60 months from the applicable loan date. The loans bore interest at the then current 30-day **30-day LIBOR rate plus** interest were payable over the 60 month repayment period. Borrowings under the Equipment Loan Arrangement were secured by a first priority security interest in the equipment purchased. Under the Equipment Loan Arrangement, the Company has **we had** been subject to a maximum quarterly funded debt to EBITDA ratio and this ratio was waived for certain quarters in 2020 and 2021. The Company was **We were not** in compliance with all covenants under the Equipment Loan Arrangement as of December 31, 2022. **December 31, 2023. Subsequent to December 31, 2023, we received a waiver from the lender.**

Under the Equipment Loan Arrangement, the Company **we** executed notes on various dates between March 24, 2014, **March 24, 2014, and December 31, 2022, \$12.2 million, of which \$0.7 million \$0.3 million and \$0.7 million were repaid in 2022 2023 and 2021, 2022, respectively.** As of December 31, 2022, **December 31, 2023, the equipment notes was \$0.6 million \$0.3 million.** The weighted average interest rate for these notes for the year ended December 31, 2022, **December 31, 2023, the weighted average interest rate was 3.8%.**

On May 1, 2020, the Company entered into a term loan with Bank of America N.A. under the PPP administered by the United States Small Business Administration ("PPP Loan"). The principal amount of the PPP Loan was \$2.1 million, which was evidenced by a promissory note with a maturity date of May 4, 2022, and an interest rate of one percent (1%) per annum.

In July 2021, the PPP Loan was 100% forgiven by the SBA and recorded as a gain on forgiveness of the PPP Loan in the 2021 consolidated statement of income.

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The annual principal repayment requirements for debt obligations as of December 31, 2022, **December 31, 2023, are as follows (in thousands):**

2023	\$
2024	\$

Long-term debt from equipment financing  
Less current portion of long-term debt from equipment financing  
Long-term debt from equipment financing, net of current portion

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\$

PSYCHEMEDICS CORPORATION  
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2024

Long-term debt from equipment financing  
Less current portion of long-term debt from equipment financing  
Long-term debt from equipment financing, net of current portion

\$

12. Other Income/(Expense)

Interest expense for the year years ended December 31, December 31, 2023 and 2022, 2021, and 2020 was \$32 thousand, \$49 \$17 thousand and income for the years ended December 31, December 31, 2023 or 2022. Settlement expense for the years ended December 31, 2023 and 2022, 2021, was Note 9 for discussion of settlements. Settlement expense and interest expense is included as a component of other income (expense) on the acc comprehensive loss.

13. Business Segment Reporting

The Company manages its We manage our operations as one segment, drug testing services. As a result, the financial information disclosed herein to the Company's our principal operating segment. The Company's Our revenues by geographic region, based on the location of the customer, were as follo

	Year Ended December 31,		
	2022	2021	
Consolidated Revenue:			
United States	\$ 24,509	\$ 23,584	\$
International	731	1,325	
Total Revenue	\$ 25,240	\$ 24,909	\$

14. Subsequent Event

On March 21, 2023, the Company declared a quarterly cash dividend of \$0.07 per share, payable on April 10, 2023 to shareholders of record on Ma

	2023
Consolidated Revenue:	
United States	\$
International	
Total Revenue	\$

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures

The Company **We** carried out an evaluation as of **December 31, 2022** **December 31, 2023**, under the supervision and with the participation of our Controller **Vice President of Finance** as well as a third-party internal control firm, of the effectiveness of the design and operation of our disclosure control and 15d-15(e) under the Securities Exchange Act. Based upon that evaluation, our Chief Executive Officer and Controller **Vice President of Finance** have been effective as of **December 31, 2022** **December 31, 2023**, to ensure that information required to be disclosed in the reports that the Company files recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (including our Chief Executive Officer and Controller, **Vice President of Finance**, as appropriate to allow timely decisions regarding required disclosure.

#### **b) Management's Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as defined by the Sarbanes-Oxley Act of 2002. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems that provide reasonable assurance, as opposed to absolute assurance, of achieving their internal control objectives.

Management, including our Chief Executive Officer and Controller, **Vice President of Finance**, conducted an assessment of the Company's internal control over financial reporting as of **2022** **December 31, 2023**, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the American Institute of Certified Public Accountants. In the assessment, management, including our Chief Executive Officer and **Vice President of Finance** concluded that, as of **December 31, 2022** **December 31, 2023**, the Company's internal control over financial reporting is effective.

#### **c) Changes in Internal Control over Financial Reporting**

There was no change the Company's **to our** internal control over financial reporting during the Company's **our** most recent fiscal quarter that has materially affected the Company's **our** internal control over financial reporting.

#### **Item 9B. Other Information**

On March 21, 2023, the Board established August 17, 2023, as the scheduled date of the Company's 2023 annual meeting of stockholders (the "2023 Annual Meeting"). The Company will publish additional details regarding the 2023 Annual Meeting, including its record date and the exact time, location and matters to be voted on at the 2023 Annual Meeting when it is filed, which the Company currently expects will be in late June 2023.

On March 21, 2023, the Company entered into new change in control severance agreements with Raymond C. Kubacki, Chairman, Chief Executive Officer. The agreements each run until May 2, 2024. They provide that if, during the term, the Company terminates the employee's employment (whether by termination without cause, death or disability (as defined in the agreement) or if the employee terminates his employment for Good Reason (as defined below), in the event of a change in control (as defined in the agreement), he will be entitled to receive a continuation of base salary for a period of up to twelve months from the date of termination. In the event of a termination solely on account of a change in location would give rise to a continuation of base salary for a period of up to six months rather than a reduction in base salary then in effect, a material decrease in duties or responsibilities, or, in the case of Mr. Kubacki, a change of location. The Company is not a competitor of the Company or from soliciting employees of the Company during the period he is eligible to receive salary continuation under the agreement. The agreement was executed in 2018, which had a five-year term and expired in February 2023. Mr. Doucot's agreement was in replacement of his agreement which was due to expire in May 2023.

The foregoing summary of the change in control severance agreements with Messrs. Kubacki and Doucot does not purport to be complete and is not intended to be relied upon in connection with any securities offering. The Company's control severance agreements with such executives which are attached hereto as Exhibits and are incorporated by reference into this report.

#### **Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not Applicable.

### **PART III**

#### **Item 10. Directors, Executive Officers and Corporate Governance**

Following is a list that sets forth the names, ages and positions within the Company of all of the Executive Officers of the Company and the Directors of the Company chosen to become directors, in each case, as of **March 24, 2023** **March 28, 2024**.



Michael I. Schaffer has served as Vice President of Laboratory Operations since 1999. From December 2016 – December 2020, Dr. Schaffer served as a member of the Drug Abuse Testing Board (DTAB) which advises the administrator of Substance Abuse and Mental Health Services Administration (SAMHSA) on drug testing activities. Dr. Schaffer served as Director of Toxicology, Technical Manager and Responsible Person for the Leesburg, Florida laboratory of SmithKline Beecham Company. He is also a member of the Board of Directors of the American Board of Forensic Toxicologists. He has been Board certified since 1977. Dr. Schaffer has been a member of the American Society of Forensic Pathologists since 1990. Dr. Schaffer received a Ph. D from the University of Chicago in Pharmacology and Toxicology, a B.S. in Zoology from the University of Illinois, College of Pharmacy. He has served as Chairman of the Society of Forensic Toxicologists and the American Academy of Forensic Sciences. He was awarded the Alexander O. Gettler Award for outstanding contribution to the field of Forensic Toxicology in 2021.

Darius G. Nevin has served as a member of our Board since 2022 and as Chairman since August, 2022. 2023. Mr. Nevin has been a member of G3 Capital Partners, LLC, a provider of interactive security solutions for home and business owners, since 2016, and of Cohealo, Inc., a provider of interactive security solutions for home and business owners, since 2016, and of Alarm.com Holdings, Inc. (NASDAQ: ALRM), a provider of interactive security solutions for home and business owners, since 2016, and of Cohealo, Inc., a provider of interactive security solutions for home and business owners, since 2016. Prior to co-founding G3 Capital Partners, LLC, Mr. Nevin served as chief financial officer of Protect Health Systems, Inc. until June 2010. He served as a director and chairman of the audit committee of WCI Communities, Inc., a then publicly traded community developer and landlord, until February 2017. Mr. Nevin earned an A.B. from Harvard College and an M.B.A. from the University of Chicago Booth School of Business.

Fred J. Weinert is an entrepreneur who currently serves as President of Barrington Services Group, an international business consulting and real estate development group. From 1989 to 1995, Mr. Weinert was President of MW Partners LP, a private partnership, focused on retail product and services. He also an early-stage equity investor in Psychemedics. From 1973 to 1989 Mr. Weinert had an expansive career with Waste Management (WM). He was a Senior Vice President of WM International with responsibility for business development, partner relations, and operations in Argentina, Saudi Arabia, Australia, New Zealand, and the United Kingdom. At WM, Mr. Weinert held other positions including Vice President, Mobilization Director, Regional Controller and Financial Analyst for acquisitions and divestitures. Prior to WM, Mr. Weinert was an Accounting Manager and Controller for a private company, and a public auditor for Arthur Andersen & Co. Mr. Weinert received a B.S. in Accounting from the University of Dayton in 1973. Mr. Weinert served as a member of the UD School of Business Advisory Council for 22 years, and in 2002 Mr. Weinert was awarded the UD Alumni Lifetime Achievement Award as the Department of Accounting Alumnus of the year. Mr. Weinert has been a director of the Company since 1991.

Andrew M. Reynolds serves as an independent director for AddSecure, and Idle Smart, and Linup. Smart. From June 2011 until December 2011, Mr. Reynolds served as Senior Vice President of Global Business Development at Fleetmatics, PLC, of Dublin, Ireland (FLT). From July 2007 until January 2011, Mr. Reynolds served as Senior Vice President of the Global Business Development Group (ARTG). From September 2002 until June 2007, Mr. Reynolds served as Vice President of Corporate Development for Hyperion Solutions Corporation. Mr. Reynolds holds a B.S. in Economics from Dartmouth University and an A.B. from Dartmouth College. Mr. Reynolds has served as a member of our Board since April 2022.

The Company strives to have the members of its Board of Directors possess a diverse set of skills and background so as to best provide guidance. While the Nominating and Corporate Governance Committee does not have a formal policy in this regard, the Nominating and Corporate Governance Committee considers the skills, experience, skills and viewpoint, as well as diversity of gender and race. The Nominating and Corporate Governance Committee does not assign specific skills to individual nominees. Skills sought include financial, capital markets, executive leadership, sales and marketing, domestic and international business development, and public relations.

The Company recognizes Mr. Hullinger has served as Chief Executive Officer and as a member of our Board since August, 2023. Mr. Nevin has served as an independent director since August, 2023. We believe that our independent, experienced directors, who currently and will continue to constitute a majority of our Board, benefit Psychemedics and its stockholders. We believe that our current corporate governance structures may be appropriate for companies in different situations and believe that no one structure is suitable for all companies. We believe that our current corporate governance demonstrates to our employees, suppliers, customers, and other stakeholders that we are under strong leadership, with a single person setting the tone for the Company's operations. A single leader for both benefits the Company and the Board of Directors eliminates the potential for confusion or duplication of efforts and provides for efficient operations.

Because the positions of Chairman of the Board and Chief Executive Officer are held by the same person, the Board also believes it is appropriate to have an independent director to serve as a Lead Independent Director. In addition to presiding at executive sessions of independent directors, the Lead Independent Director will work with the Chairman of the Board and Chief Executive Officer in establishing the agenda and topic items for Board meetings; (2) retain independent advisors as necessary or appropriate; and (3) perform such other functions as the independent directors may designate from time to time. Mr. Weinert currently serves as the Lead Independent Director and has held this position since March 2021.

Our overall leadership structure consists of a single individual serving as Chief Executive Officer and Chairman of the Board, with independent directors providing oversight. Having a single leader for both the Company and the Board eliminates the potential for confusion or duplication of efforts. We believe that this structure is in the best interests of the Company and its stockholders.

The Company has a code of ethics that applies to all employees and non-employee directors. This code satisfies the requirements set forth in Item 403 of the SEC's Regulation S-K. The Company will mail to interested parties a copy of the Code of Ethics upon written request and without charge. Such request shall be directed to the Secretary, 5220 Spring Valley Road, Acton, Massachusetts 01720. Suite 230, Dallas, TX 75254.

#### **Audit Committee**

The Audit Committee, whose members are Ms. Davis, Messrs. Kamin, Nevin, and Messrs. Nevin, Reynolds, and Weinert, reviews the appropriateness of accounting principles and policies and the integrity of financial statements reported to the public, and compliance with legal and regulatory requirements. The Board has determined that each member is an "independent director" under the rules of the Nasdaq Stock Market governing the qualifications of the members of audit committees, and each member is qualified to serve on the Audit Committee under the Nasdaq Stock Market regarding competency in financial matters. In addition, the Board of Directors has determined that Mr. Weinert, Nevin, the Chairman, is a "Financial Expert" as defined by the Securities and Exchange Commission rules.

#### **Compensation Committee**

Ms. Davis and Messrs. Kamin and Reynolds serve on our compensation committee. Mr. Reynolds serves as the chair of the compensation committee. The compensation committee operates under a written charter that satisfies the requirements for independence for compensation committee members under the Nasdaq listing standards and SEC rules and regulations, including Rule 101(b)(2) of Regulation S-K. The compensation committee is also a non-employee director, as defined pursuant to Rule 16b-3 promulgated under the Exchange Act. Our compensation committee charter is available on our website at [www.psychemedics.com](http://www.psychemedics.com) under Investors – Governance Documents.

- annually reviewing and approving corporate goals and objectives relevant to compensation of our chief executive officer and our other executive officers;
- determining the compensation of our chief executive officer and our other executive officers;
- reviewing and making recommendations to our board of directors with respect to director compensation; and
- overseeing and administering our equity incentive plans.

Our Chief Executive Officer makes compensation recommendations for our other executive officers and initially proposes the corporate and departmental bonus plans to the compensation committee. Our compensation committee operates under a written charter that satisfies the applicable Nasdaq listing standards. A copy of the charter of our compensation committee is available on our website at [www.psychemedics.com](http://www.psychemedics.com) under Investors – Governance Documents.

#### **Nominating and Corporate Governance Committee**

Ms. Davis and Messrs. Nevin and Kamin serve on our nominating and corporate governance committee. Ms. Davis serves as the chair of the committee. The nominating and corporate governance committee meets the requirements for independence under the Nasdaq listing standards and SEC rules. The nominating and corporate governance committee is responsible for, among other things:

- identifying individuals qualified to become members of our board of directors;
- recommending to our board of directors the persons to be nominated for election as directors and to each of our board's committees;
- reviewing and making recommendations to our board of directors with respect to management succession planning;
- developing, updating and recommending to our board of directors corporate governance principles and policies; and
- overseeing the evaluation of our board of directors and committees.

