

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2023 .

☐ **TRANSITION REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File No. 000-30152

USIO, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

3611 Paesanos Parkway, Suite 300 , San Antonio , TX
(Address of principal executive offices)

98-0190072
(I.R.S. Employer Identification No.)

78231
(Zip Code)

Registrant's telephone number, including area code **(210) 249-4100**

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

Title of each class	Trading symbol(s)	Name on each exchange on which registered
Common stock, par value \$0.001 per share	USIO	The Nasdaq Stock Market LLC

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ 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 pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐
Non-accelerated filer ☒

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2023, was \$ 29,266,174 based on 15,734,502 shares of the registrant's common stock held by non-affiliates on June 30, 2023 at the closing price of \$1.86 per share as reported on the Nasdaq Stock Market. For purposes of this computation, all officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates.

As of March 22, 2024, the number of outstanding shares of the registrant's common stock was 26,342,459 .

DOCUMENTS INCORPORATED BY REFERENCE: Items 10, 11, 12, 13 and 14 of Part III will be incorporated by reference information from the registrant's proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the registrant's 2024 Annual Meeting of Stockholders to be held on June 18, 2024

Usio, Inc.
FORM 10-K
For the Year Ended December 31, 2023
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FACTORS THAT MAY AFFECT FUTURE RESULTS

This Annual Report on Form 10-K and the documents incorporated herein by reference contain certain forward-looking statements as defined under the federal securities laws. Specifically, all statements other than statements of historical facts included in this Annual Report on Form 10-K regarding our financial performance, business strategy and plans and objectives of management for future operations and any other future events are forward-looking statements and based on our beliefs and assumptions. If used in this report, the words "will," "anticipate," "believe," "estimate," "expect," "intend," and words or phrases of similar import are intended to identify forward-looking statements. Such statements reflect our current view with respect to future events and are subject to certain risks, uncertainties, and assumptions, including, but without limitation, those risks and uncertainties contained in the Risk Factors section of this Annual Report on Form 10-K and our other filings made with the SEC. Although we believe that our expectations are reasonable, we can give no assurance that such expectations will prove to be correct. Based upon changing conditions, any one or more of these events described herein as anticipated, believed, estimated, expected or intended may not occur. All prior and subsequent written and oral forward-looking statements attributable to our Company or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement. We do not intend to update any of the forward-looking statements after the date of this Annual Report to conform these statements to actual results or to changes in our expectations, except as required by law.

Factors to consider when evaluating these forward-looking statements include, but are not limited to:

- Loss of key resellers could reduce our revenue growth.
- If our security applications are breached by cyberattacks or are not adequate to address changing market conditions and customer concerns, we may incur significant losses and be unable to sell our services.
- Our efforts to expand our product portfolio and market reach, including through acquisitions, may not succeed and may reduce our revenue growth and we may not achieve or maintain profitability.
- We may need additional financing in the future. We may be unable to obtain additional financing or if we obtain financing it may not be on terms favorable to us. You may lose your entire investment.
- Unauthorized disclosure of cardholder data, whether through breach of our computer systems or otherwise, could expose us to liability and protracted and costly litigation.

EXPLANATORY NOTE

This Annual Report includes estimates and other statistical data made by independent parties and by us relating to market size and growth and other data about our industry. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions and estimates of our future performance and the future performance of the markets in which we operate are necessarily subject to a high degree of uncertainty and risk.

INTELLECTUAL PROPERTY

We own or have rights to trademarks or trade names that we use in connection with the operation of our business, including our corporate names, logos and website names. In addition, we own or have the rights to copyrights, trade secrets and other proprietary rights that protect the content of our products and the formulations for such products. Solely for convenience, some of the trademarks, trade names and copyrights referred to in this report are listed without the ©, ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights to our trademarks, trade names and copyrights. Please see "Business –Trademarks and Domain Names" for more information.

Other trademarks and trade names in this Annual Report are the property of their respective owners.

Unless the context indicates otherwise, all references in this Annual Report to "Usio," the "Company," "we," "us," and "our" refer to Usio, Inc. and its subsidiaries.

PART I

ITEM 1. BUSINESS.

General

As a cloud-based, Fintech payment processor, we serve multiple industry verticals with technology that facilitates payment acceptance and funds disbursement in a single, full-stack ecosystem. We provide payment acceptance through multiple payment methods including: payment facilitation, prepaid card and electronic billing products and services to businesses, merchants and consumers. We seek to grow our business both organically through the continued development and enhancement of our products and services and through acquisitions of new products and services. We will continue to look for opportunities (both internally and externally) to enhance our offerings to meet customer demands as they arise.

Since 1998, Usio has entered a number of market verticals within the payments industry in order to satisfy the growing payment needs of consumers and merchants across the United States. Beginning with our Electronic Bill Presentment and Payment, or EBPP, product that launched the Company, we entered into the electronic funds transfer space through the ACH network, developing ancillary and complementary products such as PINless debit in 2016, and Remotely Created Checks, or RCC, account validation, and account inquiry in 2019. These supplementary product options offer customers access to faster and more convenient payment options and tools to improve operating efficiencies. Further, our credit card payment offering was expanded in 2017 with the development of Payment Facilitation, or PayFac, that utilizes our unique technology that allows for instant enrollment of merchants and combined our suite of payment options into an integrated platform for merchants and customers to utilize.

Through our innovative Prepaid Debit Card platform, we offer a variety of prepaid card products such as reloadable, incentive, promotional and corporate card programs. Combined with our printing and mailing services, through the acquisition of IMS in December of 2020, we can satisfy the diverse requirements of customer needs with physical and virtual document creation and distribution, including traditional paper checks. Our Consumer Choice product developed and debuted in 2022 that provides flexible ways to initiate a variety of payment distributions through a multitude of payment methods including physical prepaid and virtual cards, ACH, paper checks, real-time PINless debit and others. This offering allows us a superior opportunity to increase our cross-selling efforts through all of our payment methods.

With the growing need for faster payment methods, we continue to invest in technology that can help us further expand our suite of payment technology. With the rise of Real Time Payments, or RTP, we began expansion into this market vertical in 2023, which serves as an alternative to ACH payments. As well, we continue to enhance our existing product offerings, with improvements in reporting, data management, fraud and risk monitoring, ease of access, and accelerations in client onboarding and implementation times. With our transition to a cloud-based platform, our speed, security, and scalability in payment processing is further expanded, allowing us to seamlessly grow as the market demands.

Payment Acceptance. We provide integrated electronic payment processing services to merchants and businesses, including credit, and debit card-based processing services and electronic funds transfer via the ACH network. The ACH network is a nationwide electronic funds transfer system that is regulated by the Federal Reserve and the National Automatic Clearing House Association, or NACHA, the electronic payments association, and provides for the clearing of electronic payments between participating financial institutions. Our ACH processing services enable merchants or businesses to both disburse and collect funds electronically using e-checks instead of traditional paper checks. An e-check is an electronic debit to a bank checking account that is initiated at the point-of-sale, on the Internet, over the telephone, or via a bill payment sent through the mail via a physical check. E-checks are processed using the ACH network. We are one of nine companies that hold the prestigious NACHA certification for Third-Party Senders and were the second company to receive the certification and are the most tenured to hold the certification.

Our payment acceptance services are delivered in a variety of forms and situations. For example, our capabilities allow merchants to convert a paper check to an e-check or receive card authorization at the point-of-sale, allow our merchants' respective customer service representatives to take e-check or card payments from their consumers by telephone, and enable their consumers to make e-check or card payments directly through the use of a website or by calling an interactive voice response telephone system.

Similarly, our PINless debit product allows merchants to debit and credit accounts in real-time.

Card-Based Services. Our card-based processing services enable merchants to process both traditional card-present, tap-and-pay, or "swipe" transactions, as well as card-not-present transactions. A traditional card-present transaction occurs whenever a card holder physically presents a credit or debit card to a merchant at the point-of-sale. A card-not-present transaction occurs whenever the customer does not physically present a payment card at the point-of-sale and may occur over the Internet, mail, or telephone. A tap-and-pay transaction occurs whenever a consumer taps their phone on a physical terminal utilizing third party wallet services like Apple Pay®, Samsung Pay™ and Google Pay™.

Payment Facilitation. Following the completion of the Singular Payments acquisition in 2017, we launched our payment facilitation, or PayFac, platform called "PayFac-in-a-Box" in late 2018 targeting partnership opportunities with app and software developers in bill-centric verticals, such as legal, healthcare, property management, utilities and insurance. The PayFac-in-a-Box platform integration layer offers a simple integration experience for technology companies who are looking to monetize payments within an existing base of downstream clients. The added value of offering our integration partners access to real-time merchant enrollment, credit card, debit card, ACH and prepaid card issuance capabilities through a single vendor partner relationship in face-to-face, mobile and virtual payment acceptance environments provides a true single channel commerce experience through an application programming interface, or API.

Prepaid and Incentive Card Services. Through our December 2014 acquisition of the assets of Akimbo Financial, Inc., we added a highly talented technical staff of industry subject matter experts and an innovative cardholder service platform including cardholder web and mobile applications and launched what is now our UsioCard business. As a result of this acquisition, through our subsidiary, FiCentive, Inc., we offer customizable prepaid cards which companies use for expense management, incentives, refunds, claims and disbursements, as well as unique forms of compensation such as per diem payments, government disbursements, and similar payments. This comprehensive money disbursement platform allows businesses to pay their contractors, employees, or other recipients by choosing among a prepaid debit Mastercard, real-time deposit to a checking account, traditional ACH, direct deposit or paper check. These cardholder web and mobile applications have been fully integrated into FiCentive's prepaid card core processor, and now support all program types and brands offered by FiCentive and its clients.

As part of our Prepaid card-based processing services, we develop and manage a variety of Mastercard-branded prepaid card program types, including consumer reloadable, consumer gift, incentive, promotional, general and government disbursement and corporate expense cards. We also offer prepaid cards to consumers for use as a tool to stay on budget, manage allowances and share money with family and friends. Our UsioCard platform supports Apple Pay®, Samsung Pay™ and Google Pay™.

In our over 20+year history, we have created a loyal customer base that relies on us for our convenient, secure, innovative and adaptive services and technology, and we have built long-standing and valuable relationships with premier banking institutions such as Fifth Third Bank, Sunrise Bank, TransPecos and others.

Electronic Billing. On December 15, 2020, we entered into the business of electronic bill presentment, document composition, document decomposition and printing and mailing services serving hundreds of customers representing a wide range of industry verticals, including utilities and financial institutions through the acquisition of IMS. This product offering provides an outsourced solution for document design, print, and electronic delivery to potential customers and entities looking to reduce postage costs and increase efficiencies. This acquisition increased our ability to grow new revenue streams and allowed us to reenter the electronic bill presentment and payment revenue stream. The success of this new business line depends on our ability to realize the anticipated growth opportunities; we cannot provide any assurance that we will be able to realize these opportunities.

Industry Background and Trends

In the United States, the use of non-paper-based forms of payment, such as credit and debit cards, has risen steadily over the past several years. According to the triennial 2022 Federal Reserve Payments Study, or FRPS, as updated through July 27, 2023, the estimated number of non-cash payments continue to increase at accelerated rates. The FRPS reflects the effects of the COVID-19 pandemic which resulted in an increase of non-paper payments by 24% from 2019 through the end of 2020. The growth of electronic commerce has made the acceptance of card-based and other electronic forms of payment a necessity for businesses, both large and small, in order to remain competitive.

- The value of core noncash payments in the United States grew 9.5% per year since 2018, faster than in any previous FRPS measurement period since 2000.
- The number of core non-cash payments, comprising debit card, credit card, ACH, and check payments, reached 204.5 billion in 2021, an increase of 30.7 billion from 2018. The value of these payments totaled \$128.51 trillion in 2021, an increase of \$31.47 trillion from 2018, more than twice the rate of increase in the previous three-year period (2015 to 2018).
- ACH payments exhibited accelerating growth, increasing 8.3% per year by number and 12.7% per year by value from 2018 to 2021, and accounted for more than 90% of the rise in non-cash payments.
- In 2021 ACH transfers grew to \$91.85 trillion, representing 72% of core non-cash payments value.
- Card payments continued to show robust growth from 2018 to 2021, collectively increasing 6.2% per year by number and 10% by value up from the 8.6% yearly rate of increase in the 2015 to 2018.
- From 2015 to 2018, total card payments - the sum of credit card, non-prepaid debit card and prepaid debit card payments - increased 25.9 billion to reach 157 billion payments by number and increased \$2.35 trillion to reach \$9.43 trillion by value in 2018.
- Within card payments, prepaid debit card payments had the highest growth rate in 2021 over 2018, by value, at 20.6%, compared with 13.7% per year for non-prepaid debit card payments and 7% for credit card payments.
- Remote payments, by the end of 2020, represented 37.65% of the total number of card payments, having increased 7.2 billion by number and \$37 billion in value over 2020. As a result, e-commerce comprised more than two-thirds of remote card payments by number, and 59.16% by value.
- Chip authenticated payments accounted for 75.2% of in-person general-purpose card payments in 2020, compared with 2.0% in 2015, and grew 22.6% by number from 2018 to 2020.
- From 2019 to 2020 innovative payment methods grew in popularity, such as contactless card, digital wallet, and P2P payments.

Figure 1 (below) illustrates the overall growth in key non-cash metrics since the Federal Reserve Payments Study was first reported for the year 2000 and reflects the acceleration of growth in recent years.