Our nominating and corporate governance committee operates under a written charter that satisfies the applicable Nasdaq listing standards. A copy of the charter of our nominating and corporate governance committee is available on our website at [www.psychemedics.com](http://www.psychemedics.com) under "Investors – Governance Documents".

### **Item 11. Executive Compensation**

#### **Director Compensation**

Mr. Kubacki ~~Hullinger~~ receives no additional compensation for serving on the Company's Board of Directors. Each ~~Prior August 17, 2023~~, each of the cash compensation of \$12,500 per quarter served in 2022. Both Messrs. Kamin and Nevin received pro-rated quarter. Effective as of August 17, 2023, the since they were elected on August 12, 2022. was reduced to \$10,000 per quarter. In addition, Mr. Weinert prior to August 17, 2023, the respective chairs of Independent Director (which is no longer a position) received additional cash compensation of \$15,000 in 2022 for serving as Chairman in such positions director and \$40,300 all such additional fees for serving as Lead Independent Director and as the Board's corporate governance representative overseer ceased on August 17, 2023. Each of the outside directors has also been granted from time-to-time equity awards under the Company's equity compensation case 2023. For the most recent grant in August, 2023, the directors were granted stock unit awards or non-qualified stock options with an equivalent fair value the number of shares covered thereunder full on approximately the first anniversary of the date of grant, and with respect to the balance of 50% of the share grant. Any unvested stock unit awards or options generally terminate upon the cessation of a recipient's service as a member of the Board of Directors, subject to account of death or permanent disability. In the event of a change in control of the Company (as defined in the stock unit award or option agreement evidencing fully vested immediately prior to the effective date of such change in control.

The following table shows, for the fiscal year ended ~~December 31, 2022~~ December 31, 2023, the compensation paid by the Company or accrued for services compensation paid to Mr. ~~Raymond C.~~ Kubacki for his service as Chairman, Chief Executive Officer and President, and as a consultant, and as of August 17, 2023. Officer and President is reported in the Summary Compensation Table under the caption "Executive Compensation" below.

Director Compensation for Fiscal Year Ended ~~December 31, 2022~~ December 31, 2023

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Name	Fees Earned or Paid in Cash	Stock Awards (1)	Option Awards (1)	All other Compensation (4) (4)	Total	Total Compensation
Robyn C. Davis	\$ 50,000	\$ 78,120 (2)	\$ - (3)	\$ -	\$ 128,120	\$ 128,120
Harry F. Connick*	\$ 12,500	\$ - (2)	\$ - (3)	\$ -	\$ 12,500	\$ 12,500
Peter H. Kamin	\$ 18,750	\$ 59,850 (2)	\$ - (3)	\$ -	\$ 78,600	\$ 78,600
Darius G. Nevin	\$ 18,750	\$ 59,850 (2)	\$ - (3)	\$ -	\$ 78,600	\$ 78,600
Andrew M. Reynolds	\$ 37,500	\$ 78,120 (2)	\$ - (3)	\$ -	\$ 115,620	\$ 115,620
Walter S. Tomenson, Jr.**	\$ 31,250	\$ 78,120 (2)	\$ - (3)	\$ -	\$ 109,370	\$ 109,370
Fred J. Weinert	\$ 105,300	\$ 78,120 (2)	\$ - (3)	\$ -	\$ 183,420	\$ 183,420
Fred J. Weinert*						\$ 66,000

\* Director Harry F. Connick ~~Fred J. Weinert~~ retired from the Board of Directors on April 4, 2022.

\*\* Director Walter S. Tomenson, Jr. retired from August 17, 2023, but served as a consultant to the Board Company through the end of Directors on August 17, 2023.

(1) The amounts in columns (c) and (d) reflect the grant date fair values of awards and options to the named individuals in ~~2022~~, 2023.

(2) As of ~~December 31, 2022~~ December 31, 2023, the number of shares underlying unvested stock unit awards held by the non-employee directors was 20,000, of which 6,000 shares vest on April 30, 2023; Mr. Kamin: 9,000, of which 4,500 vest on August 12, 2023 April 30, 2024, and the balance vest on August 12, 2024 August 17, 2024; Mr. Kamin: 18,500, of which 4,500 vest on August 12, 2023 August 12, 2024, and the balance vest on August 12, 2024 August 17, 2024; Mr. Nevin: 18,500, of which 4,500 vest on August 12, 2023 August 12, 2024, and the balance vest on August 12, 2024 August 17, 2024; Mr. Reynolds: 21,000, of which 1,000 shares vested on March 16, 2023, and the balance vest on April 30, 2024 August 17, 2024; and Ms. Davis: 18,500, Mr. Reynolds: 21,000, of which 1,000 shares vested on March 16, 2023, and the balance vest on April 30, 2024, and 14,000 vest on August 17, 2024; Mr. Tomenson: 0; Mr. Weinert: 0.

(3) As of ~~December 31, 2022~~ December 31, 2023, the number of shares underlying non-qualified stock options held by the non-employee directors was 2,000; and Mr. Weinert: 81,500. Weinert (who retired in 2023): 81,500 (all of which expired on January 31, 2024).

- (4) Any perquisites or other personal benefits received from the Company by the named director were less than the reporting thresholds established by the SEC Commission (\$10,000).

## EXECUTIVE COMPENSATION

### Overview of Executive Compensation Program

The Compensation Committee of the Board has responsibility for establishing, implementing and continually monitoring adherence to the Company's Compensation Policy. The Compensation Committee ensures that the total compensation paid to the executive officers is fair, reasonable and competitive.

Throughout this annual report the individual **individuals** who served as the Company's Chief Executive Officer during fiscal **2022, 2023**, as well as the compensated executive officers other than the Chief Executive Officer, **plus two additional individuals who were formerly named executive officers, but were not** included in the Summary Compensation Table below and are referred to as the "named executive officers".

### Compensation Philosophy and Objectives

The Compensation Committee believes that the most effective executive compensation program is one that is designed to reward the achievement of the Company, and which aligns executives' interests with those of the stockholders by rewarding performance with the ultimate objective of improving stockholder value. The Committee believes that both performance and compensation to ensure that the Company maintains its ability to attract and retain superior employees in key positions and to remain competitive relative to the compensation paid to similarly situated executives of similarly sized public companies. To that end, the Compensation Committee believes that the compensation provided by the Company to its executives, including the named executive officers, should include both cash and stock-based compensation and should be measured against established goals.

### Role of Executive Officers in Compensation Decisions

The Compensation Committee makes all compensation decisions for the Chief Executive Officer but takes into account his recommendations and input from other executive officers.

The Chief Executive Officer annually reviews the performance of each other executive officer. The conclusions reached and recommendations for adjustments and annual award amounts, are presented to the Compensation Committee. The Compensation Committee can exercise its discretion in setting executive compensation.

### Setting Executive Compensation

Based on the foregoing objectives, the Compensation Committee has structured the Company's annual and long-term incentive-based compensation programs to enable executives to achieve the business goals set by the Company and reward the executives for achieving such goals.

In making compensation decisions, the Compensation Committee compares each element of total compensation against what the Compensation Committee believes is paid to similarly situated executives at comparably sized publicly-traded and privately-held companies.

A significant percentage of total compensation is allocated to incentives as a result of the philosophy mentioned above. The Compensation Committee believes that incentive compensation. Income from such incentive compensation is realized as a result of the performance of the Company or the individual, dependent on the achievement of business goals. A significant portion of its total compensation payable to executive officers is in the form of cash bonus awards tied to achievement of performance goals and stock options that would become vested over a period of time.

### 2022 Executive Compensation Components

For the fiscal year ended December 31, 2022, the principal components of compensation for named executive officers were:

- base salary
- performance-based cash incentive compensation; and
- long-term equity incentive compensation

### Base Salary

Base salary ranges for named executive officers are determined by the Compensation Committee for each executive based on his or her position, experience, and performance, as well as salaries paid to peers within the Company. Salary levels are typically considered annually and upon a promotion or other change in job responsibility. Merit based increases to salaries of executive officers are based on the Company's performance.

In the third quarter of 2020, at the request of the Chief Executive Officer, each of the named executive officers took a 10% base salary reduction. At the request of the Chief Executive Officer, each of the named executive officers took an additional salary cut of 10% of his or her current base salary in place throughout the remainder of 2021 until the first quarter ended 2022 and are reflected in the Summary Compensation Table below. The initial base salary of 2020 for executive officers remains in place.

### Incentive Cash Bonus Compensation

The Company typically provides its named executive officers with the opportunity to earn cash incentive bonuses. For most years, bonuses are based on quantitative, company and individual measures, the details of which are established annually in the form of business objectives. The business objectives

responsibilities and may include financial and/or strategic measures. The Compensation Committee typically retains the discretion to amend the bonus plan and any bonus payment and make changes to any financial and/or strategic measures. In 2022, the named executive officers' bonuses were computed based on the following targets: (i) up to an additional seven and one-half percent (7.5%) of base salary would be payable if the Company achieved pre-determined revenue targets; (ii) up to an additional seven and one-half percent (7.5%) of pre-determined earnings per share targets; and (iii) up to an additional ten percent (10%) of base salary would be payable based on achievement over the year, as determined by Mr. Kubacki (for named executive officers other than himself) and as determined by the Compensation Committee (with respect to Mr. Doucot's bonus). The Compensation Committee retained sole discretion over all matters relating to the annual bonus payments, including, without limitation, the amount of bonus, if any, the ability to increase or decrease any bonus payment and make changes to any financial and/or strategic measures.

#### Long-Term Equity Incentive Compensation

It is the philosophy of the Company to provide executives with incentives to receive equity in the Company and, thus, align their financial interests with the Company's long-term success. The Company's 2006 Incentive Plan provides long-term rewards and incentives to the Company's named executive officers, as well as other participants.

#### Stock Unit Awards

Stock unit awards ("Awards") represent a right to receive shares of the Company's Common Stock in varying amounts subject to satisfaction of certain time-based vesting requirements. The number of stock unit awards granted to the named executive officers typically varies based upon their levels of responsibility, their individual performance and the year of grant. Each of the units provides for vesting over the four-year period following the date of grant and are convertible into shares of Common Stock at the discretion of the Compensation Committee.

#### Stock Options

Stock options ("Option Awards") represent a right to acquire shares of the Company's Common Stock in varying amounts at a strike price equal to the market price of the Company's Common Stock at the time of grant, subject to satisfaction of certain time-based vesting requirements. The number of Option Awards granted to the executive officers typically varies based upon their levels of responsibility, their individual performance and the year of grant. Each of the Option Awards provides for vesting over the four-year period following the date of grant.

#### Retirement and Other Benefits

The Company maintains a 401(k) plan for the benefit of all employees who have satisfied minimum age requirements. Employees have the option to elect to participate in the plan, subject to limits prescribed under the Internal Revenue Code. All employee contributions are 100% vested on the date of contribution. The Company also maintains a 401(k) plan for its executive officers, which is subject to the same rules as the 401(k) plan for other employees.

#### Perquisites and Other Personal Benefits

Any perquisites or other personal benefits that the Company offers to its executive officers are below the threshold limit (\$10,000 per executive officer per year) set forth in the Company's Compensation Policy and Commission rules.

The Company has entered into Change of Control Severance Agreements with Messrs. Kubacki and Doucot. The Change of Control Severance Agreements provide for the payment of severance benefits in the event of a change of control or discontinuity of senior management. Information regarding applicable payments under such agreements for Messrs. Kubacki and Doucot is provided under "Potential Payments upon Termination and Change in Control" below.

#### Tax and Accounting Implications

As part of its role, the Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code. The Company may not deduct compensation of more than \$1,000,000 per year to named executive officers except, in the case of equity awards granted to the named executive officers, the portion of the compensation that is based on performance. Depending on future stock prices, it is possible that a portion of the payments that might be payable to Mr. Kubacki under the Change of Control Severance Agreement may not be fully deductible. Subject to the foregoing, the Company believes that the compensation paid to the named executive officers will be, when paid, fully deductible for federal income tax purposes.

#### Summary of Cash and Certain Other Compensation

The following tables show the total compensation earned by the named executive officers during the years ended December 31, 2022 and December 31, 2021, and the total compensation held by the named executive officers as of December 31, 2022 and December 31, 2021.

Summary Compensation Table

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Name and Position	Year	Salary	Bonus (1)	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Total Compensation
Raymond C. Kubacki Chairman, CEO, & President	2022	\$ 470,138	\$ -	\$ 130,200	\$ -	\$ -	\$ 600,338
	2021	\$ 430,702	\$ 42,500	\$ 150,650	\$ -	\$ -	\$ 623,852
Charles M. Doucot Executive Vice President	2022	\$ 282,896	\$ 15,000	\$ 71,610	\$ -	\$ -	\$ 369,506
	2021	\$ 238,750	\$ 24,000	\$ 78,600	\$ -	\$ -	\$ 341,350
Michael I. Schaffer Vice President, Laboratory Operations	2022	\$ 258,456	\$ 2,700	\$ 32,550	\$ -	\$ -	\$ 293,706
	2021	\$ 236,024	\$ 12,000	\$ 29,475	\$ -	\$ -	\$ 277,500

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Name and Position	Year	Salary	Bonus (3)	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation
Brian Hullinger(1) CEO, & President	2023	\$ 125,558	\$ 25,000	-	\$ 612,000	-
	2022	-	-	-	-	-
Raymond C. Kubacki(2) Former Chairman, CEO, & President	2023	\$ 361,431	-	\$ 52,595	-	-
	2022	\$ 470,138	-	\$ 130,200	-	-
Shannon Shoemaker(1) Chief Revenue Officer	2023	\$ 62,608	-	-	\$ 198,800	-
	2022	-	-	-	-	-
Daniella Mehalik(1) Vice President - Finance	2023	\$ 11,939	-	-	-	-
	2022	-	-	-	-	-
Charles M. Doucot(2) Former Executive Vice President	2023	\$ 181,625	\$ 28,138	\$ 11,630	-	-
	2022	\$ 282,896	\$ 15,000	\$ 71,610	-	-
Michael I. Schaffer(2) Former Vice President, Laboratory Operations	2023	\$ 252,503	\$ 2,700	\$ 11,630	-	-
	2022	\$ 258,456	\$ 2,700	\$ 32,550	-	-

(1) Mr. Hullinger and Ms. Shoemaker and Mehalik commenced employment with the Company on August 17, 2023, September 1, 2023, and September 1, 2023, respectively.

(2) Messrs. Kubacki, Doucot and Schaffer were employed by the Company through August 17, 2023, September 15, 2023, and November 3, 2023, respectively. Mr. Kubacki was a consultant to the Company through September 14, 2023.

(3) The amounts in column (d) reflect cash bonus awards made to the named executive officers based on achievement of certain financial goals set forth below herein under the heading "Incentive Cash Bonus Compensation".

(2) (4) The amounts shown in column (i) reflect: (a) for each named executive officer matching contributions allocated by the Company pursuant to the Company's 401(k) Plan (which is more fully described below herein under the heading "Retirement and Savings Plans") for the applicable year pursuant to the Company's 401(k) Plan (which is more fully described below herein under the heading "Retirement and Savings Plans") and paid to him following his retirement and the cost of acceleration of his stock unit awards upon his retirement. The amount of perquisites in excess of \$10,000 in either 2021, 2022 or 2023.

#### Employment Contracts

On July 12, 2023, the Company entered into an employment agreement with Mr. Hullinger, President and Chief Executive Officer and a member of the Company's Board of Directors, and a member of the Company's Board of Directors, which is terminable by either party at any time, as provided below. The employment agreement provides that Mr. Hullinger will receive an annual salary of \$375,000 and a bonus for 2023 in the amount of \$71,315. Mr. Hullinger was also paid a signing bonus of \$25,000.

Mr. Hullinger's employment agreement prohibits him from competing with the Company for a period of twelve months following the termination of his employment. The employment agreement provides Mr. Hullinger with certain other benefits, including the opportunity to participate in our stock plans, fringe benefit plans and other employment benefits.

Under the terms of his employment agreement, if (i) if the Company terminates Mr. Hullinger's employment without Cause (as defined in the agree Good Reason (as defined in the agreement), then the Company is required to pay Mr. Hullinger a lump sum amount equal to one times his then current anr for up to 12 months. If such termination takes place within three months prior to or twelve months following a Corporate Event (as defined in the agreemen be accelerated.

On September 1, 2023, the Company entered into an employment agreement with Ms. Shoemaker, Chief Revenue Officer. The employment provided below. The employment agreement provides that Ms. Shoemaker will receive an annual salary of \$250,000 and consideration for discretionary \$12,500 was guaranteed and paid.

Ms. Shoemaker's employment agreement prohibits her from competing with the Company for a period of twelve months following the terminati agreement provides Ms. Shoemaker with certain other benefits, including the opportunity to participate in our stock plans, fringe benefit plans and other emp

Under the terms of her employment agreement, if (i) if the Company terminates Ms. Shoemaker's employment without Cause (as defined in employment for Good Reason (as defined in the agreement), then the Company is required to pay Ms. Shoemaker a lump sum amount equal to one-half of insurance coverage for up to 6 months. If such termination takes place within three months prior to or twelve months following a Corporate Event (as defin equity awards will also be accelerated.

#### Outstanding Equity Awards at Fiscal Year-End

(a)	Option Awards					Stock Awards				Option Awards		
	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(b)	(c)	(d)
Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options
Brian Hullinger										-	100,000	200,000
Raymond C. Kubacki	22,000	-		\$10.20	9/15/2025							
	42,000	-		\$13.82	5/12/2026							
	40,000	-		\$18.87	5/4/2027							
	28,000	-		\$21.04	5/3/2028							
	45,000	15,000		\$10.60	5/3/2029							
	7,500	7,500		\$4.07	11/11/2030	17,500	\$85,750					
	-	-		-	-	17,250	\$84,525					
	-	-		-	-	20,000	\$98,000					
Shannon Shoemaker										-	40,000	80,000
Daniella Mehalik												



- (4) The amounts in column (e) reflect: (i) the acceleration of the vesting under stock unit awards granted under the Company's 2006 Incentive Plan to executive officer's respective stock unit award agreement with the Company, the valuation of which is determined by multiplying the number of shares of common stock owned by the executive officer on December 31, 2022, pursuant to such acceleration provision, times the closing price of the Company stock on such date (\$4.90 per share); plus (ii) the value of money unvested stock options granted under the Company's 2006 Incentive Plan triggered by a change in control, as provided in each executive officer's stock unit award agreement with the Company, the valuation of which is determined by assuming a net exercise of all unvested stock options having an exercise price that is less than or equal to the closing price of the Company stock on such date (\$4.90 per share).
- (5) Mr. Kubacki's arrangement provides for up to 12 months of salary in the event of a termination by the Company without cause (as defined in his agreement) or a termination by him for good reason (as defined in his agreement) in either case, within a 12 month period following a change in control of the Company (as such term is defined in the agreement). If, following a termination by Mr. Kubacki for good reason solely on account of a change in his required place of employment, following a change in control of the Company, his benefits would be limited up to 6 months of salary and bonus compensation.
- (6) Mr. Doucot's arrangement provides for 12 months of salary (at the rate that was in effect for the 12-month period preceding August 1, 2020, or the rate in effect at the time of termination, whichever is greater) and bonus compensation (at the rate that was in effect for the 12-month period preceding August 1, 2020, or the rate in effect at the time of termination, whichever is greater) in the event of a termination by the Company without cause (as defined in his agreement) or a termination by him for good reason (as defined in his agreement) within a 12 month period following a change in control of the Company (as such term is defined in the agreement).

Employment Severance Agreement

In addition to a change-in-control severance agreement, the Company also entered into an employment severance agreement with Mr. Doucot. The agreement provides for severance benefits for a period of up to 6 months. The agreement provides for severance benefits if (a) the Company (or its successor) terminates Mr. Doucot's employment for "good reason" (as defined in his agreement). The agreement does not provide for severance benefits in the event of a termination without good reason. Any payments under the severance agreement are reduced by the amount of any other compensation received by Mr. Doucot in connection with the severance agreement. **time-vested stock options.**

Equity Compensation Plan Information

The following table provides information as of **December 31, 2022** and **December 31, 2023**, with respect to shares of the Company's common stock that are subject to outstanding stock options, warrants and rights under the Company's equity compensation plans (the "2006 Incentive Plan").

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Shares that Remain Available for Issuance
Equity compensation plans approved by security holders	745,375 <sup>(1)</sup>	\$ 14.19 <sup>(2)</sup>	
Equity compensation plans not approved by security holders	-	-	
Total	745,375	\$ 14.19	

- (1) This amount includes **508,500** shares subject to outstanding stock options with a weighted average remaining contractual term of 9.6 years.
- (2) This amount includes 300,000 shares subject to outstanding stock options with a weighted average remaining contractual term of 9.6 years.
- (3) The weighted-average exercise price information does not include any outstanding stock unit awards.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table shows, as of **March 15, 2023** and **March 25, 2024**, the number of shares beneficially owned (i) by those stockholders who are known to own more than 1% of the outstanding Common Stock of the Company, (including their addresses) (ii) by each director and nominee for director of the Company, (iii) by each executive officer and director of the Company, and (iv) by each person who is a member of the Company's immediate family.

--	--

Name		Amount and Nature of Beneficial Ownership (1)
Peter H. Kamin		624,737 (3)
289 Great Road, Suite 200		
Acton, MA 01720		
Raymond C. Kubacki		400,462 (4)(6)
289 Great Road, Suite 200		
Acton, MA 01720		
Renaissance Technologies LLC		290,463 (5)
800 Third Avenue		
New York, NY 10022		
Fred J. Weinert		260,064 (4)(6)
Robyn C. Davis		19,000 (6)
Andrew M. Reynolds		7,000 (6)
Darius G. Nevin		25,181
Michael I. Schaffer		57,951 (4)(6)
Charles M. Doucot		63,175 (4)(6)
All Executive Officers and Directors (9 persons)		1,123,296 (8)
Name		Amount and
Peter H. Kamin		
5220 Spring Valley Road, Suite 230		
Dallas, TX 75254		
R. Adam Lindsay		
Powell Anderson Capital LP		
Powell Anderson Capital Partners LLC		
5532 Lillehammer Land, Suite 200		
Park City, UT 84098		
Raymond C. Kubacki		
Brian Hullinger		
Robyn C. Davis		
Andrew M. Reynolds		
Darius G. Nevin		
Shannon Shoemaker		
Daniella Mehalik		
Charles M. Doucot		
Michael Schaffer		
All Current Executive Officers and Directors (7 persons)		
* Denotes ownership of less than 1%.		
(1) Shares are considered beneficially owned, for the purpose of this table only, if held by the person indicated as beneficial owner, or if such person, by contract, arrangement, understanding, relationship or otherwise has or shares the power to vote, to direct the voting of and/or to dispose of or to direct the acquisition of, securities of the issuer, or to acquire beneficial ownership within sixty (60) days, unless otherwise indicated in these footnotes.		

(2) Pursuant to the rules of the Securities and Exchange Commission, shares of Common Stock which an individual or group has a right to acquire pursuant to the vesting of stock unit awards are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group. Shares of Common Stock which are not subject to such awards, are not deemed outstanding for the purpose of computing the percentage ownership of any other person shown in this table.

(3) Based on a Statement of Changes in Beneficial Ownership on Form 4 filed by Mr. Peter H. Kamin on June 9, 2022. Includes August 21, 2023, in certain trusts and 44,980 shares held by a limited partnership of which Mr. Kamin serves as general partner.

(4) Includes Based on the following number of statement on Schedule 13G filed on December 14, 2023, R. Adam Lindsay has sole voting and disposal power over 312,199 shares of Common Stock; Dr. Schaffer – 31,500; capital stock; Power Anderson Capital LP has sole voting and Mr. Doucot – 51,500. dispositive power over 0 shares of Common Stock; 312,199 shares of capital stock; and Powell Anderson Capital Partners LLC has sole voting and dispositive power over 0 shares of Common Stock.

(5) Based on the statement on Schedule 13G/A filed on February 13, 2023 February 2, 2024, each of Renaissance Technologies, LLC, a registered Holding Company Mr. Kubacki has sole voting and dispositive power over 290,463 246,737 shares of Common Stock.

(6) Includes the following number of shares of Common Stock which the individual had the right to receive within 60 days pursuant to the vesting of stock unit awards; Mr. Reynolds – 7,000; –7,000; and Ms. Davis – 12,500; Dr. Schaffer – 1,125; and Mr. Doucot – 3,000. –6,000.

(7) Includes 108,381 shares held by Mr. Weinert as trustee of a trust and 1,600 shares held by Mr. Weinert's spouse.

(8) Includes 364,000 shares which the executive officers and directors had the right to acquire within 60 days pursuant to the exercise of option; executive officers and directors within 60 days pursuant to the vesting of stock unit awards.

### Item 13. Certain Relationships and Related Transactions and Director Independence

Under the rules of the Nasdaq Stock Market, a majority of the directors and all of the members of the Audit Committee must qualify as independent directors. The Board of Directors conducts an annual review of the independence of the members of the Board and its committees. Five Four of our six five directors are nonemployee directors (all except the Chairman of the Board). The Board has adopted categorical standards of materiality for independence purposes (other than those set forth in Securities and Exchange Commission Regulations 2012-31 and 2012-32). Information provided by the directors and the Company did not indicate any relationships (e.g., commercial, industrial, banking, consulting, legal, accounting, or other business relationships) that would impair the independence of any of the nonemployee directors.

The Board of Directors has adopted a policy whereby the Company's Audit Committee is responsible for reviewing any proposed related party transactions. Related party transactions include payments for products or services to or indebtedness to or from, related parties, as defined in Item 404(b) of Regulation S-K under the federal securities laws. There were no related party transactions with any related party in fiscal 2022 2023 that would require disclosure under Item 404(a) of Regulation S-K.

### Item 14. Principal Accounting Fees and Services

The following table presents fees paid or payable to BDO USA, LLP P.C. for services attributable to fiscal years 2022 2023 and 2021: 2022:

	Fiscal Year	
	2022	2021
Audit Fees (1)	\$ 440,861	\$ 440,861
Audit-Related Fees (2)	23,873	23,873
Tax Fees (3)	57,593	57,593
Total	\$ 522,327	\$ 522,327

(1) Audit Fees – Fees for professional services rendered to the Company (or estimates of fees for services to be rendered) in connection with the audit of the Company's financial statements and the review of the Company's interim financial information included in the Company's Quarterly Reports on Form 10-Q and consents and assistance with the preparation of the Company's financial statements for filing with the Securities and Exchange Commission.

(3) *Tax Fees – Fees billed to the Company related to tax compliance and consultation.*

## Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements required by Item 15 are included and indexed in Part II, Item 8.

(a) (2) Financial Statement Schedules included in Part IV of this report. Schedule II is omitted because information is included in Notes to Financial Statements. The other schedules are omitted because the regulations of the SEC are not required under the related instructions and are inapplicable and, thus have been omitted.

(a) (3) See "Exhibit Index" included elsewhere in this Report.

## Item 16. Form 10-K Summary

None

### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed by its duly authorized officer.

PSYCHEMEDICS CORPORATION

Date: **March 27, 2023** March 28, 2024

By: By: /s/ RAYMOND C. KUBACKI BRIAN HUL

Raymond C. Kubacki

Chairman,

*Brian Hullinger*

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant:

/s/ RAYMOND C. KUBACKI BRIAN HULLINGER

Raymond C. Kubacki Brian Hullinger

/s/ WILLIAM B. NORRIS DANIELLA MEHALIK

William B. Norris Daniella Mehalik

PETER H. KAMIN\* ROBYN C. DAVIS\*

Peter H. Kamin Robyn C. Davis

DARIUS G. NEVIN\* PETER H. KAMIN\*

Darius G. Nevin Peter H. Kamin

ANDREW M. REYNOLDS\* DARIUS G. NEVIN\*

Andrew M. Reynolds Darius G. Nevin

FRED J. WEINERT ANDREW M. REYNOLDS\*<sup>\*</sup>

Fred J. Weinert Andrew M. Reynolds

ROBYN C. DAVIS\*

Robyn C. Davis

Director

\*By: /s/ RAYMOND C. KUBACKI BRIAN HULLINGER

Raymond C. Kubacki Brian Hullinger

## EXHIBIT INDEX

Exhibit Number	Description
<a href="#"><u>3.1</u></a>	<a href="#"><u>Amended and Restated Certificate of Incorporation filed with the State of Delaware on August 1, 2002 — (Incorporated by reference the Quarter ended September 30, 2002).</u></a>
<a href="#"><u>3.2</u></a>	<a href="#"><u>Amended and Restated By-Laws of the Company — (Incorporated by reference from the Registrant's Current Report on Form 8-K filed on May 17, 2016).</u></a>
<a href="#"><u>4.1</u></a>	<a href="#"><u>Specimen Stock Certificate — (Incorporated by reference from the Registrant's Registration Statement on Form 8-A filed on July 31, 2015).</u></a>
<a href="#"><u>10.2.1P</u></a>	<a href="#"><u>Lease dated October 6, 1992, with Mitchell H. Hersch, et. al with respect to premises in Culver City, California — (Incorporated by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1992).</u></a>
<a href="#"><u>10.2.2P</u></a>	<a href="#"><u>Security Agreement dated October 6, 1992, with Mitchell H. Hersch et. al — (Incorporated by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1992).</u></a>
<a href="#"><u>10.2.3</u></a>	<a href="#"><u>First Amendment to Lease dated with Mitchell H. Hersch, et.al California — (Incorporated by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997).</u></a>
<a href="#"><u>10.2.4</u></a>	<a href="#"><u>Second Amendment to Lease dated with Mitchell H. Hersch, et.al. California — (Incorporated by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997).</u></a>
<a href="#"><u>10.2.5</u></a>	<a href="#"><u>Third Amendment to Lease dated December 31, 1997, with Mitchell H. Hersch, et.al. California — (Incorporated by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997).</u></a>
<a href="#"><u>10.2.6</u></a>	<a href="#"><u>Fourth Amendment to Lease dated May 24, 2005, with Mitchell H. Hersch, et.al. California — (Incorporated by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005).</u></a>
<a href="#"><u>10.2.7</u></a>	<a href="#"><u>Sixth Amendment to Lease dated October 13, 2015, with Mitchell H. Hersch, et.al. California — Supersedes the Fifth amendment to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015).</u></a>
<a href="#"><u>10.2.8</u></a>	<a href="#"><u>Eighth Amendment to Lease dated March 20, 2022, with Mitchell H. Hersch, et.al. California — Supersedes the Seventh amendment to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2021).</u></a>