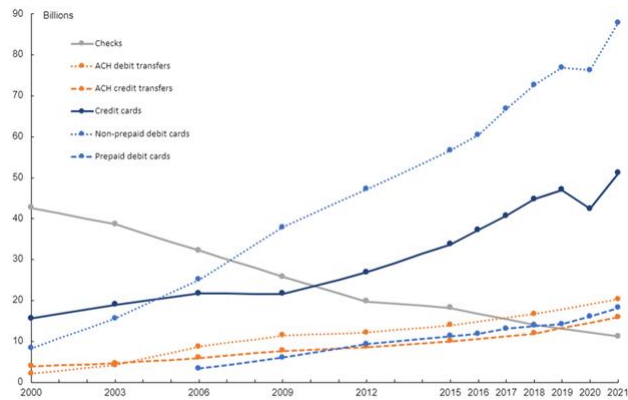
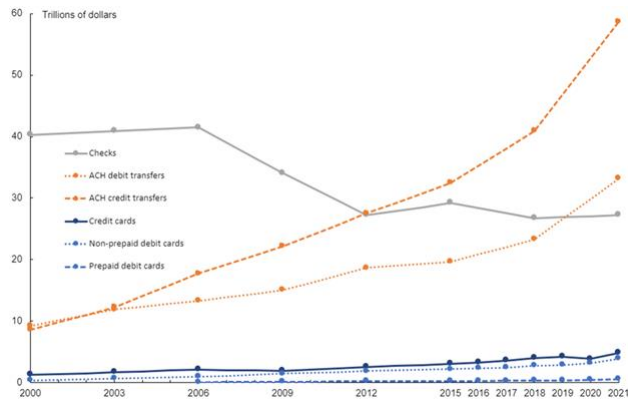


Figure 2 (below) illustrates the overall growth in key cash metrics since the Federal Reserve Payments Study was first reported for the year 2000 and reflects the acceleration of growth in recent years.



Note: All estimates are on a triennial basis, except that card payments were also estimated for 2016, 2017, 2019, and 2020. Credit card payments include general-purpose and private-label versions. Prepaid debit card payments include general-purpose, private-label, and electronic benefits transfer, or EBT, versions. Estimates for prepaid debit card payments are not available for 2000 or 2003. The points mark years for which data were collected and estimates were produced. Lines connecting the points are linear interpolations.

Source: 2022 Federal Reserve Payments Study

We believe that the electronic payment processing industry will continue to benefit from the following trends:

Favorable Demographics

As consumers age, we expect that they will continue to use the payment technology to which they have grown accustomed. More consumers are beginning to use card-based and other electronic payment methods for purchases at an earlier age. These consumers have witnessed the wide adoption of card products, technology innovations such as mobile phone payment applications, widespread adoption of the internet and a significant increase in card not present transactions and on-line shopping during COVID-19. As younger consumers comprise an increasing percentage of the population and as they enter the work force, we expect purchases using electronic payment methods will become a larger percentage of total consumer spending. We believe the increasing usage of smart phones as an instrument of payment will also create further opportunities for us in the future. We also believe that contact-less payments like Apple Pay®, Samsung Pay™ and Google Pay™ will increase payment processing opportunities for us.

Increased Electronic Payment Acceptance by Small Businesses

Small businesses are a vital component of the U.S. economy and are expected to contribute to the increased use of electronic payment methods. The lower costs associated with electronic payment methods are making these services more affordable to a larger segment of the small business market. In addition, we believe these businesses are experiencing increased pressure to accept electronic payment methods in order to remain competitive and to meet consumer expectations. As a result, many of these small businesses are seeking to provide customers with the ability to pay for merchandise and services using electronic payment methods, including those in industries that have historically accepted cash and checks as the only forms of payment for their merchandise and services.

Growth in Online Transactions

Market researchers expect continued growth in card-not-present transactions due to the steady growth of the internet and electronic commerce. According to the U.S. Census Bureau, estimated retail e-commerce sales for 2023 were estimated at \$1,118.7 billion, an increase of approximately 7.6% from 2022.

Products and Services

Our suite of payment solutions is driven by a sophisticated infrastructure that merges our own technology with strategic alliances, offering secure, scalable, and resilient payment processing services. Leveraging the latest in cloud computing and cybersecurity, including Microsoft Azure's robust security features, we ensure the protection of data transmissions and transactions. Our adoption of Azure's hub-spoke architecture and other cutting-edge technologies supports enhanced performance and security, facilitating seamless integrations with third-party processors and offering tailored payment services to meet the specific requirements of our clients.

The platform supports secure data exchanges using state-of-the-art encryption standards and secure communication protocols, using the latest technology in best-practices encryption to safeguard electronic transactions across the internet. With comprehensive data warehousing, we offer efficient storage, retrieval, and data analysis, ensuring all sensitive information is encrypted and securely managed.

Payment Acceptance. Our service offerings encompass a broad spectrum of ACH transaction processing, including innovative solutions like Represented Check and Check Conversion for electronic payment facilitation. Clients have the flexibility to initiate transactions via our online portal or leverage our expertise for transaction processing on their behalf via a robust API set.

We extend merchant services across major card networks (VISA, Mastercard, American Express, Discover, JCB), supported by online and physical terminal access. Our proprietary platform merges ACH and card processing capabilities, enabling businesses to handle both e-checks and card payments efficiently.

The expansion of our platform and the transition to cloud-based infrastructure underscore our commitment to speed, security, and scalability in payment processing. Our direct Fed ACH system integration, facilitated by NACHA certification, exemplifies our efforts to optimize processing efficiency, reduce costs, and enhance merchant services.

Prepaid and Incentive Card Services. Our Prepaid and Incentive Card Issuance Services are anchored by our sophisticated processing platform, which supports an array of card program types in partnership with prominent banks and offers highly customizable digital solutions. A key feature of our innovative service offerings is the integration of an external authorization engine that provides real-time transaction authorization through a unique dual-funding mechanism, enhancing transactional flexibility and user experience by allowing for the application of real-time value loads by the program managers. This engine, coupled with our comprehensive support for popular mobile wallets via Mastercard's Digital Enablement Services, underscores our commitment to leveraging cutting-edge technology to deliver seamless and enriched payment experiences. Our platform's rapid custom solution deployment capability further cements our position as a leader in the market, demonstrating our dedication to innovation and operational agility in meeting the advanced payment solution needs of our clients.

Electronic Billing. Following the acquisition of Information Management Solutions, LLC, or IMS, we've enhanced and expanded our services to include electronic bill presentment and comprehensive document management solutions, catering to a wide array of industries. Our state-of-the-art digital printing capabilities, combined with our status as a seamless mailer with USPS, enable us to meet high-volume demands efficiently, ensuring we remain at the forefront of printing and mailing services. Output Solutions provides printing and mailing services to utilities, healthcare providers, credit unions, banks, governmental agencies, and manufacturing and other customers that have high volume billing and printing needs.

Relationships with Sponsors and Processors

We have agreements with several processors that provide us, on a non-exclusive basis, with transaction processing and transmittal, transaction authorization and data capture, and access to various reporting tools. In order to provide payment processing services for ACH transactions, we must maintain a relationship with an Originating Depository Financial Institution, or ODFI, in the ACH network because we are not a bank and therefore, we are not eligible to be an ODFI. For the ODFI portion of our ACH business, we have entered into agreements with the North American Banking Company, or NABC, Metropolitan Commercial Bank and TransPecos Banks. We are financially liable for all fees, fines, chargebacks, and losses related to our ACH processing merchant customers. We may also require cash deposits and other types of collateral from certain merchants to mitigate any such risk. Similarly, in order to provide payment-processing services for Visa, Mastercard and Discover transactions, we must be sponsored by a financial institution that is a principal member of the respective Visa, Mastercard and Discover card associations. Central Bank of St. Louis and Fifth Third Bank have, respectively, sponsored us under the designations Third Party Processor, or TPP, and Independent Sales Organization, or ISO, with the Visa card association, and under the designations Third Party Servicer, or TPS, and Merchant Service Provider, or MSP, with the Mastercard card association. We have an agreement with TriSource Solutions, LLC and an agreement with Global Payments, Inc. through which their member banks, Central Bank of St. Louis and Fifth Third Bank, sponsor us for membership in the Visa, Mastercard, American Express, and Discover card associations and settle card transactions for our merchants. These agreements may be terminated by the processor if we materially breach the agreements and we do not cure the breach within 30 days, or if we enter bankruptcy or file for bankruptcy. We also maintain a bank sponsorship agreement with Sunrise Banks, N.A. for our prepaid card programs. We are liable for any card-associated losses for cards that we issue that might incur a negative balance and we are liable for card association fines, fees and chargebacks.

Under our processing agreement with TriSource Solutions and Vantiv, we are financially liable for all fees, fines, chargebacks and losses related to our card processing merchant customers. Under our processing agreement with Global Payments, Inc., we are not financially liable for all fees, chargebacks and losses related to our card processing merchant customers, but we are liable for potential card association fines. If, due to insolvency or bankruptcy of our merchant customers, or for another reason, we are unable to collect from our merchant customers amounts that have been refunded to the cardholders because the cardholders properly initiated a charge-back transaction to reverse the credit card charges, we must bear the credit risk for the full amount of the card holder transaction. We utilize a number of systems and procedures to evaluate and manage merchant risk, such as obtaining approval of prospective merchants from our processor and sponsor bank, setting transaction limits and monitoring account activity. We may also require cash deposits and other types of collateral from certain merchants to mitigate any such risk. We maintain a reserve for losses resulting from card processing and related chargebacks. We estimate our potential loss for chargebacks by performing a historical analysis of our charge-back loss experience with similar merchants and considering other factors that could affect that experience in the future, such as the types of card transactions processed and nature of the merchant relationship with their consumers.

We are currently sponsored by Evolve Bank & Trust, TransPecos Bank and CBW Bank in order to access certain regional debit networks. Through these sponsorships, we created a new service in late 2016 to provide both the issuance of real time credits and debits to a debit card holder via a regional network without using a PIN. Regional networks are not affiliated with major credit card associations and operate independently. Through our sponsorships with Evolve Bank & Trust, TransPecos Bank and CBW Bank, we are financially liable for all fees, fines, chargebacks and losses related to our PINless debit card processing for our merchant customers. We may also require cash deposits and other types of collateral from certain merchants to mitigate any such risk. The banking sponsor and each of the regional debit networks have the ability to terminate our access or anyone of our merchant's access to process payments without notice. If either case occurs, our revenue could be negatively affected. In January 2018, our previous sponsor, Pueblo Bank and Trust, terminated their relationship with our gateway provider and as a result we stopped processing PINless debit transactions for a short period of time. We secured a relationship with Evolve Bank & Trust and resumed processing PINless debit transactions and subsequently secured a sponsoring relationship with CBW Bank in 2021 and TransPecos bank in 2023.

We maintain an allowance for estimated losses resulting from the inability or failure of our merchant customers to make required payments for fees charged by us. Amounts due from customers may be deemed uncollectible because of merchant disputes, fraud, insolvency or bankruptcy. We determine the allowance based on an account-by-account review, taking into consideration such factors as the age of the outstanding receivable, historical pattern of collections and financial condition of the customer. We closely monitor extensions of credit and if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make contractual payments, additional allowances may be required.

Sales and Marketing

We sell and market our ACH products and services primarily through non-exclusive resellers that act as an external sales force, with minimal direct investment in sales infrastructure and management, as well as direct contact by our sales personnel. Our direct sales efforts are coordinated by two sales executives and supported by other employees who function in sales capacities. Our primary market focus is on companies generating high volumes of electronic payment transactions. We tailor our sales efforts to reach this market by pre-qualifying prospective sales leads through direct contact or market research. Our sales personnel typically initiate contact with prospective customers that we identify as meeting our targeted customer profile.

We also market and sell our prepaid card program directly to government entities, corporations and to consumers through the Internet. A major initiative will be the packaging and cross selling of our platform of payment options across our portfolio of merchants. As a part of this major initiative, we will continue to analyze our sales and marketing efforts to optimize productivity, increase sales force effectiveness, broaden our reach through reseller initiatives and advantageous alliances and effectively optimize sales and marketing expenses while meeting our revenue and profit objectives.

We also offer additional services relating to electronic bill presentment, document composition, document decomposition and printing and mailing services serving hundreds of customers representing a wide range of industry verticals, including utilities and financial institutions. This service, which we began with the acquisition of IMS in December 2020, allows us to cross-sell existing service offerings to our customers.

Customers

Our customers are consumers, merchants, and businesses that use our Automated Clearing House and/or card-based processing services in order to provide their consumers with the ability to pay for goods and services without having to use cash or a paper check. These merchant customers operate in a variety of predominately retail industries and are under contract with us to exclusively use the services that we provide to them. Recent areas of customer focus have included system integrators, law firms, churches, charitable organizations, medical and dental clinics, doctor's offices, property management and homeowner associations, hospitality firms and municipalities. Most of our merchant customers have signed long-term contracts, generally with three-year terms, that provide for volume-based transaction fees. Our merchant accounts increased 12% to 6,281 customers at December 31, 2023 from 5,601 customers at December 31, 2022. Our customers are geographically dispersed throughout the United States.

No customer accounted for more than 10% of revenues in 2023 or 2022.

Competition

The payment processing industry is highly competitive. Many small and large companies compete with us in providing payment processing services and related services to a wide range of merchants. There are a number of large transaction processors, including Fiserv, Inc., Elavon Inc., WorldPay, Stripe and Square that serve a broad market spectrum from large to small merchants and provide banking, automatic teller machine, and other payment-related services and systems in addition to card-based payment processing. There are also a large number of smaller transaction processors that provide various services to small and medium- sized merchants. Many of our competitors have substantially greater capital resources than us and operate as subsidiaries of financial or bank holding companies, which may allow them on a consolidated basis to own and conduct depository and other banking activities that we do not have the regulatory authority to own or conduct. We believe that the principal competitive factors in our market include:

- quality of service;
- reliability of service;
- ability to evaluate, undertake and manage risk;
- ability to offer customized technology solutions;
- speed in implementing payment processes;
- price and other financial terms; and
- multi-channel payment capability.

We believe that our specific focus on providing integrated payment processing solutions to merchants, in addition to our keen understanding of the needs and risks associated with providing payment processing services electronically, gives us a competitive advantage over other competitors, which have a narrower market perspective, and over competitors of a similar or smaller size that may lack our experience and expertise in the electronic payments industry. We believe this allows us to satisfy the market demands for risk management, and service reliability. Furthermore, we believe we present a competitive distinction through our internal technology to provide a single integrated payment warehouse that consolidates, processes, tracks and reports all payments regardless of payment source or channel. This integrated payments approach helps offer superior quality in service, alongside industry leading implementation times, and platform reliability. We also believe our customized technology solutions and high level of service provide a competitive advantage, particularly for smaller businesses that do not have large internal technology capabilities or the ability to comply with payment security regulations, saving our customers time and money, while offering a broad range of diverse payment options.