## TABLE OF CONTENTS

Exhibit Number	Description
<a href="#"><u>10.3*</u></a>	<a href="#"><u>2006 Incentive Plan, as amended — (Incorporated by reference from the Registrant's Current Report on Form 8-K filed on May 17, 2016).</u></a>
<a href="#"><u>10.4*</u></a>	<a href="#"><u>Form of Stock Unit Award used with employees and consultants under the 2006 Incentive Plan — (Incorporated by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016).</u></a>
<a href="#"><u>10.5*</u></a>	<a href="#"><u>Form of Stock Unit Award used with non-employee directors under the 2006 Equity Incentive Plan — (Incorporated by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016).</u></a>
<a href="#"><u>10.6*</u></a>	<a href="#"><u>Form of Incentive Stock Option Agreement used with employees under the 2006 Incentive Plan (Incorporated by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016).</u></a>

<a href="#">10.7*</a>	<a href="#">Form of Non Qualified Stock Option Agreement used with employees and consultants under the 2006 Incentive Plan (Incorporated by 8-K filed on May 19, 2016)</a>
<a href="#">10.8*</a>	<a href="#">Form of Non Qualified Stock Option Agreement used with non-employee directors under the 2006 Incentive Plan (Incorporated by re K filed on May 19, 2016)</a>
<a href="#">10.9*</a> <a href="#">10.9</a>	<a href="#">Change in control severance agreement with Ray Kubacki dated March 21, 2023</a>
<a href="#">10.10*</a>	<a href="#">Severance agreement with Charles Doucot dated February 26, 2019 — (Incorporated by reference from the Registrant's Annual R 2019)</a>
<a href="#">10.11</a>	<a href="#">Amendment dated September 3, 2020 to Change in Control Severance Agreement between Psychomedics Corporation and Charles Current Report on Form 8-K filed on September 10, 2020)</a>
<a href="#">10.12</a>	<a href="#">Lease dated July 29, 2019, with Culver City/Hannum, LLC with respect to 5750 Hannum premises in Culver City, CA — (Incorporate Form 10-Q for the quarter ended September 30, 2019)</a>
<a href="#">10.13</a> <a href="#">10.10</a>	<a href="#">Loan agreement dated March 20, 2014, with Banc of America Leasing and Capital, LLC — (Incorporated by reference from the Re ended March 31, 2014)</a>
<a href="#">10.13.1</a> <a href="#">10.10.1</a>	<a href="#">Letter Agreement dated September 15, 2015, with Banc of America Leasing and Capital, LLC, together with Equipment Security No August 19, 2015 — (Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended Septembe</a>
<a href="#">10.13.2</a> <a href="#">10.10.2</a>	<a href="#">Letter Agreement dated October 30, 2017, with Banc of America Leasing and Capital, LLC, together with Equipment Security Note from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017)</a>
<a href="#">10.13.3</a> <a href="#">10.10.3</a>	<a href="#">Letter Agreement dated December 3, 2019, with Banc of America Leasing and Capital, LLC, together with Equipment Security Note from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2019)</a>
<a href="#">10.13.4</a> <a href="#">10.10.4</a>	<a href="#">Conditional Waiver and Amendment No 1, To Master Loan and Security Agreement dated November 4, 2020, with Banc of America Le the Registrant's Current Report on Form 8-K filed on November 9, 2020)</a>
<a href="#">10.13.5</a> <a href="#">10.10.5</a>	<a href="#">Conditional Waiver dated March 19, 2021, and Amendment Number 002 dated March 23, 2021 to Master Loan and Security Agree America Leasing &amp; Capital, LLC and Psychomedics Corporation LLC — (Incorporated by reference from the Registrant's Current Repo</a>
<a href="#">10.14</a> <a href="#">10.11</a>	<a href="#">Form of Indemnification Agreement with Directors and Executive Officers of the Company*</a>
<a href="#">10.12*</a>	<a href="#">Employment Offer letter dated July 12, 2023 with Brian Hullinger — (incorporated by reference from Registrant's Current Report on Form</a>
<a href="#">10.13</a>	<a href="#">Confidential Settlement Agreement And Release dated July 17, 2023, by and between Transportation Insight, LLC and Psychomedics Current Report on Form 8-K filed on July 21, 2023)</a>
<a href="#">10.14*</a>	<a href="#">Form of Time Based Inducement Stock Option Agreement with Chief Executive Officer — (incorporated by reference from Registrant's C</a>
<a href="#">10.15*</a>	<a href="#">Form of Performance-based Inducement Stock Option Agreement with Chief Executive Officer — (incorporated by reference from Regi 2023)</a>
<a href="#">10.16*</a>	<a href="#">Employment Offer letter dated September 1, 2023 with Shannon Shoemaker</a>
<a href="#">10.17*</a>	<a href="#">Form of Time Based Stock Option Agreement with Employees under 2006 Incentive Plan</a>
<a href="#">10.18*</a>	<a href="#">Form of Performance-based Stock Option Agreement with Employees under 2006 Incentive Plan</a>
<a href="#">21.1</a>	<a href="#">Subsidiaries of the Registrant</a>
<a href="#">23.1</a>	<a href="#">Consent of BDO USA, LLP, P.C., Independent Registered Public Accounting Firm</a>
<a href="#">24</a>	<a href="#">Power of Attorney</a>
<a href="#">31.1</a>	<a href="#">Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">31.2</a>	<a href="#">Certification of Controller Vice President — Finance Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">32.1</a>	<a href="#">Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley</a>
<a href="#">32.2</a>	<a href="#">Certification of Controller Vice President — Finance Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarb</a>
<a href="#">97</a>	<a href="#">Clawback Policy</a>
<a href="#">101.INS</a>	<a href="#">Inline XBRL Instance Document</a>
<a href="#">101.SCH</a>	<a href="#">Inline XBRL Taxonomy Extension Schema</a>
<a href="#">101.CAL</a>	<a href="#">Inline XBRL Taxonomy Extension Calculation Linkbase</a>
<a href="#">101.DEF</a>	<a href="#">Inline XBRL Taxonomy Extension Definition Linkbase</a>
<a href="#">101.LAB</a>	<a href="#">Inline XBRL Taxonomy Extension Label Linkbase</a>
<a href="#">101.PRE</a>	<a href="#">Inline XBRL Taxonomy Extension Presentation Linkbase</a>
<a href="#">104</a>	<a href="#">Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)</a>

**EIGHTH AMENDMENT TO LEASE**

This EIGHTH AMENDMENT TO LEASE (the "Amendment") is made and entered into as of the 20th day of March 2022, by and between CORPORATION, a Delaware corporation ("Lessee"), with respect to that Standard Industrial Lease dated October 6, 1992, and amended January 1, 1993, November 22, 2011, October 13, 2015 and June 26, 2020 (as amended, the "Lease"), pursuant to which Lessee leases from Lessor those certain premises located in California and 5832 Uplander Way, Los Angeles County, California (collectively the "Premises"). Unless otherwise defined herein, all capitalized terms used herein are ascribed to such terms in the Lease. Lessor and Lessee hereby acknowledge the following:

**RECITALS**

A. Lessee herewith exercises the first Option to Extend Term provided in the Seventh Amendment to Lease dated June 26, 2020. Said Lease shall terminate December 31, 2024.

B. Lessor and Lessee desire to modify the Lease as provided herein.

C. Except as amended and modified, all terms of the Lease, as amended, shall remain in full force and effect.

NOW, THEREFORE, in consideration of the mutual promises and covenants hereinafter set forth, and other good and valuable consideration, the parties agree as follows:

**AGREEMENT**

1. **Option to Extend Term.** Lessee shall have the option to extend the Lease term for (1) additional Period of two years, which option period shall terminate December 31, 2026. Lessee may exercise this option strictly in accordance with the procedures set forth in Paragraph 9 of the Addendum to Standard Industrial Lease ("Addendum"), except that the rent for all years of this option period shall be determined pursuant to the C.P.I. adjustment outlined in Paragraph 2 below. Such option is not assignable notwithstanding anything to the contrary in the Lease.

2. **Rent Adjustment.** Commencing January 1, 2023 and thereafter annually on each subsequent January 1st, the Base Monthly Rental shall be determined by the Consumer Price Index (U.S. Department of Labor for all Urban Consumers, Los Angeles-Anaheim-Riverside California {1967=100} hereinafter "C.P.I. Index" through December 31st; provided, however, notwithstanding the C.P.I. Index, the Base Monthly Rental for calendar year 2023 and for each subsequent calendar year shall increase by no more than two percent (2%) nor more than four percent (4%) per year. If the Bureau of Labor Statistics discontinues publication of the C.P.I. Index, publishes the C.P.I. Index less than two percent (2%) nor more than four percent (4%) per year, then Lessor, in its sole discretion, may adopt a substitute index or procedure with reasonably reflects and monitors consumer prices.

3. **Security Deposit.** At such time that the rent is adjusted in accordance with Paragraph 2 above, the security deposit then in effect will be adjusted to reflect the new Base Monthly Rental.

4. **Incorporation.** Except as otherwise expressly set forth herein, and to the extent necessary to give effect to the provisions hereof, all terms and conditions of the Lease shall remain unmodified and in full force and effect.

5. **Counterparts.** This Amendment may be executed in one or more counterpart copies, and each of which, so executed, irrespective of the date of execution, shall constitute one and the same instrument. The signature pages of one or more of the counterpart copies shall be deemed to be an original Agreement, and all such counterparts together shall constitute one and the same instrument. The signature pages of one or more of the counterpart copies attached to the same copy of this Amendment, which, with all signatures attached, shall be deemed to be an original Agreement.

IN WITNESS WHEREOF, the parties hereto have entered into this Eighth Amendment as of the date first set forth above.

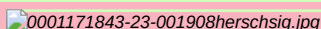
**LESSOR**

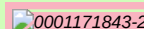
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**UPLANDER LLC**

Indicates a filing

**PSYCHEMEDICS CORPORATION**

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March 21, 2023

**CONFIDENTIAL**

Mr. Raymond C. Kubacki  
c/o Psychemedics Corporation  
289 Great Road  
Suite 200  
Acton, MA 01720

Dear Ray:

This letter sets forth the agreements we have made regarding your employment with Psychemedics Corporation (the "Company"). Definitions not defined herein shall be as defined in Paragraph 14.

Raymond C. Kubacki  
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12. Any notice or other communication required hereunder shall be in writing, shall be deemed to have been given and received when delivered given when deposited in the United States mail, first class, registered or certified, return receipt requested, with proper postage prepaid, and business day thereafter, and shall be addressed as follows:

*Psychomedics Corporation  
289 Great Road  
Suite 200  
Acton, MA 01720  
Attn: General Counsel*

Raymond C. Kubacki, Jr.  
Psychomedics Corporation  
289 Great Road  
Suite 200  
Acton, MA 01720

(d) The Company makes no representation or warranty and shall have no liability to you or any other person if any provisions of this Agreement are held to be unenforceable under applicable law, subject to Section 409A of the Code but do not satisfy an exemption from, or the conditions of, such provision.

(i) any person or group as defined in Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act") shall own more than:

(ii) the consummation of a reorganization, merger or consolidation or sale or disposition of all or substantially all of the assets of the Company following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners of the Common Stock of the Company immediately prior to the consummation of such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding securities of the Company or the corporation resulting from the Business Combination, as the case may be, of the corporation resulting from the Business Combination, a corporation that as a result of the transaction owns the Company or all or substantially all of the assets of the Company either directly or indirectly, in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Common Stock of the Company or the corporation resulting from the Business Combination) beneficially owns, directly or indirectly, more than 50% of, respectively, the common stock of the corporation resulting from the Business Combination or of the combined voting power of the then outstanding securities of the corporation resulting from the Business Combination;

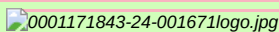
(iii) Individuals who, as of the date of this Agreement, constitute the Board of Directors of the Company (the "Incumbent Board") cease to constitute the Board of Directors of the Company, provided, however, that any individual's becoming a director after the date of this Agreement whose election to the Board of Directors of the Company, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered as though such individual was a member of the Incumbent Board, but excluding, for this purpose, any individual whose initial assumption of office occurs as a result of an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Company.

Raymond C. Kubacki  
March 21, 2023  
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(c) "Disability" shall mean your inability because of physical or mental incapacity to perform your usual duties at the Company for a period of more than ninety (90) days or twelve (12) month period.

(d) "Good Reason" shall mean: (i) payment of base salary following the Change of Control at a rate below \$486,675 per annum, or at such rate as may be determined by the Board of Directors of the Company, prior to such Change of Control; (ii) removal from your position as President and Chief Executive Officer of the Company, or failure to re-elect you to such position; (iii) shall no longer exist as a result of the Change of Control, failure to elect or appoint you to the position of President and Chief Executive Officer of the Company; (iii) a material decrease in your duties or responsibilities or the assignment to you of duties and responsibilities, which are not substantially similar to those of your position at the Company's requiring you to relocate your work location outside the Greater Boston, Massachusetts or Chicago, Illinois areas at any time or place as a result of a Change in Control of the Company.

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September 1, 2023  
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If this letter correctly sets forth our understanding and agreement, please indicate your acceptance by signing both copies of this letter and returning one copy to the Company at 6441 Buckner St.

Very truly yours,  
**PSYCHEMEDICS CORPORATION**  
By: /s/ William J. ...  
William J. ...

Canal Winchester, OH 43110

Agreed to: March 21, 2023 Re: Offer of Employment

Dear Shannon:

/s/ Raymond C. Kubacki

Raymond C. Kubacki On behalf of Psychemedics Corporation ("Psychemedics" or the "Company"), I am pleased to offer you employment with the Company on the terms and conditions of your employment with the Company.

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT ("Agreement") is made as of 1. Position. Your start date of November 12, 2021 by and between PSYCHEMEDICS CORPORATION (the "Company") and [ ] (the "Indemnitee" (the "Start Date"). This Agreement supersedes and replaces any and all prior written or oral agreements between the Company and Indemnitee covering the subject matter of this Agreement.