Due to our proprietary systems and our ability to create and establish corporate-branded card programs in shorter time frames than our competitors, our prepaid card offerings are competitive with those of much larger companies. We also believe that our ten plus years of prepaid industry experience in processing and managing prepaid card programs is a competitive advantage over many of our competitors. We believe our connectivity and the ability to process via the contact-less networks of Apple Pay®, Samsung Pay™ and Google Pay™ are also competitive advantages. We also believe that the Akimbo mobile application technology and advanced card holder websites provide a competitive advantage in securing both consumers and business clients that have a need for a card program for their customer base. Finally, we believe we hold a significant competitive advantage over potential entrants into the prepaid industry as a result of the significant barrier in obtaining bank sponsorships for prepaid card program management and an even higher barrier for performing prepaid card processing.

Trademarks and Domain Names

We own federally registered trademarks on the marks "Usio," "Payment Data Systems, Inc.," "Akimbo," "FiCentive Innovations in Prepaid Card Solutions," "Don't change your bank, just your card" and "ZBILL" and their respective designs.

Some of our material websites are www.usio.com, www.payfacinabox.com, www.ficentive.com, www.akimbocard.com, and www.usioutput.com. The inclusion of these website addresses in this Annual Report do not include or incorporate by reference the information on or accessible through these websites, and the information contained on or accessible through these websites should not be considered as part of this annual report on Form 10-K.

We rely on a combination of copyright, trademark and trade secret laws, employee and third-party nondisclosure agreements, and other intellectual property protection methods to protect our services and related products.

Government Regulation

Our industry is highly regulated. Any new, or changes made to, U.S. federal, state and local laws, regulations, card network rules or other industry standards affecting our business may require significant development efforts or have an unfavorable impact to our financial results. Failure to comply with these laws and regulations may result in the suspension or revocation of licenses or registrations, the limitation, suspension or termination of services and/or the imposition of civil and criminal penalties, including fines. Certain of our services are also subject to rules set by various payment networks, such as Visa and Mastercard.

The Dodd-Frank Act

President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, into law on July 21, 2010. The Dodd-Frank Act caused significant structural reforms to the financial services industry. The Dodd-Frank Act regulates the fees charged or received by issuers for processing debit transactions and the transaction routing options available to merchants. The Dodd-Frank Act also established the Consumer Financial Protection Bureau or CFPB to regulate consumer financial services, including many services offered to our customers. These rules clarify the prepaid regulatory landscape for consumer access to disclosures, fees and statements, error resolution, limited liability and overdrafts. Additionally, the Durbin Amendment to the Dodd-Frank Act provided that interchange fees that a card issuer or payment network receives or charges for debit transactions will now be regulated by the Federal Reserve and must be "reasonable and proportional" to the cost incurred by the card issuer in authorizing, clearing and settling the transaction. In addition, the Durbin Amendment contains prohibitions on network exclusivity and merchant routing restrictions.

The Dodd-Frank Act caused interchange fees to be lowered on large bank-issued debit cards. The lowered interchange fees had a mild negative impact on our revenues and increased our earnings due to the fact that we were able to keep our prices constant with our merchants. If our competitors start to pass the extra margin into savings to their merchants, we may be forced to follow their actions and become exposed to lower earnings on the debit card transactions for large banks.

CARD Act

As an agent of, and third-party service provider to, our issuing banks, we are subject to indirect regulation and direct audit and examination by the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or FRB, and the Federal Deposit Insurance Corporation.

On March 23, 2010, the FRB issued a final rule implementing Title IV of the Credit Card Accountability, Responsibility, and Disclosure Act of 2009, or CARD Act, which imposes requirements relating to disclosures, fees and expiration dates that are generally applicable to gift certificates, store gift cards and general-use prepaid cards. We believe that our general purpose re-loadable prepaid cards, and the maintenance fees charged on our general purpose re-loadable cards, are exempt from the requirements under this rule, as they fall within an express exclusion for cards which are re-loadable and not marketed or labeled as a gift card or gift certificate. However, this exclusion is not available if the issuer, the retailer selling the card to a consumer or the program manager, promotes, even if occasionally, the use of the card as a gift card or gift certificate. As a result, we provide retailers with instructions and policies regarding the display and promotion of our general purpose re-loadable cards. However, it is possible that despite our instructions and policies to the contrary, a retailer engaged in offering our general purpose re-loadable cards to consumers could take an action with respect to one or more of the cards that would cause each similar card to be viewed as being marketed or labeled as a gift card, such as by placing our general purpose re-loadable cards on a display which prominently features the availability of gift cards and does not separate or otherwise distinguish our general purpose re-loadable cards from the gift cards. In such event, it is possible that such general purpose re-loadable cards would lose their eligibility for such exclusion to the CARD Act and its requirements, and therefore we could be deemed to be in violation of the CARD Act and the rule, which could result in the imposition of fines, the suspension of our ability to offer our general purpose re-loadable cards, civil liability, criminal liability, and the inability of our issuing banks to apply certain fees to our general purpose re-loadable cards, each of which would likely have a material adverse impact on our revenues.

In 2014, we resumed issuing gift cards. Any gift cards we issue will be governed by the CARD Act and other various regulations. Any violations with our gift card issuance could result in the imposition of fines, the suspension of our ability to offer our gift cards, civil liability, criminal liability, and the inability of our issuing banks to apply certain fees to our gift cards, each of which would likely have a material adverse impact on our revenues.

Anti-Money Laundering and Counter Terrorist Regulation

Our business is subject to U.S. federal anti-money laundering laws and regulations, including the Bank Secrecy Act (BSA), as amended by the USA PATRIOT Act of 2001, or collectively, the BSA. The BSA, among other things, requires money services businesses to develop and implement risk-based anti-money laundering programs, report large cash transactions and suspicious activity and maintain transaction records. On September 29, 2017, the Financial Crimes Enforcement Network, or FinCEN, amended the Customer Due Diligence Rule, or CDD Rule, requiring the collection and verification of beneficial owners holding equal to or greater than 25% equity interest. The CDD Rule states that sole proprietorships-individual or spousal-and unincorporated associations are not legal entity customers as defined by the Rule, even though such businesses may file with the Secretary of State in order to register a trade name or establish a tax account. This is because neither a sole proprietorship nor an unincorporated association is a separate legal entity from the associated individual(s), and therefore beneficial ownership is not inherently obscured. The CDD Rule does not rely on the tax-exempt status of an entity as described in the Internal Revenue Code "IRC". All nonprofit entities-whether or not tax-exempt-that are established as a nonprofit, or non-stock corporation, or similar entity that has been validly organized with the proper State authority are excluded from the ownership/equity prong of the requirement because nonprofit entities generally do not have ownership interests. As of May 2018, we are required to collect and verify beneficial owners holding equal to or greater than 25% equity interest based on rules promulgated by FinCEN.

We are also subject to certain economic and trade sanctions programs that are administered by the Treasury Department's Office of Foreign Assets Control, or OFAC, that prohibit or restrict transactions to or from or dealings with specified countries, their governments and, in certain circumstances, their nationals, narcotics traffickers, and terrorists or terrorist organizations.

Similar anti-money laundering, counter terrorist financing and proceeds of crime laws apply to movements of currency and payments through electronic transactions and to dealings with persons specified on lists maintained by organizations similar to OFAC in several other countries and which may impose specific data retention obligations or prohibitions on intermediaries in the payment process.

Prepaid Services

Prepaid card programs managed by us are subject to various federal and state laws and regulations, which may include laws and regulations related to consumer and data protection, licensing, consumer disclosures, escheat, anti-money laundering, banking, trade practices and competition and wage and employment. As regulations evolve, or change, we may be required to obtain state licenses to expand our distribution network for prepaid cards, which licenses we may not be able to obtain. Furthermore, the CARD Act and the Federal Reserve's Regulation E impose requirements on general-use prepaid cards, store gift cards and electronic gift certificates. These laws and regulations are evolving, unclear and sometimes inconsistent and subject to judicial and regulatory challenge and interpretation, and therefore the extent to which these laws and rules have application to, and their impact on, us, financial institutions, merchants or others is in flux. At this time, we are unable to determine the impact that the clarification of these laws and their future interpretations, as well as new laws, may have on us, financial institutions, merchants or others in a number of jurisdictions. Prepaid services may also be subject to the rules and regulations of Visa®, Mastercard® and other payment networks with which we and the card issuers do business. The programs in place to process these products generally may be modified by the payment networks at their discretion and such modifications could also impact us, financial institutions, merchants and others.

Environmental Laws

We are subject to a variety of federal, state, local and foreign environmental, health and safety laws and regulations governing, among other things, the generation, storage, handling, use and transportation of hazardous materials; the emission and discharge of hazardous materials into the environment; and the health and safety of our employees. We have incurred and expect to continue to incur costs to maintain or achieve compliance with environmental, health and safety laws and regulations. To date, these costs have not been material to the Company.

Human Capital Resources

As of December 31, 2023, we had 126 full-time employees. We are not a party to any collective bargaining agreements. We believe that our relations with our employees are good.

Growth and Development. Our strategy to develop and retain the best talent includes an emphasis on employee training and development. We promote our core values of ownership, innovation, camaraderie, service, authenticity and trust as an organization and offer awards to colleagues who exemplify these qualities. We require a mandatory online training curriculum for our employees that includes annual anti-harassment and anti-discrimination training.

Inclusion and Diversity. Our inclusion and diversity program focuses on our employees, workplace and community. We believe that our business is strengthened by a diverse workforce that reflects the communities in which we operate. We believe all of our employees should be treated with respect and equality, regardless of gender, ethnicity, sexual orientation, gender identity, religious beliefs or other characteristics. Inclusion and diversity remain a common thread in all of our human resource practices so that we can attract, develop and retain the best talent for our workforce.

Available Information

Usio was founded under the name Billserv.com, Inc. in July 1998 and incorporated in the State of Nevada. On June 26, 2019, we changed our corporate name from Payment Data Systems, Inc. to Usio, Inc. Our principal offices are located at 3611 Paesanos Parkway, Suite 300, San Antonio, TX 78231. Our telephone number is (210) 249-4100.

Our corporate website is located at www.usio.com. We make available on this website, free of charge, copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as applicable and as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission. Interested persons can view such materials without charge under the "Investor Relations" section and then by clicking "Financials" on the Company's website, www.usio.com.

The inclusion of website addresses in this Annual Report does not include or incorporate by reference the information on or accessible through these websites, and the information contained on or accessible through these websites should not be considered as part of this annual report on Form 10-K.

You may also read and copy any materials we file with or furnish to the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <https://www.sec.gov>.

ITEM 1A. RISK FACTORS.

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors and other information included in this annual report on Form 10-K. If any of the following risks actually occur, our business, financial condition or results of operations could be materially and adversely affected, and you may lose some or all of your investment.

RISKS RELATED TO OUR BUSINESS

Loss of key resellers could reduce our revenue growth.

We rely on our reseller sales channel, which purchases and resells our end-to-end services to its own portfolio of merchant customers. This channel is a strong contributor to our revenue growth. If a reseller switches to another transaction processor, shuts down, becomes insolvent, or enters the processing business themselves, we may no longer receive new merchant referrals from the reseller, and we risk losing existing merchants that were originally enrolled by the reseller, all of which could negatively affect our revenues and earnings.

If our security applications are breached by cyberattacks or are not adequate to address changing market conditions and customer concerns, we may incur significant losses and be unable to sell our services.

Unauthorized parties have attempted, and we expect that they will continue to attempt, to gain access to our systems or facilities through various means, including, but not limited to, hacking into our systems or facilities or those of our customers, partners, or vendors, and attempting to fraudulently induce users of our systems, including employees and customers, into disclosing user names, passwords, payment information, or other sensitive information used to gain access to such systems or facilities. This information may in turn be used to access our customers' personal or proprietary information and payment data that are stored on or accessible through our information technology systems and those of third parties with whom we partner. Numerous and evolving cybersecurity threats, including advanced and persisting cyberattacks, cyberextortion, distributed denial-of-service attacks, ransomware, spear phishing and social engineering schemes, the introduction of computer viruses or other malware, and the physical destruction of all or portions of our information technology and infrastructure and those of third parties with whom we partner could compromise the confidentiality, availability, and integrity of the data in our systems. We may experience in the future, breaches of our security measures due to human error, malfeasance, insider threats, system errors or vulnerabilities, or other irregularities.

Any cyberattacks or data security breaches affecting our information technology or infrastructure or of our customers, partners, or vendors could have negative effects. For example, on December 25, 2021, we detected a ransomware attack that accessed and encrypted a small portion of our information technology systems. The unauthorized access included the download of non-payment processing related data files from our externally hosted Office 365 environment which is separate from our payment processing environment. Throughout the incident, we remained operational. Promptly upon the detection of the event, we launched an investigation, notified law enforcement and our insurance carrier, and engaged legal counsel, computer forensic firms and other incident response professionals. We also implemented a series of containment and remediation measures to address this situation and reinforce the security of our information technology systems. Our systems were not only fully restored and capable of resuming normal operations to the extent they were impaired, but enhanced following our immediate and long term response. Further preventative and proactive security measures were integrated, including incremental network and cloud defenses, implementation of third party cyber defense applications, structured incident response and disaster recovery plans, along with advanced employee cyber security training. We actively pursue any potential actions that will improve our existing systems. This cyber event had no material impact on the business, and no cardholder, or payments related data was compromised. Our direct losses associated with the cyber incident and its response were largely covered by our cybersecurity insurance, except for a deductible.

Our use of applications designed for premium data security and integrity to process electronic transactions may not be sufficient to address changing market conditions or the security and privacy concerns of existing and potential customers. If our security applications are breached and sensitive data is lost or stolen, we could incur significant costs to not only assess and repair any damage to our systems, but also to reimburse customers for losses that occur from the fraudulent use of the data. We may also be subject to fines and penalties from the credit card associations or regulatory agencies in the event of the loss of confidential account information. Our insurance policies may not be adequate to compensate us for the potential costs and other losses arising from cybersecurity-related disruptions, failures, attacks or breaches. In addition, such insurance may not be available to us in the future on economically reasonable terms, or at all. Further, adverse publicity raising concerns about the safety or privacy of electronic transactions, or widely reported breaches of our or another provider's security, have the potential to undermine consumer confidence in the technology and could have a materially adverse effect on our business.

Our efforts to expand our product portfolio and market reach, including through acquisitions, may not succeed and may reduce our revenue growth and we may not achieve or maintain profitability.

Since 2014, we have completed a total of four acquisitions which have allowed us to expand our product offerings. For example, we acquired the assets of IMS, a business of electronic bill presentment, document composition, document decomposition and printing and mailing services serving hundreds of customers representing a wide range of industry verticals, including utilities and financial institutions on December 15, 2020. We also continue to invest in our established business lines and new markets, such as our payment facilitation, and prepaid card business. While we have grown the proportion of revenue from these newer products and services and we intend to continue to broaden the scope of products and services we offer, we may not be successful in maintaining or growing our current revenue streams or deriving any significant new revenue streams from these products and services. Failure to successfully broaden the scope of products and services that are attractive may inhibit our growth and harm our business. Furthermore, we expect to continue to expand our markets in the future, and we may have limited or no experience in such newer markets. We cannot assure you that any of our products or services will be widely accepted in any market or that they will continue to grow in revenue. Our offerings may present new and difficult technological, operational, regulatory, risks, and other challenges, and if we experience service disruptions, failures, or other issues, our business may be materially and adversely affected. Our expansion into newer markets may not lead to growth and may require significant management time and attention, and we may not be able to recoup our investments in a timely manner or at all. If any of this were to occur, it could damage our reputation, limit our growth, and materially and adversely affect our business.

We may need additional financing in the future. We may be unable to obtain additional financing or if we obtain financing it may not be on terms favorable to us. You may lose your entire investment.

Based on our current plans, we believe our existing cash and cash equivalents and cash flow from operations will be sufficient to fund our operating expense and capital requirements for at least 12 months, although we may need funds in the future. At December 31, 2023 we had \$7.2 million of cash and cash equivalents, and for the year ended December 31, 2023, operating activities provided \$14.9 million. After adjusting for the impact of operating lease right-of-use assets, operating lease liabilities, prepaid card load obligations and merchant reserves included in the statement of cash flows, net cash provided by adjusted operating activities, was \$2.8 million for the year ended December 31, 2023. Adjusted operating cash flow is viewed by the company as a superior indicator of the Company's operating performance and ability to fund acquisitions, capital expenditures and other investments and, in the absence of refinancing options, to repay debt obligations. Refer to Item 7, under the subsection "Management's Discussion and Analysis of Financial Condition and Results of Operations - Key Business Metrics - Non-GAAP Financial Measures" for our reconciliation of operating cash flows to adjusted operating cash flows. If our capital resources are insufficient to meet future capital requirements, we will have to raise additional funds by selling assets, borrowing money from a third party, or by selling debt or equity securities. If we are unable to obtain additional funds on terms favorable to us, we may be required to cease or reduce our operating activities. If we must cease or reduce our operating activities, you may lose your entire investment.

Unauthorized disclosure of cardholder data, whether through breach of our computer systems or otherwise, could expose us to liability and protracted and costly litigation.

We collect and store personal identifiable information about our cardholders, including names, addresses, social security numbers, driver's license numbers and account numbers, and maintain a database of cardholder data relating to specific transactions, including account numbers, in order to process transactions and prevent fraud. As a result, we are required to comply with the privacy provisions of the Gramm-Leach-Bliley Act, various other federal and state privacy statutes and regulations, and the Payment Card Industry Data Security Standard, each of which is subject to change at any time. Compliance with these requirements is often difficult and costly, and our failure, or our distributors' failure, to comply may result in significant fines or civil penalties, regulatory enforcement action, liability to our issuing banks and termination of our agreements with one or more of our issuing banks, each of which could have a material adverse effect on our financial position and/or operations. In addition, a significant breach could result in our Company being prohibited from processing transactions for any of the relevant card associations or network organizations, including Visa, Mastercard, American Express, Discover or regional debit networks, which would also have a significant material adverse impact on our financial position and/or operations.

Furthermore, if our computer systems are breached by unauthorized users, we may be subject to liability, including claims for unauthorized purchases with misappropriated bank card information, impersonation or similar fraud claims. We could also be subject to liability for claims relating to misuse of personal information, such as unauthorized marketing purposes, or failure to comply with laws governing notification of such breaches. These claims also could result in protracted and costly litigation. In addition, we could be subject to penalties or sanctions from the relevant card associations or network organizations.

If our efforts to protect the security of information about our customers, cardholders and vendors are unsuccessful, we may face additional costly government enforcement actions and private litigation, and our sales and reputation could suffer.

An important component of our business involves the receipt and storage of information about our cardholders and banking information. We have multiple programs and processes in place to detect and respond to data security incidents; however, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures. In addition, hardware, software, or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud, trickery, or other forms of deceiving our vendors, contractors, and employees. If we, our customers, or our vendors experience significant data security breaches or fail to detect and appropriately respond to significant data security breaches, we could be exposed to government enforcement actions and private litigation. In addition, our cardholders and customers could lose confidence in our ability to protect their information, which could cause them to discontinue using our services.

If we do not adapt to rapid technological change, including as a result of artificial intelligence, our business may fail.

Our success depends on our ability to develop new and enhanced services and related products that meet ever changing customer needs and industry standards. However, the market for our services is characterized by rapidly changing technology, evolving industry standards, emerging competition and frequent new and enhanced software, service and related product introductions. In addition, the software market is subject to rapid and substantial technological change. To remain successful, we must respond to new developments in hardware and semiconductor technology, operating systems, programming technology and computer capabilities. In many instances, new and enhanced services, products and technologies are in the emerging stages of development and marketing and are subject to the risks inherent in the development and marketing of new software, services and products. We may not successfully identify new service opportunities and develop and introduce new and enhanced services and related products to market in a timely manner. Even if we do bring such services, products or technologies to market, they may not become commercially successful. Additionally, services, products or technologies developed by others may render our services and related products noncompetitive or obsolete. If we are unable, for technological or other reasons, to develop and introduce new services and products in a timely manner in response to changing market conditions or customer requirements, our business may fail.

Business interruptions or systems failures may impair the availability of our websites, applications, products or services, or otherwise harm our business.

Our systems and operations and those of our service providers and partners have experienced from time to time, and may experience in the future, business interruptions or degradation because of distributed denial-of-service and other cyberattacks, insider threats, hardware and software defects or malfunctions, human error, earthquakes, hurricanes, floods, fires, and other natural disasters, public health crises (including pandemics), power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks, computer viruses or other malware, or other events. A catastrophic event that results in a disruption or failure of our systems or operations could result in significant losses and require substantial recovery time and significant expenditures to resume or maintain operations, which could have a material adverse impact on our business, financial condition, and results of operations. Additionally, some of our systems, including those of companies we have acquired, are not fully redundant, and our disaster recovery planning may not be sufficient for all possible outcomes or events. As a provider of payment solutions, we are subject to heightened scrutiny by regulators that may require specific business continuity, resiliency and disaster recovery plans, and rigorous testing of such plans, which may be costly and time-consuming to implement, and may divert our resources from other business priorities.

We have experienced, and expect to continue to experience, system failures, cyberattacks, unplanned outages, and other events or conditions from time to time that have and may interrupt the availability, or reduce or adversely affect the speed or functionality, of our products and services. These events could result in future losses of revenue. A prolonged interruption in the availability or reduction in the availability, speed, or functionality of our products and services could materially harm our business. Frequent or persistent interruptions in our services could permanently harm our relationship with our customers and partners and our reputation. Moreover, if any system failure or similar event results in damage to our customers or their business partners, they could seek significant compensation or contractual penalties from us for their losses, and those claims, even if unsuccessful, would likely be time-consuming and costly for us to address, and could have other consequences described in this "Risk Factors" section under the caption "If our security applications are breached by cyberattacks or are not adequate to address changing market conditions and customer concerns, we may incur significant losses and be unable to sell our services."

We have undertaken and continue to undertake certain system upgrades and re-platforming efforts designed to improve the availability, reliability, resiliency, and speed of our platform. These efforts are costly and time-consuming, involve significant technical risk, and may divert our resources from new features and products, and there can be no guarantee that these efforts will be effective. Frequent or persistent site interruptions could lead to regulatory scrutiny, significant fines and penalties, and mandatory and costly changes to our business practices, and ultimately could cause us to lose existing licenses that we need to operate or prevent or delay us from obtaining additional licenses that may be required for our business.

We also rely on facilities, components, applications, and services supplied by third parties, including data center facilities and cloud data storage and processing services. From time to time, we have experienced interruptions in the provision of such facilities and services provided by these third parties. If these third parties experience operational interference or disruptions (including a cybersecurity incident), breach their agreements with us, or fail to perform their obligations and meet our expectations, our operations could be disrupted or otherwise negatively affected, which could result in customer dissatisfaction, regulatory scrutiny, and damage to our reputation and brands, and materially and adversely affect our business. While we maintain insurance policies intended to offset the financial impact we may experience from these risks, our coverage may be insufficient to compensate us for all losses caused by interruptions in our service as a result of systems failures and similar events.

In addition, any failure to successfully implement new information systems and technologies, or improvements or upgrades to existing information systems and technologies in a timely manner could have an adverse impact on our business, internal controls (including internal controls over financial reporting), results of operations, and financial condition.

Fraud by merchants or others could have an adverse effect on our operating results and financial condition.

We have potential liability for fraudulent bankcard, ACH and prepaid card transactions or credits initiated by merchants or others. Examples of merchant fraud include when a merchant knowingly uses a stolen or counterfeit bankcard, card number or bank account to record a false sales transaction, processes an invalid bankcard, or intentionally fails to deliver the merchandise or services sold in an otherwise valid transaction. Criminals are using increasingly sophisticated methods to engage in illegal activities such as counterfeit and fraud. While we have systems and procedures designed to detect and reduce the impact of fraud, we cannot assure the effectiveness of these measures. It is possible that incidents of fraud could increase in the future. Failure to effectively manage risk and prevent fraud would increase our chargebacks liability or cause us to incur other liabilities, including regulatory and association fines, penalties and harm to our reputation. Increases in chargebacks or other liabilities could have an adverse effect on our operating results and financial condition.

We rely on our relationship with the Automated Clearing House network, and if the Federal Reserve rules were to change, our business could be adversely affected.

We have contractual relationships with North American Banking Company, or NABC, Metropolitan Commercial Bank, and TransPecos Bank, which are Originating Depository Financial Institutions, or ODFI, in the ACH network. The ACH network is a nationwide batch-oriented electronic funds transfer system that provides for the interbank clearing of electronic payments for participating financial institutions. An ODFI is a participating financial institution that must abide by the provisions of the ACH Operating Rules and Guidelines. Through our relationships with Metropolitan Commercial Bank, TransPecos Bank, and NABC, we process payment transactions on behalf of our customers and their consumers by submitting payment instructions in a prescribed ACH format. We pay volume-based fees to TransPecos Bank, and NABC for debit and credit transactions processed each month, and pay fees for other transactions such as returns and notices of change to bank accounts. These fees are part of our agreed-upon cost structures with the banks. If the Federal Reserve rules were to introduce restrictions or modify access to the Automated Clearing House, our business could be materially adversely affected. Further, if one or all of Metropolitan Commercial Bank, TransPecos Bank, or NABC were to cancel our respective contract with the bank, our business could be materially affected. At this time, we believe we could find and enter into additional agreements with other bank sponsors on similar contractual terms, but no assurances can be made.

If we lose key personnel or we are unable to attract, recruit, retain and develop qualified employees, our business, financial condition and results of operations may be adversely affected.

In order for us to successfully compete and grow, we must attract, recruit, retain and develop the necessary personnel who can provide the needed expertise and skills across the spectrum of our intellectual capital needs. The market for qualified personnel is highly competitive and we may not be successful in recruiting qualified personnel for needed skill sets or replacing current personnel who leave us. Failure to retain or attract key personnel and skill sets could have a material adverse effect on our business, financial condition and results of operations.

If our third-party card processing providers or our bank sponsors fail to comply with the applicable requirements of Visa, Mastercard and Discover credit card associations or if our current processors cancel or fail to renew our contracts, we may have to find a new third-party processing provider, which could increase our costs.

Substantially all of the card-based transactions we process involve the use of Visa, Mastercard or Discover credit cards. In order to provide payment-processing services for Visa, Mastercard and Discover transactions, we must be sponsored by a financial institution that is a principal member of the respective Visa, Mastercard and Discover card associations. Both Central Bank of St. Louis and Wells Fargo Bank have sponsored us under the designations Third Party Processor, or TPP, and Independent Sales Organization, or ISO, with the Visa card association, and under the designations Third Party Servicer, or TPS, and Merchant Service Provider, or MSP, with the Mastercard card association. We have agreements with TriSource Solutions, LLC, Card Connect / First Data Merchant Services Corp. and Global Payments Inc. through which their member banks, Central Bank of St. Louis and Wells Fargo Bank, sponsor us for membership in the Visa and Mastercard card associations, and settle card transactions for our merchants. If our third-party processing provider, TriSource Solutions, Card Connect or Global Payments, or our bank sponsors, Central Bank of St. Louis, Wells Fargo Bank, TransPecos Bank, CBW Bank or Evolve Bank & Trust fail to comply with the applicable requirements of the Visa, Mastercard, and Discover card associations, Visa, Mastercard or Discover could suspend or terminate the registration of our third-party processing provider. Also, our contracts with both of these third parties are subject to cancellation upon limited notice by either party. The cancellation of either contract, termination of their registration or any changes in the Visa, Mastercard or Discover rules that would impair the registration of our third-party processing provider could require us to stop providing such payment processing services if we are unable to enter into a similar agreement with another provider or sponsor at similar costs and upon similar contractual terms. Additionally, changing our bank sponsor could adversely affect our relationship with our merchants if the new sponsor provides inferior service or charges higher costs.