## RECITALS

WHEREAS, highly competent persons have become more reluctant to serve publicly-held corporations as directors, officers or in other capacities unless they are afforded adequate protection through insurance or adequate indemnification against inordinate risks of claims and actions against them arising out of their service to and activities for such corporations;

WHEREAS, the Board of Directors of the Company (the **"Board"**) has determined that, in order to attract and retain qualified individuals, the Company shall hire a Chief Executive Officer ("CEO"), reporting to maintain on an ongoing basis, at its sole expense, liability insurance the Chief Executive Officer ("CEO"). While serving as CEO, the individual shall perform the duties and responsibilities of the CRO role, as well as any other duties and responsibilities as reasonably assigned to protect persons serving you by the CEO. The Company understands that you are currently based at your home office located in Ohio, with travel to the furnishing of such insurance has been a common and widespread practice among United States-based corporations and other business enterprises, the Company believes that, given current travel, in each case, as may be available necessary to it fulfill your responsibilities.

## 2. Compensation and Benefits.

a. Your base salary will be at an annualized rate of \$250,000.00 per year (the "Base Salary"), payable in substantially equal periodic installments and with more exclusions. At the same time, directors, officers, and other persons Company's payroll practices as in service to corporations or business entities and time-consuming litigation relating to, among other things, matters that traditionally would have been brought only against the Company or business entities. Company (as the same may be amended) effect from time to time, time.

b. Your target annual bonus is set at \$100,000.00, and your first annual bonus review will take place in the "Certificate first quarter of Incorporation" (2023). You will be eligible for the annual cash bonus subject to your being an employee in good standing on the date of any applicable bonus payment. The bonus will be determined at the Board's sole discretion, which generally will be based on Company results as well as individual performance but will be guaranteed to pay a minimum of 50% (\$50,000) (defined below) or do not resign without Good Reason (defined below) prior to December 31, 2023. For the calendar year 2024 the bonus will also be determined at the Board's sole discretion, which will be based on Company results as well as individual performance, but will be guaranteed to pay a minimum of 50% (\$50,000) provided that you are not terminated without Good Reason (defined below) prior to December 31, 2024. For future years following calendar year 2024, the award and amount of any annual bonus will be determined at the Board's sole discretion, which generally will be based on Company results as well as individual performance. Any annual bonus, if granted, will be paid within sixty (60) days following the end of the fiscal year to indemnification pursuant to the General Corporation Law of the State of Delaware (the "DGCL"). The Certificate of Incorporation and the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts may be entered into between the Company and any officer or director or persons with respect to indemnification;

*WHEREAS, the uncertainties relating to such insurance and to indemnification have increased the difficulty of attracting and retaining such persons*

WHEREAS, the Board has determined that the increased difficulty in attracting and retaining such persons is detrimental to the best interests of the Corporation; and

WHEREAS, **which** it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified; **relates.**

WHEREAS, this Agreement is a supplement c. You and your dependents are eligible for coverage under the Company's health package, subject to the terms, conditions and restrictions of the applicable plan or policy document. You and your dependents will be eligible to participate in benefit programs made available to all employees and will be eligible to enroll in our Company sponsored 401(k) Plan. Your eligibility for coverage is subject to the terms, conditions and restrictions in any applicable plan or policy document. The Company retains the right to change, add or cease any particular benefit.

d. You will be entitled to reimbursement for all ordinary and reasonable out-of-pocket business expenses that are reasonably incurred by you following submission of Incorporation reasonably detailed receipts and otherwise subject to the terms and conditions of any applicable Company policy or rule.

e. Please note that the payments described above will be less all amounts required to be deducted or withheld under applicable law or under any

3. Equity. As part of this offer, and subject to required approval by the Board and any resolutions adopted pursuant thereto, appropriate committee agreements executed by you (the "Option Agreement"), you will be granted under the Company's 2006 Incentive Plan (the "Plan") on or about the Start Date common stock of the Company (collectively the "Equity Award").

The exercise price of the options covered by the Equity Award will be the closing price of the Company's Common Stock on Nasdaq on the date of option grants under the Plan, each covering 40,000 shares, as follows: (a) the first 40,000 share tranche of options will become exercisable as to fifty percent (50%) of the shares (20,000 shares) on the first anniversary of your Start Date, and the options covering the remaining fifty percent (50%) of the shares (20,000 shares) will become exercisable on the second anniversary of your Start Date; (b) the options granted as incentive stock options under the Internal Revenue Code to the extent of the maximum annual amount permitted with the balance being non-qualified stock options (the "\$5.50 VWAP Options") will be non-qualified stock option and will become exercisable on the date on which the Company's volume-weighted average price (VWAP) of its Common Stock is above \$5.50 per share for sixty (60) consecutive calendar days in any period within three (3) years following the date of grant; and (c) the options covering the remaining 40,000 shares (the "\$6.50 VWAP Options") will be non-qualified stock options and shall become exercisable on the date on which the Company's VWAP shall have remained above \$6.50 per share for sixty (60) consecutive calendar days in any period within four (4) years following the date of grant.

Notwithstanding the foregoing, in the event that the Company consummates a Corporate Event (as defined in the Plan) which is also a sale of the Event occurs within three (3) years following the date of grant of the \$5.50 VWAP Options and the "Corporate Sale Event Price" (as defined below) equals or exceeds \$6.50 per share, then the \$5.50 VWAP Options will become exercisable immediately upon the closing of the Corporate Sale Event; and (ii) if the Corporate Event occurs within four (4) years following the date of grant of the \$5.50 VWAP Options and the Corporate Sale Event Price equals or exceeds \$6.50 per share, then the \$6.50 VWAP Options will become exercisable immediately upon the closing of the Corporate Sale Event; provided that the "Corporate Sale Event Price" is the per share value received by the Company's shareholders in the Corporate Sale Event; provided that for purposes of this Section 4.1, the Corporate Event shall not include a stock repurchase program or a tender offer for the Company's common stock.

Company's shareholders, cash consideration would be valued at par, any publicly traded securities received as consideration would be valued at their 60th day value (the "60th Day Value") of the acquiring company's common stock on a national securities exchange as of the closing date of the Corporate Sale Event, and a Corporate Sale Event VWAP cannot be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder; and calculated will be

WHEREAS, Indemnitee does not regard The Equity Award will be evidenced in writing by, and subject to, the protection available under terms and conditions of the Option Agreement which agreement will expire ten (10) years from the date of Incorporation and insurance grant (the "Expiration Date") except as adequate otherwise provided in the Option Agreement. The Option Agreements evidencing the Equity Award and may not be willing any subsequent option grant will provide for a post-termination exercise price for an officer or director without adequate protection, the Expiration Date.

#### 4. Severance.

a. Standard Severance. If you remain employed for six (6) months following your Start Date and, following such six-month period, the Company Cause<sup>1</sup> or you resign your employment for Good Reason<sup>2</sup>, then, subject to serve your entering into a separation agreement in such capacity. Indemnitee shall include, among other provisions, a full release of claims by you, affirmation by you of any confidentiality and restrictive covenants (and, as applicable, a non-solicit covenant by you, you will be eligible for the following:

1 For purposes of this Agreement, "Cause" will mean (i) theft or embezzlement, or attempted theft or embezzlement, by you of money or property of the Company; (ii) fraud, or your participation in a fraud or attempted fraud upon the Company; (iii) your unauthorized appropriation of, or attempt to misappropriate, any tangible or intangible asset of the Company, or your appropriation of, or attempt to appropriate, a business opportunity of the Company, including but not limited to attempting to secure or securing any product or service for the Company or its associates in connection with any transaction entered into on behalf of the Company; (iv) any act or acts of disloyalty, misconduct, or moral turpitude by you in violation of the Company's sexual harassment or non-harassment policy, any of which the Board determines in good faith has been or is willing likely to serve, continue be materially injured in the interest, property, operations, business, or reputation of the Company, or its directors, employees or shareholders; (v) any act or omission constituting gross negligence or breach of duties on behalf of the Company on which is materially injurious to the condition that he be so indemnified.

NOW, THEREFORE, in consideration interest, property, operations, business, or reputation of the premises and the covenants contained herein, Indemnitee agrees as follows:

Section 1. Services to the Company. Indemnitee agrees to serve as a[n] [director] [and] [officer] Company; (v) your conviction of the Company. In the event of a conviction for traffic violations or other similar minor offenses (including pleading guilty or entering a plea of no contest), or your indictment for any reason resign from service with the Company, or being charged with a violent crime, a crime involving moral turpitude, or any other contractual obligation crime for which imprisonment is a possible punishment under the operation of law, in which event the Company shall have no obligation under this Agreement material failure to continue Indemnitee in such position. This Agreement shall be terminated between the Company (or of its subsidiaries or any Enterprise) carry out reasonable and Indemnitee. Indemnitee specifically acknowledges that Indemnitee shall not be employed by any Enterprise, if any, is at will, lawful instructions and the Indemnitee may be discharged at any time for any reason, with or without cause, except as otherwise provided in any contract between Indemnitee and the Company (or of its subsidiaries or any Enterprise), other applicable formal severance policies duly adopted by the Company to service as a director correct such refusal or officer failure within ten (10) days after receiving written notice from the Board describing such refusal or failure to serve. The Certificate of Incorporation, the Company's Bylaws, and the DGCL. The foregoing notwithstanding, this Agreement shall continue in force after Indemnitee's termination from the Company, as provided in Section 16 hereof.

#### Section 2. Definitions. As used in this Agreement:

(a) References to "agent" shall mean your obligations under any person who is confidential, non-compete, non-solicitation, non-disparagement, or other restrictive covenants with the Company or a subsidiary of the Company or other person authorized by the Company to act for the Company, to include such person serving in such capacity as an officer, director, official of another corporation, partnership, limited liability company, joint venture, trust or other enterprise at the request of, for the convenience of, or to represent the Company in a similar agreement with the Company.

(b) A "Change in Control" shall mean: For purposes of this Agreement, "Resignation for Good Reason" will be deemed to occur upon in the earliest event: (i) the Company terminates your employment by written notice of termination to the Company within thirty (30) days thereafter, specifying the basis for your resignation; (ii) the Company does not cure such termination within thirty (30) days following the end of such cure period; (iii) the Company materially diminishes your duties or responsibilities; or (iv) you terminate your employment within thirty (30) days following the end of such cure period: (a) the Company materially diminishes your duties or responsibilities; (b) the Company materially reduces your base salary (other than in connection with a Company-wide decrease in salary); or (c) the Company materially breaches any of its obligations to you.

i. Severance Payment. Payment in an amount equal to your then-current Base Salary for a six (6) month period (and the pro-rated amount for any partial month) less customary and required taxes and employment-related deductions, paid in equal installments pursuant to the Company's standard payroll practice which the above-referenced separation agreement becomes effective and non-revocable, provided that such payments will begin within sixty (60) days of termination of employment, and further provided that if the 60th day falls in the calendar year following the year during which the termination or separation from service occurs, such subsequent calendar year.

ii. Benefits Payments. Upon completion of appropriate forms and subject to applicable terms and conditions under the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA"), the Company will continue to provide you with health insurance coverage at no cost to you, until the earlier to occur of six (6) months following termination of employment or participation in the group health plan of another employer. Subject to the Company's obligation under COBRA to provide timely notice, you will be responsible for the cost of such coverage.

b. Corporate Event Severance. If you remain employed for six (6) months following your Start Date and, following such six-month period, there is a Corporate Event, then, subject to your entering into a separation agreement in a form and scope acceptable to the Company, which will include

affirmation by you of any of confidentiality and restrictive covenants (and, as applicable, a new non-competition covenant), and a non-disparagement events: following:

i. Acquisition Severance Payments. Payment in an amount equal to your then-current Base Salary for a six (6) month period (and the period defined below) is or any guaranteed bonus for calendar year 2024), less customary and required taxes and employment-related deductions, paid in the date on which the above-referenced separation agreement becomes effective and non-revocable, provided that such payment will be made (as defined below), directly or indirectly, effective date of securities of termination from employment; and further provided that if the Company represents the power of the Company's then outstanding securities unless the change in relative Beneficial Ownership of the Company's securities by any Person aggregate number of outstanding shares of securities entitled to vote generally calendar year following the year during which the termination or severance made promptly in the election of directors; such subsequent calendar year.

ii. Change Equity Acceleration. The vesting of any time-based options included in Board the, Equity Award described in Section 3, will in fully exercisable) as of Directors. During the later of (A) the termination date, or (B) the effective date of the above-described separation agreement portion of two (2) consecutive years (not including such options that would otherwise occur on the termination date in the absence of this Agreement described separation agreement, and will occur only if the vesting pursuant to this subsection does not occur due to the absence of such separation vesting of any period form of Company equity will occur following the termination date. Except as provided herein, options vested pursuant to this : the Option Agreement. Notwithstanding the foregoing, in the event that any of such options are not continued or substituted for on an equitable basis will become fully vested and exercisable immediately prior to the execution of this Agreement), individuals who at the beginning consummation of (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in Sections 2 nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the members of the Board; C

iii. Corporate Transactions Benefits Payments. Upon completion of appropriate forms and subject to applicable terms and conditions under health insurance coverage at no cost to you, until the earlier to occur of six (6) months following your termination date or the date you elect to terminate. Subject to the Company's obligation under COBRA to provide timely notice, you will bear responsibility for applying for COBRA continuation coverage. As stated above, you must remain employed for six (6) months following your Start Date in order to be eligible for severance payments and benefits ends during such six (6) month period for any reason, whether voluntary or involuntary, then you will not be eligible for or entitled to any such severance payments and benefits described in Section 4.b. are in lieu of, and not in addition to, the severance payments and benefits described in Section 4.a. Accordingly payments and benefits under Section 4.b., you will not be eligible for the severance payments and benefits under Section 4.a.

5. Indemnification and Insurance. As applicable, you will be entitled to indemnification with respect to services provided hereunder pursuant to D the Company's certificate of incorporation and/or by-laws, the Company's standard form of director and officer indemnification agreement and the Company

6. At-Will Employment. Employment at the Company is at-will. We recognize that you retain the option, as does the Company, of ending your employment with or without notice and with or without Cause. We are a merger dynamic organization in a rapidly changing industry. The responsibilities associated with your job may change from time to time to meet the Company's business needs. You may be required to perform additional and/or consolidation different responsibilities.

7. Devotion of Time and Efforts. While you render services to the Company, you will not assist (including to mean, without limitation, investing or otherwise advising) any person or organization, public or private, in competing with the Company, in preparing to compete with the Company, or in hiring a person or organization, public or private, to compete with the Company, with any other entity, other than a merger you are expected to make or consolidation which would result in the Company participating in business decisions or employment based solely on the best interests of the Company outstanding immediately prior as a whole, and without consideration of personal relationships. If you are a director or officer of the Company, you will not engage in any other gainful employment, business or consolidation continuing to represent (either by remaining outstanding or by resigning) the Company, without written consent of the surviving entity or its ultimate parent, Company. You may, with consent, participate in financial, business and other activities (notwithstanding any applicable more than 51% of the combined voting power of the voting securities of the surviving entity or its ultimate parent, as applicable, outstanding immediately prior to the consummation of the transaction) do not conflict with the power your responsibilities to elect at least a majority of the board of directors or other governing body of such surviving entity or its ultimate parent.

iv. Liquidation or Sale of Assets. The approval by the stockholders of the Company of a complete liquidation of the Company or an agreement to sell, lease, convey, or otherwise dispose of substantially all of the Company's assets; and

v. Other Events. There occurs any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14D-9 (or any similar schedule or form) promulgated under the Exchange Act (as defined below), whether or not the Company is then subject to such reporting requirements. For purposes of this Section 2(b), the following terms shall have the following meanings:

(A) **"Exchange Act"** shall mean the Securities Exchange Act of 1934, as amended from time to time.

(B) **"Person"** shall have the meaning as set forth in Sections 13(d) and 14(d) of the Exchange Act; provided, however, that Person shall exclude any individual who is an employee of the Company, any partnership in which the Company has a controlling interest, any corporation owned, directly or indirectly, by the stockholders of the Company in which the Company owns a controlling interest, and (iii) any corporation owned, directly or indirectly, by the stockholders of the Company in which the Company owns a controlling interest.

(C) **"Beneficial Owner"** shall have the meaning given to such term in Rule 13d-3 under the Exchange Act; provided, however, that Beneficial Owner shall not include any person who acquires or holds securities of the Company solely by reason of the stockholders of the Company approving a merger of the Company with another entity.

(J) Reference to “**other enterprise**” shall include employee benefit plans; references to “**fin**es” shall include any excise tax assessed **your** c  
 references to “serving at the request of the Company” shall include any service as a director, officer, employee or agent of the Company which imposes  
 employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner h  
 participants and beneficiaries of an employee benefit plan shall be deemed to have acted in manner “not opposed to the best interests of the Company” as i



Indemnatee undertakes to repay the amounts advanced (without interest) to the extent that it is ultimately determined that Indemnatee is not entitled to be indemnified. This Section 10 shall not apply to any claim made by Indemnatee for which indemnity is excluded under the Agreement.

**Section 11. Procedure for Notification and Defense of Claim.**

(a) Indemnatee shall notify the Company in writing of any matter with respect to which Indemnatee intends to seek indemnification or advancement of costs and expenses. The written notification to the Company shall include a description of the nature of the claim and the basis for the claim. To obtain indemnification under this Agreement, Indemnatee shall submit to the Company a written request, including therein or therewith such documentation as Indemnatee deems necessary to determine whether and to what extent Indemnatee is entitled to indemnification following the final disposition of the claim. The Company hereunder will not relieve the Company from any liability which it may have to Indemnatee hereunder or otherwise than under this Agreement, and the Company's failure to make such determination shall constitute a waiver by Indemnatee of any rights under this Agreement. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, promptly advise Indemnatee of the Company's determination.

(b) The Company will be entitled to participate in the Proceeding at its own expense.

**Section 12. Procedure Upon Application for Indemnification.**

(a) Upon written request by Indemnatee for indemnification pursuant to Section 11(a), a determination, if required by applicable law, with respect to the specific case: (i) if a Change in Control shall have occurred, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to the Board, (A) by a majority vote of the Disinterested Directors, even though less than a quorum of the Board, (B) by a committee of Disinterested Directors, even though less than a quorum of the Board, (C) if there are no such Disinterested Directors or, if such Disinterested Directors so direct, by Independent Counsel, a copy of which shall be delivered to Indemnatee or (D) if so directed by the Board, by the stockholders of the Company; and, if it is so determined that Indemnification shall be made within ten (10) days after such determination. Indemnatee shall cooperate with the person, persons or entity making such determination with respect to including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise confidential to Indemnatee and reasonably necessary to such determination. Any costs or Expenses (including attorneys' fees and disbursements) incurred by Indemnatee in making such determination shall be borne by the Company (irrespective of the determination as to Indemnatee's entitlement to indemnification) and the Company shall be harmless therefrom. The Company promptly will advise Indemnatee in writing with respect to any determination that Indemnatee is or is not entitled to indemnification or basis for which indemnification has been denied.

(b) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 12(a) hereof, the Independent Counsel shall be selected in this Section 12(b). If a Change in Control shall not have occurred, the Independent Counsel shall be selected by the Board, and the Company shall give written notice to the Independent Counsel so selected. If a Change in Control shall have occurred, the Independent Counsel shall be selected by Indemnatee (unless Indemnification is made by the Board, in which event the preceding sentence shall apply), and Indemnatee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. The Company, as the case may be, within ten (10) days after such amended only by written notice of selection shall have been given, deliver to the Company its objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the criteria defined in Section 2 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the Independent Counsel so selected may not serve as Independent Counsel unless and until the Company has determined that such objection is without merit. If, within twenty (20) days after the later of submission by Indemnatee of a written request for indemnification or the selection of the Independent Counsel, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnatee may petition the Delaware Court of Chancery to have been made by the Company or Indemnatee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person whom the court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel. Upon the commencement of any judicial proceeding or arbitration pursuant to Section 14(a) of this Agreement, Independent Counsel shall be discharged and relieved of all obligations except the applicable standards of professional conduct then prevailing).

**Section 13. Presumptions and Effect of Certain Proceedings.**

(a) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnatee is entitled to indemnification under this Agreement if Indemnatee has submitted a request for indemnification in accordance with Section 11(a). Neither the failure of the Company (including by its directors or Independent Counsel) to have made a determination prior to the commencement of any action or proceeding proper in the circumstances because Indemnatee has met the applicable standard of conduct, nor an actual determination by the Company (including by its directors or Independent Counsel) that Indemnatee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnatee has not met the applicable standard of conduct.

(b) Subject to Section 14(e), if the person, persons or entity empowered or selected under Section 12 of this Agreement to determine whether Indemnification shall be made has made a determination within sixty (60) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnatee shall be entitled to such indemnification, absent (i) a misstatement by Indemnatee of a material fact, or an omission of a material fact, or a statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that the foregoing provisions of this Section 13(b) shall not apply for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making the determination with respect to entitlement to indemnification is so directed by the Board for the obtaining or evaluating of documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 13(b) shall not apply if indemnification is to be made by the stockholders pursuant to Section 12(a) of this Agreement and if (A) within fifteen (15) days after receipt by the Company of the request for indemnification, the stockholders resolved to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within seventy-five (75) days after the receipt of such request.

(B) a special meeting of stockholders is called within fifteen (15) days after such receipt for the purpose of making such determination, such meeting is held so called and such determination is made thereat, or (ii) if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to the Charter of the Company, such determination is made by such Independent Counsel.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of guilty or nolo contendere, or otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee was not reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable grounds to believe that no criminal Proceeding would be instituted against him or her.

(d) For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on a good faith belief that the action was in the best interests of the Company, including financial statements, or on information supplied to Indemnitee by the directors or officers of the Enterprise in the course of their duties, or on the advice of counsel or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser or other expert selected with the reasonable care and competence that would be expected of one in the position of Indemnitee. Section 13(d) shall not be deemed to be exclusive or to limit in any way the other circumstances in which the Indemnitee may be deemed to have met the applicable standard of good faith.

(e) The knowledge and/or actions, or failure to act, of any director, officer, trustee, partner, managing member, fiduciary, agent or employee of the Company shall not be a basis for denying Indemnitee the right to indemnification for purposes of determining the right to indemnification under this Agreement.

#### Section 14. Remedies of Indemnitee.

(a) Subject to Section 14(e), in the event that (i) a determination is made pursuant to Section 12 of this Agreement that Indemnitee is not entitled to indemnification, (ii) advancement of Expenses is not timely made pursuant to Section 10 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 12(a) of this Agreement within ninety (90) days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 5, 6 or 8 of this Agreement within ten (10) days after receipt by the Company of a written request therefor, (v) payment of indemnification pursuant to Section 3, 4 or 8 of this Agreement has been made that Indemnitee is entitled to indemnification, or (vi) in the event that the Company or any other person takes or threatens to take any action that is unenforceable, or institutes any litigation or other action or Proceeding designed to deny, or to recover from, the Indemnitee the benefits provided or intended to be provided by this Agreement, Indemnitee shall be entitled to an adjudication by a court of his entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnitee, at his election, may commence such proceeding or arbitration, to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence such proceeding or arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 14(a); provided, that such proceeding or arbitration shall not be commenced in respect of a proceeding brought by Indemnitee to enforce his rights under Section 5 of this Agreement. The Company shall not oppose Indemnitee's right to commence such proceeding or arbitration.

(b) In the event that a determination shall have been made pursuant to Section 12(a) of this Agreement that Indemnitee is not entitled to indemnification, the Company shall, in connection with any judicial proceeding or arbitration commenced pursuant to this Section 14, the Company shall have the burden of proving Indemnitee is not entitled to indemnification.

(c) If a determination shall have been made pursuant to Section 12(a) of this Agreement that Indemnitee is entitled to indemnification, the Company shall, in connection with any judicial proceeding or arbitration commenced pursuant to this Section 14, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact, which is materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) The Company shall, to the fullest extent not prohibited by law, be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 14, that the provisions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company acknowledges the intent of the Company that, to the fullest extent permitted by law, the Indemnitee not be required to incur legal fees or other Expenses associated with the enforcement of his rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Indemnitee. To the fullest extent permitted by law, indemnify Indemnitee against any and all Expenses and, if requested by Indemnitee, shall (within ten (10) days after receipt of a written request from Indemnitee, to the extent not prohibited by law, such Expenses to Indemnitee, which are incurred by Indemnitee in connection with any action brought by Indemnitee to enforce his rights under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company if, in the case of indemnification for Expenses, if Indemnitee is not wholly successful on the underlying claims, then such indemnification shall be only to the extent Indemnitee is successful on such claims, or on whichever is greater.

(e) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement of Indemnitee to indemnification under this Agreement shall constitute a final disposition of the Proceeding.

#### Section 15. Non-exclusivity; Survival of Rights; Insurance; Subrogation.

(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights of Indemnitee under applicable law, the Certificate of Incorporation, the Bylaws, any agreement a vote of stockholders or a resolution of directors, or otherwise. No provision of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in connection with the enforcement of his rights under this Agreement or otherwise. To the extent that a change in Delaware law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than is provided by the Certificate of Incorporation and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change in law. No provision of this Agreement shall be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, independent contractors, agents, consultants, advisors, or other persons, by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent, upon receipt of a notice of a claim pursuant to the terms hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such claim to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary action to pay, on behalf of the Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.



Delaware, irrevocably the Corporation Trust Center as its agent in the State of Delaware as such party's agent for acceptance of legal process in connection with the same legal force and validity as if served upon such party personally within the State of Delaware, (iv) waive any objection to the laying of venue and (v) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper

Section 24. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of the Agreement.

Section 25. Miscellaneous. Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate. The headings and terms inserted for convenience only by signing and shall not be deemed to constitute part dating where indicated below. The terms of this offer expire in 5 calendar days by email or a PDF email to affect the construction thereof. CEO.

If you need further information regarding this offer or any other aspect of employment at the Company, feel free to reach out to Brian Hullinger. We are a part of the Psychemedics Team.

[The remainder of this page is intentionally left blank.] Signature Page Follows]

PSYCHEMEDICS CORPORATION

By: /s/ Brian Hullinger

Brian Hullinger, Chief Executive Officer

Date: 9-1-23

ACCEPTED AND AGREED:

Shannon Shoemaker

Printed Name

/s/ Shannon Shoemaker

Signed Name

9-1-23

Date

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INCENTIVE STOCK OPTION AGREEMENT  
(TIME-BASED OPTION)

**INCENTIVE STOCK OPTION AGREEMENT** (the "Option Agreement") made this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_ between **PSYCHEMEDICS CORPORATION** (the "Corporation"), and \_\_\_\_\_, an employee of the Corporation (hereinafter called the "Optionee").

The Corporation desires, by affording the Optionee an opportunity to purchase shares of its Common Stock, \$.005 par value (hereinafter called the "Shares"), for the purposes of the Corporation's 2006 Incentive Plan (the "Plan").

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties hereto agree as follows:

1. Grant of Option. The Corporation hereby irrevocably grants to the Optionee under the Plan the right and option (hereinafter called the "Option") to purchase \_\_\_\_\_ (\_\_\_\_\_ ) shares of the Common Stock (such number being subject to adjustment as provided in paragraph 7 hereof) on the terms and conditions set forth herein, and shall be treated as, an incentive stock option (as such term is defined under Section 422 of the Internal Revenue Code of 1954).

2. Purchase Price. The purchase price of the shares of the Common Stock covered by the Option shall be \$ \_\_\_\_\_ per share.

3. Term of Option; Exercisability. The term of the Option shall be for a period of ten (10) years from the date hereof, subject to earlier termination as provided in paragraph 6 hereof, the Option shall become exercisable as follows: the Option shall become exercisable with respect to fifty percent (50%) of the shares (\_\_\_\_\_ shares) on \_\_\_\_\_; provided that if the Corporation terminates Optionee's employment without Cause or (ii) Optionee resigns Optionee's employment for Good Reason, in either event within the period of six (6) months after the date of the termination or resignation, then, subject to and in accordance with the conditions set forth in this Option Agreement, the Option shall become fully exercisable as of the later of (A) the termination date, or (B) the effective date of any separation agreement with the Optionee. The purchase price of the shares to be purchased shall be paid at the time of exercise as provided in paragraph 8 hereof.

4. Non-transferability. The Option shall not be transferable otherwise than by will or the laws of descent and distribution, or pursuant to a qualified plan or other arrangement under the Employee Retirement Income Security Act of 1974, as amended or the regulations thereunder. Subject to the foregoing, the Option may be exercised by the Optionee.

particularly (but without limiting the generality of the foregoing), the Option may not be assigned, transferred (except as provided above), pledged, or hypothecated of law and shall not be subject to execution, attachment, or similar process. Any attempted assignment, transfer, pledge, hypothecation, or other disposition in violation of any execution, attachment, or similar process upon the Option shall be null and void and without effect.

**5. Registration of Shares.** The Corporation may, in its discretion, require as conditions to the right to exercise this Option that (a) a registration statement shall be in effect and current with respect to the shares issuable upon exercise of this Option, or (b) the Optionee has given to the Corporation prior to the exercise of the Option satisfactory evidence that such shares are being purchased for the purpose of investment and not with a view to or for sale in connection with any distribution thereof to the Optionee that the shares shall not be transferred unless registered under the Securities Act of 1933, as amended, or unless counsel for the Corporation advises that no such registration is required under Federal and State law without registration.