We may not be able to obtain and maintain sufficient insurance coverage.

We insure against a majority of business risks, including liability for cyber incidents, and for director and officer liability. D&O and cyber insurance especially are becoming increasingly challenging to purchase and maintain due to market factors. Premiums and deductibles have been increasing, sometimes dramatically, and some insurers are cutting back on the number of companies they insure, causing the supply of insurance to lag behind demand. As a result of these factors, we may not be able to maintain such insurance on acceptable terms or be able to secure coverage and the coverage of our existing insurance may not be sufficient to offset existing or future claims. A successful claim against us with respect to uninsured liabilities or in excess of insurance coverage could have a material adverse effect on our business, financial condition, and results of operations.

We have incurred substantial losses in the past and may incur additional losses in the future.

We reported a net loss of \$0.5 million and \$5.5 million for the years ended December 31, 2023 and December 31, 2022, respectively. Including these results, we have an accumulated deficit of \$71.3 million at December 31, 2023. Our future operating results are not certain and we may incur future operating losses.

We may need to raise additional capital to pursue product development initiatives and to penetrate additional markets for the sale of our products in the future. We believe that we have access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations or other means but we cannot assure you that we will be able to complete such a financing on terms acceptable to us or at all. If we are unable to secure additional capital, we may be required to curtail our research and development initiatives and take additional measures to reduce costs in order to conserve our cash in amounts sufficient to sustain operations and meet our obligations. These measures could cause significant delays in our efforts to expand our product offerings and customer base in the United States, which are critical to the realization of our business plan and to future operations.

We have recorded significant deferred tax assets, and we might never realize their full value, which would result in a charge against our earnings.

As of December 31, 2023, we had deferred tax assets of \$1.5 million. Realization of our deferred tax assets is dependent upon our generating sufficient taxable income in future years to realize the tax benefit from those assets. Deferred tax assets are reviewed at least annually for realizability. A charge against our earnings would result if, based on the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized beyond our existing valuation allowance. This could be caused by, among other things, deterioration in performance, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the solutions sold by our business and a variety of other factors.

If a deferred tax asset net of our valuation allowance was determined to be not realizable in a future period, the charge to earnings would be recognized as an expense in our results of operations in the period the determination is made. Additionally, if we are unable to utilize our deferred tax assets, our cash flow available to fund operations could be adversely affected.

Depending on future circumstances, it is possible that we might never realize the full value of our deferred tax assets. Any future impairment charges related to a significant portion of our deferred tax assets would have an adverse effect on our financial condition and results of operations.

Our prepaid card revenues from the sale of services to merchants that accept Mastercard cards are dependent upon our continued Mastercard registration and financial institution sponsorship and, in some cases, continued participation in certain payment networks.

In order to provide processing services for our Mastercard prepaid card program, we must be either a member of a payment network or be registered as a prepaid processor of Mastercard. Sunrise Banks, N.A. has sponsored us under the designations Third Party Servicer, or TPS, and Merchant Service Provider, or MSP, with the Mastercard card association. Registration as a prepaid processor is dependent upon our being sponsored by member clearing banks. If our sponsor bank should stop providing sponsorship for us, we would need to find another financial institution to provide those services or we would need to be a member, either of which could prove to be difficult and/or more expensive. If we are unable to find a replacement financial institution to provide sponsorship or become a member of the association, we may no longer be able to provide prepaid processing services to our Mastercard customers, which would negatively impact our revenues and earnings.

If we fail to comply with the applicable requirements of the respective card networks, they could seek to fine us, suspend us or terminate our registrations.

In order to provide our transaction processing services, we are registered with Visa, Mastercard and Discover as service providers and transaction processors for member institutions and with other networks. As such, we are subject to card association and network rules that could subject us to a variety of fines or penalties that may be levied by the card networks for certain acts or omissions. The rules of the card networks are set by their boards, which may be influenced by banks that own their stock and, in the case of Discover by the card's issuers, and some of those banks and issuers are our competitors with respect to these processing services. The termination of our registrations or our status as a service provider or transaction processor, or any changes in card association or other network rules or standards, including interpretation and implementation of the rules or standards, that increase the cost of doing business or limit our ability to provide transaction processing services to our customers, could have a material adverse effect on our business, operating results and financial condition. If a merchant or one of our resellers fails to comply with the applicable requirements of the card associations and networks, it could be subject to a variety of fines or penalties that may be levied by the card associations or networks. If we cannot collect such amounts from the applicable merchant or one of our resellers, we could end up bearing such fines or penalties, resulting in lower earnings for us.

If we fail to comply with complex and expanding consumer protection regulations, our business could be adversely affected.

The establishment of the federal Consumer Financial Protection Bureau, or CFPB, will likely expose us to increased regulatory oversight and possibly more burdensome regulation that could have an adverse impact on our revenue and profits. For example, on October 5, 2016, the CFPB issued a final rule to regulate certain prepaid accounts, or the Prepaid Account Rule. The Prepaid Account Rule mandates, among other things, extensive pre-purchase and post-purchase disclosures, expanded electronic billing statements, adherence to certain overdraft regulations for prepaid accounts that permit negative balances, and public posting of account agreements and submission to the CFPB which will then publish them on its website. The Prepaid Account Rule took effect on April 1, 2019, subject to certain exceptions. On January 25, 2018, the CFPB announced certain changes to the Prepaid Account Rule, including allowing the error resolution and liability limitations protections to apply prospectively, after a consumer's identity has been verified, and providing more flexibility to credit cards linked to digital wallets. On February 27, 2019, the CFPB also announced a streamline electronic submission system, or Collect, for prepaid account issuers to submit their prepaid account agreements, including fee information, to the CFPB. All prepaid account agreements offered as of April 1, 2019 must be uploaded to Collect by May 1, 2019. Thereafter, prepaid account issuers must make a submission to the CFPB within 30 days after a new agreement is offered, a previously submitted agreement is amended, or a previously submitted agreement is no longer offered. Compliance with existing and new obligations as result of further expanding consumer protections regulations, could result in increased compliance costs for us, our issuing banks and our distributors, and may therefore have a negative impact on the profitability of our business.

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We are subject to extensive and complex federal and state regulation and new regulations and/or changes to existing regulations could adversely affect our business.

As an agent of, and third-party service provider to, our issuing banks, we are subject to indirect regulation and direct audit and examination by the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the FRB, and the Federal Deposit Insurance Corporation.

On March 23, 2010, the FRB issued a final rule implementing Title IV of the Credit Card Accountability, Responsibility, and Disclosure Act of 2009, or CARD Act, which imposes requirements relating to disclosures, fees and expiration dates that are generally applicable to gift certificates, store gift cards and general-use prepaid cards. We believe that our general-purpose re-loadable prepaid cards, and the maintenance fees charged on our general-purpose re-loadable cards, are exempt from the requirements under this rule, as they fall within an express exclusion for cards which are re-loadable and not marketed or labeled as a gift card or gift certificate. However, this exclusion is not available if the issuer, the retailer selling the card to a consumer or the program manager, promotes, even if occasionally, the use of the card as a gift card or gift certificate. As a result, we provide retailers with specific instructions and policies regarding the display and promotion of our general-purpose re-loadable cards. However, it is possible that despite our instructions and policies to the contrary, a retailer engaged in offering our general-purpose re-loadable cards to consumers could take an action with respect to one or more of the cards that would cause each similar card to be viewed as being marketed or labeled as a gift card, such as by placing our general-purpose re-loadable cards on a display which prominently features the availability of gift cards and does not separate or otherwise distinguish our general purpose re-loadable cards from the gift cards. In such event, it is possible that such general-purpose re-loadable cards would lose their eligibility for such exclusion to the CARD Act and its requirements, and therefore could be deemed to be in violation of the CARD Act and the rule, which could result in the imposition of fines, the suspension of our ability to offer our general-purpose re-loadable cards, civil liability, criminal liability, and the inability of our issuing banks to apply certain fees to our general-purpose re-loadable cards, each of which would likely have a material adverse impact on our revenues.

In 2014, we resumed issuing gift cards. Any gift cards we issue will be governed by the CARD act and other various regulations. Any violations with our gift card issuance could result in the imposition of fines, the suspension of our ability to offer our gift cards, civil liability, criminal liability, and the inability of our issuing banks to apply certain fees to our gift cards, each of which would likely have a material adverse impact on our revenues.

As the laws applicable to our business, and those of our distributors and issuing banks, change frequently, are often unclear and may differ or conflict between jurisdictions, ensuring compliance has become more difficult and costly. Any failure, or perceived failure, by us, our issuing banks or our distributors to comply with all applicable statutes and regulations could result in fines, penalties, regulatory enforcement actions, civil liability, criminal liability, and/or limitations on our ability to operate our business, each of which could significantly harm our reputation and have a material adverse impact on our business, results of operations and financial condition.

State and federal legislatures and regulatory authorities have become increasingly focused upon the regulation of the financial services industry and continue to adopt new legislation which could result in significant changes in the regulatory landscape for financial institutions, which could include our bank sponsors, and other financial services companies, such as our Company.

If our software fails, and we need to repair or replace it, or we become subject to warranty claims, our costs could increase.

Our software products could contain errors or "bugs" that could adversely affect the performance of services or damage a user's data. We attempt to limit our potential liability for warranty claims through technical audits and limitation-of-liability provisions in our customer agreements; however, these measures may not be effective in limiting our exposure to warranty claims. We have not experienced a significant increase in software errors or warranty claims. Despite the existence of various security precautions, our computer infrastructure may also be vulnerable to viruses or similar disruptive problems caused by our customers or third parties gaining access to our processing system.

We depend on the efficient and uninterrupted operation of our computer network systems, software, data center and telecommunications networks, as well as the systems and services of third parties. Our systems and operations or those of our third-party providers could be exposed to damage or interruption from, among other things, fire, natural disaster, power loss, telecommunications failure, terrorist acts, war, unauthorized entry, human error, and computer viruses or other defects. Defects in our systems or those of third parties, errors or delays in the processing of payment transactions, telecommunications failures or other difficulties could result in loss of revenue, loss of merchants, loss of merchant and cardholder data, harm to our business or reputation, exposure to fraud losses or other liabilities, negative publicity, additional operating and development costs, and/or diversion of technical and other resources. We perform the majority of our disaster recovery operations ourselves, though we utilize select third parties for some aspects of recovery. To the extent we outsource our disaster recovery, we are at risk of the vendor's unresponsiveness in the event of breakdowns in our systems.

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Our card programs are subject to strict regulation under federal law regarding anti-money laundering and anti-terrorist financing. Failure to comply with such laws, or abuse of our card programs for purposes of money laundering or terrorist financing, could have a material adverse impact on our business.

Provisions of the USA PATRIOT Act, the Bank Secrecy Act and other federal law impose substantial regulation of financial institutions designed to prevent use of financial services for purposes of money laundering or terrorist financing. Increasing regulatory scrutiny of our industry with respect to money laundering and terrorist financing matters could result in more aggressive enforcement of such laws or more onerous regulation, which could have a material adverse impact on our business. In addition, abuse of our prepaid card programs for purposes of money laundering or terrorist financing, notwithstanding our efforts to prevent such abuse through our regulatory compliance and risk management programs, could cause reputational risk or other harm that would have a material adverse impact on our business.

Effective September 27, 2011, the Financial Crimes Enforcement Network of the U.S. Department of the Treasury, or FinCEN, issued a final rule regarding the applicability of the Bank Secrecy Act's anti-money laundering provisions to prepaid products and other matters related to the regulation of money services businesses. This rule created additional obligations for entities, including our distributors, engaged in the provision and sale of certain prepaid products, including our prepaid debit cards, such as the obligation for sellers of prepaid debit cards to obtain identification information from the purchaser at the point-of-sale. Compliance with these obligations may result in increased compliance costs for us, our issuing banks and our distributors, and may therefore have a negative impact on the profitability of our business.

We will be liable for separation payments in case of change in control, termination without cause, non-renewal of the agreement, death, or disability under the employment agreement with our Chairman, President, Chief Executive Officer, and Chief Operating Officer, Mr. Hoch, which could have an adverse effect on our cash position and on our financial results.

Pursuant to our employment agreement, as amended, with Louis Hoch, Chairman, President, Chief Executive Officer, and Chief Operating Officer, in the event of change in control, termination without cause, termination by employee, or non-renewal of the employment agreement, we will be liable for separation payments, equaling an amount of (a) 2.95 times the respective base salary and bonus payments, plus (b) a pro rata portion of the respective annual bonus based on the number of days elapsed in the year prior, plus (c) 2.0 times the respective base salary for non-competition, and (d) continuing other benefits. We estimate the cash disbursements over time to be \$4.0 million for the agreement with Mr. Hoch.

In the case of termination of the agreement due to death of the executive, we will be liable for separation payments, equaling an amount of 2.95 times the respective base salary. The deferred compensation does not include amounts paid or accrued to executive for bonuses or bonus compensation, benefits or equity awards. Unpaid and unearned bonus compensation or bonus deferred compensation is forfeited. No deferred compensation will be due as long as we and/or an insurance company continues to pay executive's base salary, minus any monthly base salary already paid to the executive prior to his death pursuant to the executive's disability, to the executive's estate for a period of up to 36 months. If these continuing payments cease before 36 months, we will have to pay the executive's estate the deferred compensation minus any base salary payments within 30 days of the cessation. We estimate the cash disbursements over time to be approximately \$2.4 million for the agreement with Mr. Hoch. Further, all stock options issued to the executive and all restricted stock granted to executive shall continue on their established vesting schedule.