**6. Termination of Business Relationship.** Except as otherwise provided in this paragraph, the Option shall terminate and be canceled on the first to occur of the date set forth in paragraph 3 hereof or the date which is three (3) months following the date on which the Optionee ceases to be an employee, director or independent contractor (the "Business Relationship"). The Option shall be exercisable during such three month period to the extent it was exercisable on the date of such termination. If the Option is terminated on account of the Optionee's death or permanent disability (as such term is defined in Section 22(e)(3) of the Code), the Option may be exercised by the Optionee's representatives, as the case may be, during its specified term prior to one (1) year after the date of death or permanent disability, but in any event not later than the date of such termination. Such number of shares as were exercisable on the date of death or the date of such permanent disability, in each case, plus such number of shares as to which the Option was exercisable during such following one (1) year period but for such termination on account of death or permanent disability. So long as the Business Relationship shall continue to exist, the Option shall remain exercisable. Nothing in this Option Agreement shall confer upon the Optionee any right to continue the Business Relationship or interfere in any way with the termination of the Business Relationship at any time. Notwithstanding the foregoing, the Optionee hereby acknowledges that in addition to other requirements, in accordance with the Code with respect to the Option, the Optionee may not exercise the Option more than three months after the date of termination of employment as a W-2 employee on account of death or disability consistent with the rules for incentive stock options under the Code. To the extent this Option does not qualify as an incentive stock option.

**7. Changes in Capital Structure.** Adjustments and other matters relating to stock dividends, stock splits, recapitalizations, reorganizations, Corporate stock repurchases, and other changes in the Corporation's capital structure shall be made in accordance with Section 7 of the Plan, as in effect on the date of this Agreement.

**8. Method of Exercising Option.** Subject to the terms and conditions of this Option Agreement, the Option may be exercised by written notice to the Secretary. Such notice shall state the election to exercise the Option and the number of shares in respect of which it is being exercised, and shall be signed by the Optionee. At that time, this Option Agreement shall be turned in to the Corporation for action by the Corporation to reduce the number of shares to which it applies. Payment may be made by check, or by shares of the Common Stock, or by a combination of these methods of payment. Payment may also be made by delivery of a notice of exercise. The Optionee shall receive the number of shares of Stock underlying the Option so exercised reduced by the number of shares of Stock equal to the aggregate Fair Market Value on the date of exercise, or by delivery (including delivery by facsimile transmission) to the Corporation or its designated agent of an executed instrument containing instructions to a broker-dealer to sell a sufficient portion of the shares and deliver the sale proceeds directly to the Corporation to pay for the exercise of the Option. If the Option is exercised by delivery of cash, the per share value of the Common Stock shall be the Fair Market Value of such stock on the date of exercise. The certificate or certificates representing the Option shall have been so exercised shall be registered in the name of the person or persons so exercising the Option, (or, if the Option shall be exercised jointly, in the notice exercising the Option, the certificate or certificates or book entry shall be registered in the name of the Optionee and another person jointly, as provided above to or upon the written order of the person or persons exercising the Option. In the event the Option shall be exercised by any person or persons other than the Optionee (under this Option Agreement), such notice shall be accompanied by appropriate proof of the right of such person or persons to exercise the Option.

**9. General.** The Corporation shall at all times during the term of the Option reserve and keep available such number of shares of Common Stock as may be necessary to satisfy the Option Agreement, shall pay all original issue taxes with respect to the issue of shares pursuant hereto and all other fees and expenses necessarily incurred in connection with the exercise of the Option. The Corporation shall use its best efforts to comply with all laws and regulations which, in the opinion of counsel for the Corporation, shall be applicable thereto. The Corporation shall use its best efforts to ensure that this Option or shares issued pursuant hereto qualify under any Federal or State law for any special tax treatment. This Option, and the rights granted to the Optionee hereunder, shall be subject to the requirements of Section 10D(b)(2) of the Securities Act of 1933, as amended. The terms of this Option Agreement shall be construed to conform with, and shall be governed by the provisions of the Plan, as amended, and in the event of a conflict between the terms of this Option Agreement and the Plan, the provisions of the Plan shall control.

**10. Notices.** Any notices required or permitted by the terms of this Option Agreement shall be given by recognized courier service, facsimile, registered mail, or electronic mail, as follows:

If to the Corporation:

Psychemedics Corporation

Attention: Chief Executive Officer

If to the Optionee to the last known address provided to the Human Resources department by the Optionee or to such other address or addresses of which the Optionee has notified the Corporation. Any such notice shall be deemed to have been given upon the earlier of receipt, one business day following delivery to a recognized courier service or the date of mailing by certified mail.

**11. Data Privacy.** By entering into this Option Agreement, the Optionee: (i) authorizes the Corporation and each Affiliate, and any agent of the Corporation or any Affiliate in the administration of the Option, to disclose to the Corporation or any of its Affiliates such information and data as the Corporation or any such Affiliate shall reasonably require in connection with the administration of the Option; and (ii) authorizes the Corporation and each Affiliate to store and transmit such information in electronic form for the purposes set forth in this Option Agreement.

**12. Clawback.** Notwithstanding anything to the contrary contained in this Option Agreement, the Corporation may recover from the Optionee any cash or other property received by the Optionee in connection with the exercise of the Option or cause the Optionee to forfeit the Option (whether or not then exercisable) or the underlying shares in accordance with any forfeiture or clawback policy adopted by the Corporation.

executives from time to time.

13. Definitions. Any term used herein and not defined in this Agreement but defined in the Plan, shall have the meaning set forth in the Plan.

14. Section 409A of the Code. This Option Agreement is intended to comply with the provisions of Section 409A of the Code to the extent the consistent with this intent. Without limiting the foregoing, any requirements imposed under the Treasury Regulations promulgated under said Section 4 hereunder to remain in compliance with said Section 409A, are hereby incorporated by reference into this Option Agreement. The parties agree that t requested by either party, and as may be necessary to fully comply with Section 409A of the Code and all related rules and regulations in order to preserv additional cost to either party. The Corporation makes no representation or warranty and shall have no liability to the Optionee or any other person if an constitute deferred compensation subject to Section 409A of the Code but do not satisfy an exemption from, or the conditions of, such Section.

15. Withholding Taxes. If the Corporation in its discretion determines that it is obligated to withhold any tax in connection with the exercise of this O restrictions on, any Common Stock or other property acquired pursuant to this Option, the Optionee hereby agrees that the Corporation may withhold from tax. At the discretion of the Corporation, the amount required to be withheld may be withheld in cash from such remuneration or in kind from the Comm Optionee on exercise of this Option. The Optionee further agrees that, if the Corporation does not withhold an amount from the Optionee's remuneration Corporation, the Optionee shall make reimbursement on demand, in cash, for the amount underwithheld.

16. Governing Law. This Option Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giv purpose of litigating any dispute that arises under this Option Agreement, the parties hereby consent to exclusive jurisdiction in the state of Delaware and courts of the state of Delaware or the federal courts of the United States for the District of Delaware.

17. Miscellaneous. If any provision of this Option Agreement is held to be invalid or unenforceable by a court of competent jurisdiction, then suc necessary to make such provision valid and enforceable, and to the extent that this is impossible, then such provision shall be deemed to be excised fr enforceability of the rest of this Option Agreement shall not be affected thereby. The terms of this Option Agreement may be modified or amended amendment of this Option Agreement shall not, without the consent of the Optionee, adversely affect the Optionee's rights under this Option Agreement. Th waived, or consent for the departure therefrom granted, only by written document executed by the party entitled to the benefits of such terms or provision shall constitute a waiver or consent with respect to any other terms or provisions of this Option Agreement, as whether or not similar. Each such waiver or c for the purpose for which it was given and shall not constitute a continuing waiver or consent. This Option Agreement, the Plan, and the relevant provision entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersede all prior oral or written agree hereof.

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IN WITNESS WHEREOF, the Corporation has caused this Option Agreement to be duly executed by its officer thereunto duly authorized, and the Option year first set forth above. above written.

PSYCHEMEDICS CORPORATION

By: \_\_\_\_\_

Name:

Title:

OPTIONEE

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NON QUALIFIED STOCK OPTION AGREEMENT  
(PERFORMANCE-BASED INDUCEMENT OPTION)

**NON QUALIFIED STOCK OPTION AGREEMENT** (the "Option Agreement") made this \_\_\_\_ day of \_\_\_\_\_, 20\_\_ between **PSYCHEMEDIC** called the "Corporation"), and \_\_\_\_\_, an employee of the Corporation (hereinafter called the "Optionee").

The Corporation desires, by affording the Optionee an opportunity to purchase shares of its Common Stock, \$.005 par value (hereinafter called th the purposes of the Corporation's 2006 Incentive Plan (the "Plan").

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties heret

1. Grant of Option. The Corporation hereby irrevocably grants to the Optionee under the Plan the right and option (hereinafter called the "C \_\_\_\_\_ shares of the Common Stock in two equal tranches of \_\_\_\_\_ shares (such number being subject to adjustment as provided in par

8. Method of Exercising Option. Subject to the terms and conditions of this Option Agreement, the Option may be exercised by written notice to the Secretary. Such notice shall state the election to exercise the Option and the number of shares in respect of which it is being exercised, and shall be signed by the Optionee. At that time, this Option Agreement shall be turned in to the Corporation for action by the Corporation to reduce the number of shares to which it applies. Payment shall be made by check, or by shares of the Common Stock, or by a combination of these methods of payment. Payment may also be made by delivery of a notice of exercise to the Optionee, who shall receive the number of shares of Stock underlying the Option so exercised reduced by the number of shares of Stock equal to the aggregate Fair Market Value on the date of exercise, or by delivery (including delivery by facsimile transmission) to the Corporation or its designated agent of an executed instrument containing instructions to a broker-dealer to sell a sufficient portion of the shares and deliver the sale proceeds directly to the Corporation to pay for the exercise price of the Option. If the Common Stock, the per share value of the Common Stock shall be the Fair Market Value of such stock on the date of exercise. The certificate or certificates representing the Option shall have been so exercised shall be registered in the name of the person or persons so exercising the Option, (or, if the Option shall be exercised jointly, in the notice exercising the Option, the certificate or certificates or book entry shall be registered in the name of the Optionee and another person jointly,

provided above to or upon the written order of the person or persons exercising the Option. In the event the Option shall be exercised by any person or persons (as defined under this Option Agreement), such notice shall be accompanied by appropriate proof of the right of such person or persons to exercise the Option.

**9. General.** The Corporation shall at all times during the term of the Option reserve and keep available such number of shares of Common Stock of the Corporation as shall be necessary to enable the Corporation to exercise the Option Agreement, shall pay all original issue taxes with respect to the issue of shares pursuant hereto and all other fees and expenses necessarily incurred from time to time use its best efforts to comply with all laws and regulations which, in the opinion of counsel for the Corporation, shall be applicable thereto and shall make every effort to ensure that this Option or shares issued pursuant hereto qualify under any Federal or State law for any special tax treatment. This Option, and the rights granted to the Optionee under the Option Agreement, shall be construed to conform with, and shall be governed by the provisions of the Plan, as amended, and in the event of any conflict between the terms of this Option Agreement and the Plan, the provisions of the Plan shall control.

**10. Notices.** Any notices required or permitted by the terms of this Option Agreement shall be given by recognized courier service, facsimile, registered mail, or email, as follows:

If to the Corporation:

Psychemedics Corporation

Attention: Chief Executive Officer

If to the Optionee to the last known address provided to the Human Resources department by the Optionee or to such other address or addresses of which the Optionee may be notified in writing. Any such notice shall be deemed to have been given upon the earlier of receipt, one business day following delivery to a recognized courier service or by email, or by certified mail.

**11. Data Privacy.** By entering into this Option Agreement, the Optionee: (i) authorizes the Corporation and each Affiliate, and any agent of the Corporation in the administration of the Option, to disclose to the Corporation or any of its Affiliates such information and data as the Corporation or any such Affiliate shall require in the exercise of the Option; and (ii) authorizes the Corporation and each Affiliate to store and transmit such information in electronic form for the purposes set forth in this Option Agreement.

**12. Clawback.** Notwithstanding anything to the contrary contained in this Option Agreement, the Corporation may recover from the Optionee any cash or other property received by the Optionee from the exercise of the Option or cause the Optionee to forfeit the Option (whether or not then exercisable) or the underlying shares in accordance with any forfeiture or clawback provisions of the Corporation from time to time.

**13. Definitions.** Any term used herein and not defined in this Agreement but defined in the Plan, shall have the meaning set forth in the Plan. Any term used herein and not defined in this Agreement but defined in an Employment Agreement with the Optionee, shall have the meaning set forth in such Employment Agreement.

**14. Section 409A of the Code.** This Option Agreement is intended to comply with the provisions of Section 409A of the Code to the extent that such compliance is consistent with this intent. Without limiting the foregoing, any requirements imposed under the Treasury Regulations promulgated under said Section 409A hereunder to remain in compliance with said Section 409A, are hereby incorporated by reference into this Option Agreement. The parties agree that to the extent of any conflict between the requirements of Section 409A of the Code and the terms of this Option Agreement, the terms of this Option Agreement shall prevail. The Corporation makes no representation or warranty and shall have no liability to the Optionee or any other person if any such payment or benefit constitutes deferred compensation subject to Section 409A of the Code but do not satisfy an exemption from, or the conditions of, such Section.

**15. Withholding Taxes.** If the Corporation in its discretion determines that it is obligated to withhold any tax in connection with the exercise of this Option, the Corporation may withhold from the Optionee's remuneration, any Common Stock or other property acquired pursuant to this Option, the Optionee hereby agrees that the Corporation may withhold from the Optionee's remuneration for federal, state and local income tax. At the discretion of the Corporation, the amount required to be withheld may be withheld in cash from such remuneration or in kind from the Common Stock of the Corporation on exercise of this Option. The Optionee further agrees that, if the Corporation does not withhold an amount from the Optionee's remuneration for federal, state and local income tax, the Optionee shall make reimbursement on demand, in cash, for the amount underwithheld.

**16. Governing Law.** This Option Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions of the state of Delaware. For the purpose of litigating any dispute that arises under this Option Agreement, the parties hereby consent to exclusive jurisdiction in the state of Delaware and the federal courts of the United States for the District of Delaware.

**17. Miscellaneous.** If any provision of this Option Agreement is held to be invalid or unenforceable by a court of competent jurisdiction, then such provision shall be deemed to be excised from this Option Agreement, and the enforceability of the rest of this Option Agreement shall not be affected thereby. The terms of this Option Agreement may be modified or amended by the Corporation, and any amendment of this Option Agreement shall not, without the consent of the Optionee, adversely affect the Optionee's rights under this Option Agreement. The Optionee's consent, or consent for the departure therefrom granted, only by written document executed by the party entitled to the benefits of such terms or provisions shall constitute a waiver or consent with respect to any other terms or provisions of this Option Agreement, whether or not similar. Each such waiver or consent shall be given for the purpose for which it was given and shall not constitute a continuing waiver or consent. This Option Agreement and the relevant provisions of any Employment Agreement entered into by the Optionee and the Corporation shall constitute the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings between the parties.

[remainder of page intentionally left blank; signature page follows]

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**IN WITNESS WHEREOF,** the Corporation has caused this Option Agreement to be duly executed by its officer thereunto duly authorized, and the date of the execution of this Option Agreement is the day and year first above written.