In the case of termination of the agreement due to disability without death, we will be liable for separation payments, equaling an amount of disability benefits constituting base salary for three years. We estimate the cash disbursement over time to be \$2.4 million for the agreement with Mr. Hoch. Unpaid and unearned bonus compensation or bonus deferred compensation is forfeited. Further, all stock options issued to the executive and all restricted stock granted to executive shall continue on their established vesting schedule. No further compensation will be due for compliance with the agreements' non-compete, non-solicitation and disparagement clauses.

Depending on when such an event might occur, it could have a substantial adverse effect on our operating capital and cash on hand. If our cash position is not sufficient, we may need to raise additional cash which could involve selling equity securities which would dilute our shareholders. In addition, the loss of our Chairman or Chief Executive Officer may adversely affect our business and results of operations.

We are subject to the privacy requirements of the California Consumer Privacy Act.

The California Consumer Privacy Act of 2018, or CCPA, went into effect on January 1, 2020. The CCPA imposes expansive data privacy and data protection requirements for the data of California residents, and provides for significant penalties for non-compliance. The CCPA underwent multiple amendments prior to coming into effect and while enforcement actions may not be brought by the California attorney general until July 1, 2020 it remains unclear how various provisions of the CCPA will be interpreted and enforced. Further, on November 3, 2020, the California voters passed the California Privacy Rights and Enforcement Act, or CPRA, which replaces the CCPA effective January 1, 2023. The CPRA alters the scope of covered businesses, adds a new category of sensitive personal information and grants certain consumer rights, such as a right to opt out and a right to delete. The effects of this legislation potentially are far-reaching, however, and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to achieve compliance. The CCPA and the CPRA impose obligations that are new and burdensome, and we may face challenges in addressing their requirements and making necessary changes to our policies and practices and may incur significant expenses in an effort to do so. Any failure, real or perceived, by us to comply with evolving regulatory requirements, interpretations, or orders, other local, state, federal, or international privacy, data protection, information security, or consumer protection-related laws and regulations, could cause our customers unease and materially and adversely affect our business.

We depend on Louis A. Hoch, our Chairman, President, Chief Executive and Chief Operating Officer, and if he ceased to be active in our management, our business may not be successful.

Our success depends to a significant degree upon the continued contributions of our key management, marketing, service and related product development and operational personnel, including our President and Chief Executive and Chief Operating Officer, Louis A. Hoch. We entered into an employment agreement with Mr. Hoch in February 2007 and update his agreement as changes are required. The terms of the agreement prohibit the executive from competing with us for a period of two years from the executive's date of termination. Our business may not be successful if, for any reason, Mr. Hoch ceases to be active in our management.

Risks associated with reduced levels of consumer spending could adversely affect our revenues and earnings.

Significant portions of our revenue and earnings are derived from fees from processing consumer ACH, prepaid, credit, and debit card transactions. We are exposed to general economic conditions that affect consumer confidence, consumer spending, consumer discretionary income or changes in consumer purchasing habits. A general reduction in consumer spending in the United States or in any other country where we do business could adversely affect our revenues and earnings. Please also refer to "General Risk Factors" in this Item 1A in this Annual Report on Form 10-K.

We are subject to risks and write-offs resulting from fraudulent activities and losses from overdrawn cardholder accounts that could adversely impact our financial performance and results of operations.

Our prepaid cards expose us to threats involving the misuse of such cards, collusion, fraud, identity theft and systemic attacks on our systems. Although a large portion of fraudulent activity is addressed through the charge-back systems and procedures maintained by the card association networks, we are often responsible for other losses due to merchant and cardholder fraud. No system or procedures established to detect and reduce the impact of fraud are entirely effective. We recorded fraud losses of \$573,281 and \$299,162, respectively, in 2023 and 2022. We experienced an increase in fraudulent accounts in 2023 as a result of growth in our prepaid card business of 105%. Although we actively devote efforts to effectively manage risk and prevent fraud, we could nevertheless experience future increases in fraud losses over our historical experience.

Our prepaid cardholders can in some circumstances incur charges in excess of the funds available in their accounts and are liable for the resulting overdrawn account balance. Although we generally decline authorization attempts for amounts that exceed the available balance in a prepaid cardholders account, the application of the card association networks' rules and regulations, the timing of the settlement of transactions and the assessment of subscription, maintenance or other fees can, among other things, result in overdrawn card accounts.

Although we maintain reserves for fraud and other losses, our exposure to these types of risks may exceed our reserve levels for a variety of reasons, including our failure to predict the actual recovery rate, failure to effectively manage risk and failure to prevent fraud. Accordingly, our business, results of operations and financial condition could be materially and adversely affected to the extent that we incur losses resulting from overdrawn cardholder accounts and fraudulent activity that exceed our designated reserves or if we determine that it is necessary to increase our reserves substantially in order to address any increased recovery risk.

Our business strategy includes identifying businesses and assets to acquire, and if we cannot integrate acquisitions into our company successfully, we may have limited growth.

Our success partially depends upon our ability to identify and acquire undervalued businesses and merchant portfolios within our industry. Although we believe that there are companies and portfolios available for potential acquisition that might offer attractive business opportunities, we may not be able to make any acquisitions, and if we do make acquisitions, they may not be profitable. As a result, our business may not grow and regain profitability.

Acquisitions may involve significant cash expenditures, debt issuances, equity issuances, operating losses and expenses. Acquisitions involve numerous other risks, including:

- diversion of management time and attention from daily operations;
- difficulties integrating acquired businesses, technologies and personnel into our business;
- difficulties in obtaining and verifying the financial statements and other business information of acquired businesses;
- inability to obtain required regulatory approvals;
- potential loss of key employees, key contractual relationships or key customers of acquired companies or of ours;
- assumption of the liabilities and exposure to unforeseen liabilities of acquired companies; and
- dilution of interests of holders of our common stock through the issuance of equity securities or equity-linked securities.

If we do not manage our credit risks related to our merchant accounts, we may incur significant losses.

We rely on the Federal Reserve's Automated Clearing House system for electronic fund transfers and the Visa, Mastercard and Discover associations for settlement of payments by credit or debit card on behalf of our merchant customers. In our use of these established payment clearance systems, we generally bear the credit risks arising from returned transactions caused by insufficient funds, stop payment orders, closed accounts, frozen accounts, unauthorized use, disputes, customer chargebacks, theft or fraud. Consequently, we assume the credit risk of merchant disputes, fraud, insolvency or bankruptcy in the event we attempt to recover funds related to such transactions from our customers. We have not experienced a significant increase in the rate of returned transactions or incurred any losses with respect to such transactions. We utilize a number of systems and procedures to manage and limit credit risks, but if these actions are not successful in managing such risks, we may incur significant losses.

We have adopted certain measures that may make it more difficult for a third party to acquire control of our Company.

Our Board of Director members are classified into three classes of directors serving staggered three-year terms. Such classification of the Board of Directors expands the time required to change the composition of the majority of directors and may discourage a proxy contest or other takeover bid for our company.

RISKS RELATED TO OUR INDUSTRY

The electronic commerce market is evolving and if it does not grow, we may not be able to sell sufficient services to make our business viable.

The electronic commerce market is a service industry that continues to grow significantly. If the electronic commerce market fails to grow or grows slower than anticipated, or if we, despite an investment of significant resources, are unable to adapt to meet changing customer requirements or technological changes in this emerging market, or if our services and related products do not maintain a proportionate degree of acceptance in this growing market, our business may not grow and could even fail. Additionally, the security and privacy concerns of existing and potential customers may inhibit the growth of the electronic commerce market in general, and our customer base and revenues, in particular. Similar to the emergence of the credit card and automatic teller machine industries, we and other organizations serving the electronic commerce market must educate users that electronic transactions use encryption technology and other electronic security measures that make electronic transactions more secure than paper-based transactions.

Changes in regulation of electronic commerce and related financial services industries could increase our costs and limit our business opportunities.

We believe that we are not required to be licensed by the Office of the Comptroller of the Currency, the Federal Reserve Board, or other federal or state agencies that regulate or monitor banks or other types of providers of electronic commerce services. It is possible that a federal or state agency will attempt to regulate providers of electronic commerce services, which could impede our ability to do business in the regulator's jurisdiction. Our business has also been affected by anti-terrorism legislation, such as the USA PATRIOT Act. Banking-related provisions of the USA PATRIOT Act have been implemented as additions to the banking rules regarding monetary instrument sales record keeping requirements and tracking of cash movements. In our capacity as an agent for Sunrise Banks, N.A., the issuing bank for our prepaid card programs and in our capacity as an agent for Metropolitan Commercial Bank, NABC and TransPecos Bank, the sponsoring banks for our ACH services, we are required to comply with these rules. We are also required to implement a Customer Identification Program and establish an Anti-Money Laundering program and to report any suspected money laundering to the appropriate agencies. Our compliance with such regulations increases our responsibilities and costs associated with the administration of our debit card programs. We are also subject to various laws and regulations relating to commercial transactions, such as the Uniform Commercial Code, and may be subject to the electronic funds transfer rules embodied in Regulation E, promulgated by the Federal Reserve Board. Given the expansion of the electronic commerce market, the Federal Reserve Board might revise Regulation E or adopt new rules for electronic funds transfer affecting users other than consumers. Because of growth in the electronic commerce market, Congress has held hearings on whether to regulate providers of services and transactions in the electronic commerce market. It is possible that Congress or individual states could enact laws regulating the electronic commerce market. If enacted, such laws, rules and regulations could be imposed on our business and industry and could increase our costs or limit our business opportunities.

If we cannot compete successfully in our industry, we could lose market share and our costs could increase.

Portions of the electronic commerce market are becoming increasingly competitive. We expect to face growing competition in all areas of the electronic payment processing market. New companies could emerge and compete for merchants of all sizes. We expect competition to increase from both established and emerging companies and that such increased competition could lower our market share and increase our costs. Moreover, our current and potential competitors, many of whom have greater financial, technical, marketing and other resources than us, may respond more quickly than us to new or emerging technologies or could expand to compete directly against us in any or all of our target markets. Accordingly, it is possible that current or potential competitors could rapidly acquire market share. We may not be able to compete against current or future competitors successfully. Additionally, competitive pressures may increase our costs, which could lower our earnings, if any.

RISKS RELATED TO OUR COMMON STOCK

Our stock price is volatile, and you may not be able to sell your shares at a price higher than what you paid.

The market for our common stock is highly volatile. In 2023, our stock price fluctuated between \$1.45 and \$2.36. The trading price of our common stock could be subject to wide fluctuations in response to, among other things, quarterly variations in operating and financial results, announcements of technological innovations or new products by our competitors or us, changes in prices of our products and services or our competitors' products and services, changes in product mix, or changes in our revenue and revenue growth rates.

If security or industry analysts publish reports that are interpreted negatively by the investment community, publish negative research reports about our business, cease coverage of our company or fail to regularly publish reports or us, our share price could decline.

The trading for our common stock depends, to some extent, on the research and reports that security or industry analyst publish about us, our business, our market and our competitors. We do not have any control over these analysts or the information contained in their reports. If one or more analysts publish reports that are interpreted negatively by the investment community or have a negative tone about our business, financial or operating performance or industry, our share price could decline. In addition, if a majority of our analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price to decline.

Additional stock issuances could result in significant dilution to our stockholders.

We may issue additional equity securities to raise capital, make acquisitions or for a variety of other purposes. Any such stock issuances will result in dilution to existing holders of our stock. We rely on equity-based compensation as an important tool in recruiting and retaining employees. The amount of dilution due to future equity-based compensation issued to our employees and other additional issuances could be substantial.

Pursuant to our 2015 Equity Incentive Plan (the "2015 Plan"), our management is authorized to grant stock options to our employees, directors and consultants. There are 5,000,000 shares of Common Stock reserved for issuance under the 2015 Plan. Additionally, the number of shares of our Common Stock reserved for issuance under our 2015 Plan automatically increases on January 1 of each year, beginning on January 1, 2022, and continuing through and including January 1, 2031, by 5% of the total number of shares of our capital stock outstanding on December 31 of the preceding calendar year (determined on an as-converted to voting common stock basis, without regard to any limitations on the conversion of the non-voting common stock), or a lesser number of shares determined by our board of directors. As of December 31, 2023, we had granted awards under the 2015 Plan for 7,889,455 shares of Common Stock and have 5,510,845 shares still reserved.

In addition, pursuant to our 2023 Employee Stock Purchase Plan ("ESPP"), we have reserved 2,500,000 shares of Common Stock. The number of shares of our Common Stock reserved for issuance automatically increases on January 1 of each calendar year, beginning on January 1, 2024 through December 31, 2033, by the lesser of (i) 1% of the total number of shares of our Common Stock outstanding on the last day of the fiscal year before the date of the automatic increase (determined on an as-converted to voting common stock basis); and (ii) such number of shares of Common Stock that would cause the aggregate number of shares of Common Stock then reserved for issuance under the ESPP to not exceed 2,500,000 shares. As of December 31, 2023, no shares of our Common Stock had been purchased pursuant to the ESPP.

Unless our board of directors elects not to increase the number of shares available for future grant pursuant to our 2015 Plan and ESPP each year, our stockholders may experience additional dilution, which could cause our stock price to fall.

We may issue additional equity securities, or engage in other transactions that could dilute our book value or affect the priority of our Common Stock, which may adversely affect the market price of our Common Stock.

Our articles of incorporation allow our Board to issue up to 200,000,000 shares of Common Stock. Our Board may determine from time to time that we need to raise additional capital by issuing Common Stock or other equity securities. Except as otherwise described in this Annual Report, we are not restricted from issuing additional securities, including securities that are convertible into or exchangeable for, or that represent the right to receive, shares of our Common Stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, or nature of any future offerings, or the prices at which such offerings may be affected. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our Common Stock, or both. Holders of our Common Stock are not entitled to pre-emptive rights or other protections against dilution. New investors also may have rights, preferences and privileges that are senior to, and that adversely affect, the then-current holders of our Common Stock. Additionally, if we raise additional capital by making offerings of debt or shares of preferred stock, upon our liquidation, holders of our debt securities and shares of preferred stock, and lenders with respect to other borrowings, may receive distributions of our available assets before the holders of our Common Stock.

We may issue shares of preferred stock with greater rights than our Common Stock.

Subject to the rules of The Nasdaq Stock Market, our articles of incorporation authorize our board of directors to issue one or more series of preferred stock and set the terms of the preferred stock without seeking any further approval from holders of our Common Stock. Any preferred stock that is issued may rank ahead of our Common Stock in terms of dividends, priority and liquidation premiums and may have greater voting rights than our Common Stock.

We have not paid any cash dividends in the past and have no plans to issue cash dividends in the future, which could cause our Common Stock to have a lower value than that of similar companies which do pay cash dividends.

We have not paid any cash dividends on our Common Stock to date and do not anticipate any cash dividends being paid to holders of our Common Stock in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board.

While our dividend policy will be based on the operating results and capital needs of the business, it is anticipated that any earnings will be retained to finance our future expansion. As we have no plans to issue cash dividends in the future, our Common Stock could be less desirable to other investors and as a result, the value of our Common Stock may decline, or fail to reach the valuations of other similarly situated companies that pay cash dividends.

Shares eligible for future sale may depress our stock price.

As of March 22, 2024, we had 26,342,459 shares of Common Stock outstanding of which 4,992,659 shares were held by affiliates. All of the shares of Common Stock held by affiliates are restricted or control securities under Rule 144 promulgated under the Securities Act of 1933, as amended (the "Securities Act"). Sales of shares of Common Stock under Rule 144 or another exemption under the Securities Act or pursuant to a registration statement could have a material adverse effect on the price of our Common Stock and could impair our ability to raise additional capital through the sale of equity securities. Furthermore, all Common Stock beneficially owned by persons who are not our affiliates and have beneficially owned such shares for at least one year may be sold at any time by these existing stockholders in accordance with Rule 144 of the Securities Act. However, there can be no assurance that any of these existing stockholders will sell any or all of their Common Stock and there may be a lack of supply of, or demand for, our Common Stock on The Nasdaq Stock Market. In the case of a lack of supply of our Common Stock offered in the market, the trading price of our Common Stock may rise to an unsustainable level, particularly in instances where institutional investors may be discouraged from purchasing our Common Stock because they are unable to purchase a block of our Common Stock in the open market due to a potential unwillingness of our existing stockholders to sell the amount of Common Stock at the price offered by such investors and the greater influence individual investors have in setting the trading price. In the case of a lack of market demand for our Common Stock, the trading price of our Common Stock could decline significantly and rapidly after our listing.

Our directors and officers have substantial control over us.

Our directors and executive officers, together with their affiliates and related persons, beneficially owned, in the aggregate, approximately 19% of our outstanding Common Stock as of March 22, 2024. These stockholders have the ability to substantially control our operations and direct our policies including the outcome of matters submitted to our stockholders for approval, such as the election of directors and any acquisition or merger, consolidation or sale of all or substantially all of our assets.

GENERAL RISK FACTORS

Market conditions could negatively impact our business, results of operations, cash flows and financial condition.

The market in which we operate is affected by a number of factors that are largely beyond our control but can nonetheless have a potentially significant, negative impact on us. These factors include, among other things:

- changes in interest rates and credit spreads;
- the availability of credit, including the price, terms, and conditions under which it can be obtained;
- slower growth or recession or reduced consumer spending;
- inflation;
- competition;
- the actual and perceived state of the economy and public capital markets generally;
- amendments or repeals of legislation, or changes in regulations or regulatory interpretations thereof, and transitions of government, including uncertainty regarding any of the foregoing; and
- the rise of international conflicts.

Changes in these factors are difficult to predict, and a change in one factor could affect other factors, which could result in adverse effects to our business, results of operations, financial condition, and cash flows.

The broader implications of the macroeconomic environment, including uncertainty around recent international conflicts including the Russia and Ukraine conflict, supply chain shortages, a recession globally or in markets in which we operate, higher inflation rates, higher interest rates, and other related global economic conditions, remain unknown. A deterioration in macroeconomic conditions could continue to increase the risk of lower consumer spending, merchant and consumer bankruptcy, insolvency, business failure, higher credit losses, or other business interruption, which may adversely impact our business. If these conditions continue or worsen, they could adversely impact our future financial and operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not Applicable.

ITEM 1C. CYBERSECURITY.

We recognize the importance of assessing, identifying, and managing material risks associated with cybersecurity threats, as such term is defined in Item 106(a) of Regulation S-K. These risks include, among other things: operational risks, intellectual property theft, fraud, extortion, harm to employees or customers and violation of data privacy or security laws.

Identifying and assessing cybersecurity risk is integrated into our overall risk management systems and processes. Cybersecurity risks related to our business, technical operations, privacy and compliance issues are identified and addressed through a multi-faceted approach including third party assessments, internal IT Audit, IT security, governance, risk and compliance reviews. To defend, detect and respond to cybersecurity incidents, we, among other things: conduct proactive privacy and cybersecurity reviews of systems and applications, audit applicable data policies, perform penetration testing using external third-party tools and techniques to test security controls, conduct employee training, monitor emerging laws and regulations related to data protection and information security (including our consumer products) and implement appropriate changes.

We have implemented incident response and breach management processes which have four overarching and interconnected stages: 1) preparation for a cybersecurity incident, 2) detection and analysis of a security incident, 3) containment, eradication and recovery, and 4) post-incident analysis. Such incident responses are overseen by leaders from our Information Security, Network Administration, Compliance and Legal teams regarding matters of cybersecurity.

Security events and data incidents are evaluated, ranked by severity and prioritized for response and remediation. Incidents are evaluated to determine materiality as well as operational and business impact, and reviewed for privacy impact.

We also conduct tabletop exercises to simulate responses to cybersecurity incidents. Our team of cybersecurity professionals then collaborate with technical and business stakeholders across our business units to further analyze the risk to the company, and form detection, mitigation and remediation strategies.

As part of the above processes, we regularly engage external auditors and consultants to assess our internal cybersecurity programs and compliance with applicable practices and standards. As of 2023, our Information Security Management System has been certified to conform to SOC 2 Type 2 and PCI, and are working to conform to ISO 27001.

Our risk management program also assesses third party risks, and we perform third-party risk management to identify and mitigate risks from third parties such as vendors, suppliers, and other business partners associated with our use of third-party service providers. Cybersecurity risks are evaluated when determining the selection and oversight of applicable third-party service providers and potential fourth-party risks when handling and/or processing our employee, business or customer data. In addition to new vendor onboarding, we perform risk management during third-party cybersecurity compromise incidents to identify and mitigate risks to us from third-party incidents.

We describe whether and how risks from identified cybersecurity threats, including as a result of any previous cybersecurity incidents, have materially affected or are reasonably likely to materially affect us, including our business strategy, results of operations, or financial condition, under the heading *"If our security applications are breached by cyberattacks or are not adequate to address changing market conditions and customer concerns, we may incur significant losses and be unable to sell our services"* included as part of our risk factor disclosures at Item 1A of this Annual Report on Form 10-K.

The Board of Directors is responsible for overseeing the Company's enterprise risk, and has established its Risk and Cybersecurity Committee with specific responsibility for overseeing cybersecurity threats, among other things. The Company's cybersecurity organization is led by the CTO, who is responsible for assessing and managing material risks from cybersecurity threats and reports to Usio's CEO, CAO, and Legal team, as well as to the Risk and Cybersecurity Committee. The CTO has served in this role for 16 years, and more than 20 years with the Company developing, maintaining, and securing our corporate network and information technology systems. The CTO holds a bachelor's degree in Information Technology from the University of Texas at San Antonio with over 11 years of previous software and hardware systems engineering experience.

The CTO and the Cybersecurity Management Board monitor the prevention, mitigation, detection and remediation of cybersecurity incidents through their management of, and participation in, the cybersecurity risk management and strategy processes described above, including through the operation of the Company's incident response plans, which include escalation to the CTO and the Cybersecurity Management Board, as appropriate. As discussed above, the CTO reports out to the Risk and Cybersecurity Committee about cybersecurity threat risks, among other cybersecurity related matters, at least quarterly.

ITEM 2. PROPERTIES.

We entered into a lease in San Antonio, Texas commencing on May 1, 2018 for our headquarters and operations. The lease is for a period of 75 months and expires on July 31, 2024. The space leased ranges from 6,000 square feet to 10,535 square feet. Annual rents during the lease term will range from \$117,000 to \$232,000. Rental expense under the lease was \$157,682 and \$150,129 for the years ended December 31, 2023 and 2022, respectively.

We also entered into a lease in Nashville, Tennessee commencing on March 1, 2018 for our Nashville based sales organization. The lease is for a period of 62 months and expiring on April 30, 2023. The space leased is 3,794 square feet. Annual rents during the lease term range from \$117,000 to \$122,000. Rental expense for the years ended December 31, 2023 and 2022 were \$36,995 and \$102,976, respectively. We did not enter into a lease extension, or new lease agreement in Nashville, Tennessee upon the expiration of this current lease agreement.

On December 15, 2020, we assumed a lease in San Antonio, Texas as a part of the Information Management Solutions, LLC acquisition for our employees and warehouse operations. The lease has a remaining life of 45 months and expires on September 30, 2024. The space leased is 22,400 square feet. Annual rents during the lease term range from \$123,554 to \$133,703. Rental expense for the years ended December 31, 2023 and 2022 was \$117,836 and \$112,504 respectively.

On January 1, 2021, we entered into a lease in Austin, Texas commencing on January 1, 2021 for our Austin technology organization. On January 26, 2023, the Company entered into a lease amendment commencing on February 1, 2023, extending the term of the existing lease for a period of 23 months and expiring on January 31, 2025. The space leased is 1,890 square feet. Rental expense for the year ended December 31, 2023 and 2022 was \$79,467 and \$83,610 respectively.

On March 15, 2021, we entered into a lease amendment to our existing lease in San Antonio, Texas commencing April 1, 2021 and expiring on September 30, 2024 running concurrently with the existing lease. The incremental space leased is 2,734 square feet. The incremental annual rent during the lease term ranges from \$56,047 to \$60,148. Rental expense for the year ended December 31, 2023 and 2022 was \$48,113 and \$46,658 respectively.

On October 19, 2021, the Company entered into a lease amendment to the existing lease in San Antonio, Texas commencing on April 1, 2022 and expiring on September 24, 2024 running concurrently with the existing lease. The incremental space lease is 6,628 square feet. The incremental annual rent during the lease term ranges from \$135,874 to \$145,816. Rental expense for the year ended December 31, 2023 and 2022 was \$104,375 and \$75,269 respectively.

We believe that our existing and new properties will be adequate to meet our needs through December 31, 2024.

ITEM 3. LEGAL PROCEEDINGS.

BEN KAUDER, NINA PIOLETTI, & TRIPLE PAY PLAY, INC.

In 2017, USIO acquired Singular Payments, Inc. ("Singular"), another payment processing company with offices in Nashville, Tennessee and St. Augustine, Florida.

Ben Kauder and Nina Pioletti were executives of Singular; after the acquisition, USIO hired them as executive-level employees. USIO hired Kauder to serve as Senior Vice President of Integrated Payments, and Pioletti was hired to serve as Director of Sales. As a condition of employment, Kauder and Pioletti agreed to be bound by certain USIO policies, including as it relates to preserving the confidentiality of USIO's proprietary information. As USIO executives, Kauder and Pioletti were afforded access to and contributed to the development of USIO's trade secrets and other proprietary information not generally known by the public at large, including but not limited to financial information, marketing plans, cost and operational/strategic plans, and sales presentations.

In May 2021, Kauder resigned from USIO followed by Pioletti in July of 2022. Thereafter, Kauder and Pioletti formed Triple Pay Play, another payment processing company which competes with the same services as USIO. Upon information and belief, Kauder and Pioletti were working to form Triple Pay Play while employed by USIO, during USIO business hours, and while using USIO resources and USIO property.

On or about June 21, 2023, USIO filed suit against Ben Kauder, Nina Pioletti and Triple Pay Play for breach of contract and misappropriation of trade secrets and unfair business competition.

On July 6, 2023, Ben Kauder, Nina Pioletti and Triple Pay Play filed a Motion to Dismiss for Lack of Jurisdiction. The motion was granted. Subsequently, in February of 2024, USIO refiled its case in Tennessee, where Kauder, Nina, and Triple Pay Play reside.

Currently, this case is in the early-stage discovery.

GREENWICH BUSINESS CAPITAL, LLC

On or about September 25, 2019, Usio, Inc., (USIO) and Greenwich Business Capital LLC ("GBC"), entered into an Agreement for payment processing services (the "Agreement"). Pursuant to the terms of the Agreement, USIO effectively terminated the Agreement with GBC on October 31, 2023, by providing Greenwich with a 30-days written notice as required by the Agreement.

On November 13, 2023, GBC filed lawsuit against USIO, alleging violations of the NACHA rules. In early March of 2024, USIO filed a Motion to Dismiss for improper venue and failure to state a claim. The motion is set to be heard in May of 2024.

KDHM, LLC

On September 1, 2021, KDHM, LLC, an entity owned by the former owners of IMS, sued PDS Acquisition Corp, now known as Usio Output Solutions, Inc., in the 73rd District Court of Bexar County, Texas claiming a breach of the asset purchase agreement executed by the parties on December 14, 2020. The lawsuit alleges that due to a mistake, accident, or inadvertence, certain customer deposits in the amount of \$317,000 were improperly transferred to us.

We believe that plaintiff's claims in the lawsuit have no merit and contradict the express terms of the asset purchase agreement. As a result of this post-sale dispute, we discovered that KDHM, LLC and its principals made certain misrepresentations and breached the terms of the asset purchase agreement.

On September 28, 2021, we filed an answer generally denying the plaintiff's allegations. On October 5, 2021, we filed a counterclaim and third-party petition. Therein, we allege that neither KDHM nor its principals disclosed that KDHM was not accounting for the customer deposits in accordance with GAAP. KDHM and third-party defendants, its principals Henry Minten and Thomas Dow, affirmatively represented and warranted in section 3.1(e) of the asset purchase agreement that "[t]he Annual Financial Statements and the Interim Financial Statements have been prepared from the books and records of Seller in accordance with GAAP applied on a consistent basis."