PSYCHEMEDICS CORPORATION

INDEX

By: \_\_\_\_\_  
Name:  
Title:

OPTIONEE

\_\_\_\_\_

\_\_\_\_\_

A

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EXHIBIT 21.1

PSYCHEMEDICS CORPORATION

Subsidiaries

Psychemedics Corporation wholly-owns the following companies:

<u>Name</u>	<u>Country of Incorporation</u>
1. Psychemedics International, LLC	Delaware, USA
2. Psychemedics Laboratórios Ltda (owned jointly by Psychemedics Corporation and Psychemedics International, LLC)	Brazil

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

Psychemedics Corporation  
Acton, Massachusetts

Dallas, Texas

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-134974, 333-174531, 333-211745, 333-233-  
"Corporation") of our report dated March 24, 2023 March 28, 2024, relating to the consolidated financial statements, which appears in this Annual Report on

/s/ BDO USA, LLP P.C.  
Boston, Massachusetts

March 27, 2023  
28, 2024

EXHIBIT 24

Power of Attorney

KNOW ALL MEN **PERSONS** BY THESE PRESENTS, that each of the undersigned, being a director or officer, or both, of Psychemedics Corp  
"Corporation"), does hereby constitute and appoint Raymond C. Kubacki **Brian Hullinger** and William B. Norris, **Daniella Mehalik**, with full power to each of  
agents of the undersigned, with full power of substitution and resubstitution to each of said attorneys, to execute, file or deliver any and all instruments and i  
or any of them, deem advisable to enable the Corporation to comply with the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, a  
Exchange Commission in respect thereof, in connection with the filing under said Securities Exchange Act of the Corporation's Annual Report on Form 10  
2023, including specifically, but without limitation of the general authority hereby granted, the power and authority to sign his or her name as a director c  
opposite his or her signature, to the Annual Report on Form 10-K, or any amendment, post-effective amendment, or papers supplemental thereto to be f  
each of the undersigned does hereby fully ratify and confirm all that said attorneys and agents, or any of them, or the substitute of any of them, shall do or c

IN WITNESS WHEREOF, each of the undersigned has subscribed these presents, as of the 21st **28th** day of March, 2023.  
2024.

**Signature**

/s/ RAYMOND C. KUBACKI **BRIAN HULLINGER**  
Raymond C. Kubacki  
Brian Hullinger

/s/ WILLIAM B. NORRIS **Daniella Mehalik**  
Andrew Limbek  
Daniella Mehalik

/s/ ROBYN C. DAVIS  
Robyn C. Davis

/s/ PETER H. KAMIN  
Peter H. Kamin

/s/ DARIUS G. NEVIN  
Darius G. Nevin

/s/ ANDREW M. REYNOLDS **Director**  
Andrew M. Reynolds

/s/ ROBYN C. DAVIS **Director**  
Robyn C. Davis

/s/ FRED J. WEINERT **Director**  
Fred J. Weinert

EXHIBIT 31.1

CERTIFICATION PURSUANT TO

SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002

I, Raymond C. Kubacki, Brian Hullinger, certify that:

1. I have reviewed this annual report on Form 10-K of Psychemedics Corporation (the "registrant");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that information required to be disclosed by the registrant in its reports is recorded, processed, summarized and reported, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to ensure the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal year (or during the registrant's most recent fiscal year of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2024

By: /s/ Brian Hullinger

Brian Hullinger

President and Chief Executive Officer

(principal executive officer)

EXHIBIT 31.2

CERTIFICATION PURSUANT TO  
SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002

I, Daniella Mehalik, certify that:

1. I have reviewed this annual report on Form 10-K of Psychemedics Corporation (the "registrant");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that information required to be disclosed by the registrant in its reports is recorded, processed, summarized and reported, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to ensure the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal year (or an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2023

March 28, 2024

By: /s/ Raymond C. Kubacki

Raymond C. Kubacki

President and Chief Executive Officer

(principal executive officer) Daniella Mehalik

Daniella Mehalik

EXHIBIT 31.2

CERTIFICATION PURSUANT TO  
SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002

I, William B. Norris, certify that:

1. I have reviewed this annual report on Form 10-K of Psychomedics Corporation (the "registrant");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision; the disclosure controls and procedures of the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report was prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision; the internal control over financial reporting of the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report was prepared;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal year (or an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2023

By: /s/ William B. Norris

William B. Norris

Controller Vice President of Finance

(principal financial and accounting officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO  
U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Raymond C. Kubacki, **Brian Hullinger**, President and Chief Executive Officer of Psychemedics Corporation (the "Company"), certify, pursuant to 18 U.S.C. Sarbanes-Oxley Act of 2002, that:

(1) The Company's Annual Report on Form 10-K for the year ended **December 31, 2022** December 31, 2023, as filed with the Securities and Exchange Commission ("Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 27, 2023

March 28, 2024

By: /s/ Raymond C. Kubacki **Brian Hullinger**

Raymond C. Kubacki

**Brian Hullinger**

President and Chief Executive Officer

(principal executive officer)

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of the Securities Exchange Act of 1934, as amended.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO  
U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, William B. Norris, Controller **Daniella Mehalik**, Vice President of Finance of Psychemedics Corporation (the "Company"), certify, pursuant to 18 U.S.C. Sarbanes-Oxley Act of 2002, that:

(1) The Company's Annual Report on Form 10-K for the year ended **December 31, 2022** December 31, 2023, as filed with the Securities and Exchange Commission ("Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 27, 2023

March 28, 2024

By: /s/ William B. Norris **Daniella Mehalik**

William B. Norris

Controller **Daniella Mehalik**

Vice President of Finance

(principal financial and accounting officer)

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of the Securities Exchange Act of 1934, as amended.

EXHIBIT 97

PSYCHEMEDICS CORPORATION  
CLAWBACK POLICY

The Compensation Committee (the "Committee") of the Board of Directors (the "Board") of Psychemedics Corporation (the "Company") believes that this Policy (the "Policy") to be applied to the Executive Officers of the Company and adopts this Policy to be effective as of the Effective Date.

1. Definitions

For purposes of this Policy, the following definitions shall apply:

- a) "Company Group" means the Company and each of its Subsidiaries, as applicable.
- b) "Covered Compensation" means any Incentive-Based Compensation granted, vested or paid to a person who served as an Executive Officer of the Company during the Lookback Period and that was Received (i) on or after the effective date of the Nasdaq listing standard, (ii) after the person joined the Company, or (iii) after the person had a class of securities listed on a national securities exchange or a national securities association.
- c) "Effective Date" means December 1, 2023.
- d) "Erroneously Awarded Compensation" means the amount of Covered Compensation granted, vested or paid to a person during the fiscal year in which the Covered Compensation was attained that exceeds the amount of Covered Compensation that otherwise would have been determined based on the applicable Restatement, computed without regard to any taxes paid (i.e., on a pre-tax basis). For Covered Compensation, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information provided in the Restatement, the amount of such Covered Compensation that constitutes Erroneously Awarded Compensation, if any, based on a reasonable estimate of shareholder return upon which the Covered Compensation was granted, vested, or paid and the Committee shall maintain documentation of such estimate.
- e) "Exchange Act" means the U.S. Securities Exchange Act of 1934.
- f) "Executive Officer" means each "officer" of the Company as defined under Rule 16a-1(f) under Section 16 of the Exchange Act, which shall include any person who is an executive officer of the Company as executive officers pursuant to Item 401(b) of Regulation S-K under the Exchange Act. Both current and former Executive Officers are included in this definition.
- g) "Financial Reporting Measure" means (i) any measure that is determined and presented in accordance with the accounting principles used in the Company's financial statements or any measures derived wholly or in part from such measures and may consist of GAAP or non-GAAP financial measures (as defined under Regulation S-K under the Exchange Act), (ii) stock price, or (iii) total shareholder return. Financial Reporting Measures may or may not be included in the Company's financial statements, such as in Managements' Discussion and Analysis of Financial Conditions and Result of Operations or Regulation S-K under the Exchange Act.
- h) "Home Country" means the Company's jurisdiction of incorporation.
- i) "Incentive-Based Compensation" means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a performance goal.
- j) "Lookback Period" means the three completed fiscal years (plus any transition period of less than nine months that is within or immediately preceding the date of a change in the Company's fiscal year) immediately preceding the date on which the Company is required to prepare a Restatement, or the earlier of: (i) the date the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action in the Restatement should have concluded, that the Company is required to prepare a Restatement, or (ii) the date a court, regulator or other legally authorized authority determines that the Company is required to prepare a Restatement. Recovery of any Erroneously Awarded Compensation under the Policy is not dependent on if or when the Restatement is actually filed.
- k) "Nasdaq" means the Nasdaq Stock Market.
- l) "Received": Incentive-Based Compensation is deemed "Received" in the Company's fiscal period during which the Financial Reporting Measure is attained, even if the grant, vesting, or payment of the Incentive-Based Compensation occurs after the end of the fiscal period.
- m) "Restatement" means a required accounting restatement of any Company financial statement due to the material noncompliance of the Company with the securities laws, including (i) to correct an error in previously issued financial statements that is material to the previously issued financial statements (a "big r" restatement) or (ii) to correct an error in previously issued financial statements that is not material to the previously issued financial statements (a "little r" restatement). Changes to financial statements that represent error corrections under the then-current relevant accounting standards will not constitute Restatements. Recovery of any Erroneously Awarded Compensation under the Policy is not dependent on fraud or misconduct by any person in connection with the Restatement.
- n) "SEC" means the U.S. Securities and Exchange Commission.

- o) "Subsidiary" means any domestic or foreign corporation, partnership, association, joint stock company, joint venture, trust or unincorporated entity, directly or indirectly, through one or more intermediaries, "controlling", "controlled by" or "under common control with", the Company. "Control" means the exercise, direct or indirect, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities, by contract or otherwise.

## 2. Recoupment of Erroneously Awarded Compensation

In the event of a Restatement, any Erroneously Awarded Compensation Received during the Lookback Period prior to the Restatement (a) that was not automatically and immediately forfeited and (b) that has been paid to any person shall be subject to reasonably prompt repayment to the Company. The Committee must pursue (and shall not have the discretion to waive) the forfeiture and/or repayment of such Erroneously Awarded Compensation in accordance with the Policy set forth below.

Notwithstanding the foregoing, the Committee (or, if the Committee is not a committee of the Board responsible for the Company's executive compensation, a majority of the independent directors serving on the Board) may determine not to pursue the forfeiture and/or recovery of Erroneously Awarded Compensation if it determines that such forfeiture and/or recovery would be impracticable due to any of the following circumstances: (i) the direct expense paid to a third party (including legal fees) to assist in enforcing the Policy would exceed the amount to be recovered (following reasonable attempts by the Company Group to recover such Erroneously Awarded Compensation, such attempts, and the provision of such documentation to the Nasdaq), (ii) pursuing such recovery would violate the Company's Home Country laws, (iii) the Company obtains an opinion of Home Country counsel acceptable to the Nasdaq that recovery would result in such a violation and provides such opinion to the Committee, or (iv) the Company has an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of Company Group, to fail to meet the requirements of 29 CFR 25.401(a)(9)(B) thereunder.

## 3. Means of Repayment

In the event that the Committee determines that any person shall repay any Erroneously Awarded Compensation, the Committee shall provide written notice to such person, which shall include a physical address on file with the Company Group for such person, and the person shall satisfy such repayment in a manner and on such terms as required by the Policy. The person shall be entitled to set off the repayment amount against any amount owed to the person by the Company Group, to require the forfeiture of any award granted by the Company Group, or to take any other necessary actions to reasonably promptly recoup the repayment amount from the person, in each case, to the fullest extent permitted under applicable law, including the Internal Revenue Code and the regulations and guidance thereunder. If the Committee does not specify a repayment timing in the written notice describing the Erroneously Awarded Compensation to the Company Group by wire, cash or cashier's check no later than thirty (30) days after receipt of such notice.

## 4. No Indemnification

No person shall be indemnified, insured or reimbursed by the Company Group in respect of any loss of compensation by such person in accordance with this Policy, and no person shall be paid or reimbursed for any advancement of expenses for disputes related to any loss of compensation by such person in accordance with this Policy, and no person shall be paid or reimbursed by such person for any third-party insurance policy covering potential recovery obligations under this Policy. For this purpose, "indemnification" includes any other means that would amount to de facto indemnification (for example, providing the person a new cash award which would be cancelled to effect the recovery). In the event of a Restatement, the Company Group shall be required to award any person an additional payment if any Restatement would result in a higher incentive compensation than the person would have received otherwise.

## 5. Miscellaneous

This Policy generally will be administered and interpreted by the Committee, provided that the Board may, from time to time, exercise discretion to amend or modify the Policy. Any references herein to "Committee" shall be deemed to refer to the Board. Any determination by the Committee with respect to this Policy shall be final and binding, notwithstanding any discretionary determinations of the Committee under this Policy, if any, need not be uniform with respect to all persons, and may be made selectively and on a case-by-case basis.

This Policy is intended to satisfy the requirements of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, as it may be amended from time to time, and any regulations promulgated by the SEC or the Nasdaq, including any additional or new requirements that become effective after the Effective Date which apply to this Policy to the extent necessary to comply with such additional or new requirements.

The provisions in this Policy are intended to be applied to the fullest extent of the law. To the extent that any provision of this Policy is found to be unenforceable or invalid under applicable law, the provision will be applied to the maximum extent permitted and shall automatically be deemed amended in a manner consistent with its objectives to the extent necessary to make the provision enforceable. The unenforceability or invalidity of any provision of this Policy shall not affect the validity or enforceability of any other provision of this Policy. Recoupment of Erroneously Awarded Compensation shall be dependent upon the Company Group satisfying any conditions in this Policy, including any requirements to provide applicable documentation to the Nasdaq.

The rights of the Company Group under this Policy to seek forfeiture or reimbursement are in addition to, and not in lieu of, any rights of recoupment or recovery that may be available to the Company Group pursuant to the terms of any law, government regulation or stock exchange listing requirement or any other policy, agreement, equity award agreement, or other plan or agreement of the Company Group.

## 6. Amendment and Termination

To the extent permitted by, and in a manner consistent with applicable law, including SEC and Nasdaq rules, the Committee may terminate, suspend or amend the Policy.

## 7. Successors

This Policy shall be binding and enforceable against all persons and their respective beneficiaries, heirs, executors, administrators or other legal representatives, whether or not such persons or entities were granted, vested or paid to or administered by such persons or entities.

## ACKNOWLEDGMENT, CONSENT AND AGREEMENT

I acknowledge that I have received and reviewed a copy of the Psychemedics Corporation Clawback Policy (as may be amended from time to time), and I have asked questions about the Policy and review it with my counsel. I knowingly, voluntarily and irrevocably consent to and agree to be bound by and subject to the Policy and to the repayment of Erroneously Awarded Compensation that is required to be repaid in accordance with the Policy. I further acknowledge, understand and agree that (i) the co-

entitled to receive from the Company Group is subject to the Policy, and the Policy may affect such compensation and (ii) I have no right to indemnification the Company Group for any compensation that is subject to recoupment and/or forfeiture under the Policy. Capitalized terms used but not defined herein ha

<b>Signed:</b>	_____
<b>Print Name:</b>	_____
<b>Date:</b>	_____

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