We also discovered that KDHM by and through its principals failed to disclose that \$305,000 in additional customer deposits existed and that these deposits were not conveyed to us as required by the asset purchase agreement. KDHM, Minten and Dow provided us with fraudulent and misleading profit and loss statements that did not disclose these additional customer deposits. KDHM and the defendants do not dispute that these additional customer deposits existed and that they were purchased by Usio. However, despite a written representation that these funds would be returned, KDHM and its principals have held these funds hostage. Section 2.1(b)(x) of the asset purchase agreement provides that the purchased assets include "All of Seller's deposits from its customer, including without limitation, those customer deposits listed on Schedule 2.1(b)(xi) of the Disclosure Schedules." Finally, we discovered that KDHM did not provide us with all customer lists, which are identified as purchased assets under the agreement.

In our counterclaims and third-party petition, we assert causes of action for fraud, breach of contract and conversion.

On August 18, 2023, the judge granted a summary motion entitling KDHM to deposits for customer accounts that were printed and mailed prior to the acquisition, and Usio Output Solutions, Inc. was entitled to deposits for accounts that were not

yet printed and printed but not yet mailed prior to the acquisition. Usio has requested a reconsideration of the motion, as it does not consider that deposits are only owed to KDHM if they were earned and offset against accounts receivable.

On March 4, 2024, the court held a hearing on KDHM's Supplemental Rule 166(G) Motion; the court granted the motion in favor of KDHM. However, USIO believes the court erred in granting the motion and ultimately filed a motion for reconsideration on March 19, 2024.

Usio's Motion for Reconsideration of Order Granting Plaintiff's Supplemental Rule 166(g) Motion is set to be heard on March 28, 2024.

OTHER PROCEEDINGS

Aside from these proceedings, the Company may be involved in legal matters arising in the ordinary course of business from time to time. While we believe that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which we are or could become involved in litigation will not have a material adverse effect on our business, financial condition, or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

On June 15, 2021, our common stock was uplisted and is now listed on the Nasdaq Global Market® Exchange under the ticker symbol "USIO". Prior to that change our common stock had been listed on the Nasdaq Capital Markets Exchange under the ticker symbol "PYDS" since August 11, 2015, and "USIO" since June 26, 2019.

Holders

On March 22, 2024, 26,342,459 shares of our common stock were issued and outstanding. As of March 22, 2024, there were 3,377 stockholders of record of our common stock.

Dividends

We have never declared or paid cash or stock dividends, and we have no plans to pay any such dividends in the foreseeable future. Instead, we intend to reinvest our earnings, if any.

Securities Authorized for Issuance under Equity Compensation Plans

The information required to be disclosed by Item 201(d) of Regulation S-K, "Securities Authorized for Issuance Under Equity Compensation Plans," is incorporated herein by reference. Refer to Item 12 of Part III of this annual report on Form 10-K for additional information.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On November 2, 2016, we announced that our Board of Directors authorized the repurchase of up to \$1 million of our common stock from time to time on the open market, in block transactions, or in privately negotiated transactions. On January 9, 2018, the Board of Directors added an additional \$2 million to the buyback plan. The program began on November 16, 2016 and ended on September 29, 2019. At September 29, 2019 when the program ended, \$1,419,701 was available under the repurchase plan. The program was used for purchases of stock from employees and directors, and for open-market purchases through a broker. On November 7, 2019, the Board of Directors approved the renewal of the share buyback program. The Board approved a limit of \$1,420,000 which was rolled over from the prior buyback program with a three-year duration. On May 13, 2022, the Board of Directors authorized a renewal of the buy-back program, with a limit up to \$4 million of the Company's common stock with a three year duration. The new buyback program terminates on the earliest of May 15, 2025, the date the funds are exhausted, or the date the Board of Directors, at its sole discretion, terminates or suspends the program. The program is used for the purchase of stock from employees and directors, and for open-market purchases through a broker. The following table shows our fourth quarter of 2023 stock purchases under the buyback plan as of December 31, 2023:

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
October 1, 2023 to October 31, 2023	346	\$ 2.02	346	\$ 2,659,425
November 1, 2023 to November 30, 2023	11,753	\$ 1.71	11,753	\$ 2,639,381
December 1, 2023 to December 31, 2023	198,447	\$ 1.85	198,447	\$ 2,271,392
Total	210,546			\$ 2,271,392

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING STATEMENTS DISCLAIMER

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. If used in this report, the words "will," "anticipate," "believe," "estimate," "intend," and other words or phrases of similar import are intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons, including the risks described in this annual report on Form 10-K and other reports we file with the Securities and Exchange Commission. Although we believe the expectations reflected in the forward-looking statements are reasonable, they relate only to events as of the date on which the statements are made. We do not intend to update any of the forward-looking statements after the date of this report to conform these statements to actual results or to changes in our expectations, except as required by law.

This discussion and analysis should be read in conjunction with the audited consolidated financial statements and the notes thereto included in this report.

Overview

Usio, Inc. was founded under the name Billserv Com, Inc. in July 1998 and incorporated in the State of Nevada. On June 26, 2019, we changed our corporate name from Payment Data Systems, Inc. to Usio, Inc. Our principal offices are located at 3611 Paesanos Parkway, Suite 300, San Antonio, TX 78231. Our telephone number is (210) 249-4100.

We serve multiple industry verticals with technology that facilitates payment acceptance and funds disbursement in a single, full-stack ecosystem. We provide payment acceptance, card-based processing, prepaid card, payment facilitation and electronic billing products and services to businesses, merchants and consumers.

In addition, we offer customizable prepaid cards which companies use for expense management, incentives, refunds, claims and disbursements, as well as unique forms of compensation such as per diem payments, government disbursements, and similar payments. We also offer prepaid cards to consumers for use as a tool to stay on budget, manage allowances and share money with family and friends. Our UsioCard platform supports Apple Pay®, Samsung Pay™ and Google Pay™. Our PiNless debit product allows merchants to debit and credit accounts in real-time. In our over 25-year history, we have created a loyal customer base that relies on us for our convenient, secure, innovative and adaptive services and technology, and we have built long-standing and valuable relationships with premier banking institutions such as Fifth-Third Bank, Sunrise Bank, and Wells Fargo Bank.

We also offer payment facilitation, or PayFac services through a leveraged, one to many, distribution model. Following the completion of the Singular Payments acquisition, we launched our payment facilitation, PayFac, platform called "PayFac-in-a-Box" in late 2018 targeting partnership opportunities with app and software developers in bill-centric verticals, such as legal, healthcare, property management, utilities and insurance. The PayFac-in-a-Box platform 'integration layer' offers a simple integration experience for technology companies who are looking to monetize payments within an existing base of downstream clients. The added value of offering our integration partners access to credit card, debit card, ACH and prepaid card issuance capabilities through a single vendor partner relationship in face-to-face, mobile and virtual payment acceptance environments provides a true single channel commerce experience through an application programming interface, API.

As a result of the acquisition of the assets of Information Management Solutions, LLC, or IMS, in December 2020, we also offer additional services relating to electronic bill presentation, document composition, document decomposition and printing and mailing services serving hundreds of customers representing a wide range of industry verticals, including utilities and financial institutions through our wholly-owned subsidiary, Usio Output Solutions, Inc., or Output Solutions. This product offering provides an outsourced solution for document design, print and electronic delivery to potential customers and entities looking to reduce postage costs and increase efficiencies.

Summary of Results

We believe that our success will continue to depend in large part on our ability to (a) grow revenues, (b) manage our operating expenses, (c) add quality customers to our client base, (d) meet evolving customer requirements, (e) adapt to technological changes in an emerging market, and (f) assimilate current and future acquisitions of companies and customer portfolios. We will continue to invest in our sales force and technology platforms to drive revenue growth, and assess the needs of the market to both enhance and maintain our existing product set, alongside the incorporation of new features and payment processing products. In particular, we are focused on growing our ACH merchants, adding new software integrators, growing our electronic bill presentation, document composition, document decomposition, printing and mailing services business while also providing incremental services to existing merchants. In addition to our near-term growth opportunities, we are focused on leveraging and optimizing the infrastructure of the organization allowing expansion of our payment processing and mail and printing capabilities without significantly increasing our operating costs.

We reported a net loss of \$0.5 million and \$5.5 million for the years ended December 31, 2023 and December 31, 2022, respectively. We had an accumulated deficit of \$71.3 million at December 31, 2023.

In 2023, we processed \$5.3 billion for all payment types, which was down 26% from the prior year volume of \$7.2 billion total dollars processed due to our exit from the crypto space and attrition in legacy credit card processing portfolios driven by challenges competing in the Independent Sales Organization, or ISO, market while we focus on our PayFac distributed sales force and Independent Software Vendor, or ISV, market. We believe this strategy will drive superior results over time. Total transactions processed were down 9% to 37.2 million. ACH or electronic check transactions processed for 2023 decreased by 20% compared to 2022. Returned check transactions decreased by 15% in 2023 compared to 2022. Credit card transactions processed in 2023 increased by 6% compared to 2022 and credit card transactions processed for 2023 increased by 9% compared to 2022. Both the credit card dollars and transactions processed represent all-time records for the Company. Prepaid card load volume increased by 76% and transaction volume increased by 52%.

Material Trends and Uncertainties

On August 16, 2022, President Biden signed the Inflation Reduction Act, or IRA, which implemented a 1% excise tax on certain corporate stock repurchases, when repurchases of stock on an established securities market exceed \$1 million in a tax year. On May 13 2022, the Board of Directors authorized a renewal of the buy-back program, with a limit up to \$4 million of the Company's common stock with a three year duration. In the year ended December 31, 2023, the Company had repurchased \$0.5 million of stock as part of its buyback program. Should the Company opt to continue the repurchase of its securities on the open market, and the IRA remain in effect, we may qualify for this tax in 2024, and future years.

The broader implications of the macroeconomic environment, including uncertainty around recent international conflicts including the Russia and Ukraine conflict, supply chain shortages, a recession globally or in markets in which we operate, higher inflation rates, higher interest rates, and other related global economic conditions, remain unknown. A deterioration in macroeconomic conditions could continue to increase the risk of lower consumer spending, merchant and consumer bankruptcy, insolvency, business failure, higher credit losses, or other business interruption, which may adversely impact our business. If these conditions continue or worsen, they could adversely impact our future financial and operating results.

Changes in these factors are difficult to predict, and a change in one factor could affect other factors, which could result in adverse effects to our business, results of operations, financial condition, and cash flows.

Due to the higher interest rates set by the Federal Reserve, the Company was able to increase interest income in 2023. As interest rates fluctuate depending on the Federal Reserve's target rates to combat inflation and unemployment, we may not be able to recognize similar levels of interest income in the future.

The Company continues to invest in growth initiatives to drive increased revenues, and profitability metrics. However, sustaining growth at existing rates may not occur. While we recognized high levels of growth in 2023, a significant portion of this growth was due to the Prepaid card business benefitting from outsized growth in 2022 and 2023 as a result of large incentive programs brought on by the Covid-19 pandemic. Those programs have begun winding down, requiring new card programs and clients being brought on to replace prior revenues. While we expect growth to continue, it is possible that we may not see similar rates of expansion moving forward.

Critical Accounting Policies and Estimates

General

Our management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to the reported amounts of revenues and expenses, credit losses, investments, intangible assets, income taxes, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions or conditions. We consider these accounting policies to be critical because the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change or because the impact of the estimates and assumptions on financial condition or operating performance is material.

For a summary of critical accounting policies, please refer to the Notes to Consolidated Financial Statements, *Note 1. Description of Business and Summary of Significant Accounting Policies*.

Reserve for Processing Losses

We establish allowances for negative customer balances and estimated transaction losses arising from processing customer transactions, such as chargebacks for unauthorized credit card use and merchant-related chargebacks due to non-delivery or unsatisfactory delivery of purchased items, account takeovers, Automated Clearing House returns, and insolvency. Additions to the allowance are reflected in our cost of services on our consolidated statements of income (loss). The allowances are based on known facts and circumstances, internal factors including experience with similar cases, historical trends involving collection and write-off patterns, and the mix of transaction and loss types, as well as current and projected factors such as the types of transactions processed and nature of the merchant relationship with its consumers and the Company with its prepaid card holders.

Determining appropriate current expected transactional losses is an inherently uncertain process, and final losses may vary from our current estimates. We regularly review and update our allowance estimates as new facts become known, and event occur that may impact the settlement or recovery of losses. The allowances are maintained at a level we deem appropriate to adequately provide for current expected losses at the balance sheet date.

Reserve for Expected Credit Losses

We establish an allowance for accounts receivable, which represents our estimate of current expected allowances for credit losses. This evaluation process is subject to numerous estimates and judgements. This allowance is primarily based on expectations of unrecoverable receivables based on historical losses, as well as forecasted trends in customer instability, and general market conditions. The Company reviews this allowance quarterly on an account-by-account basis. Projected loss rates, inclusive of historical loss data and macroeconomic factors, are applied to the principal amount of our merchant and consumer receivables.

Determining appropriate current expected losses on our accounts receivable is an inherently uncertain process, and final losses may vary from our current estimates. We regularly review and update our allowance estimates as new facts become known, and events occur that may impact the settlement or recovery of losses. The allowances are maintained at a level we deem appropriate to adequately provide for current expected losses at the balance sheet date.

Accounting for Income Taxes

Our annual tax rate is based on our income, statutory tax rates, and tax planning opportunities available to us. Tax laws are complex and subject to different interpretations by the taxpayer and respective government taxing authority. Significant judgement is required in determining our tax expense and in evaluating our tax positions, including evaluating uncertainties. We review our tax positions yearly and adjust the balances as new information becomes available.

Deferred tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings, and available tax planning strategies. These rely heavily on estimates that are based on a number of factors, including historical data, and business forecasts. To the extent deferred tax assets are not expected to be realized, we record a valuation allowance.

We recognize and measure uncertain tax positions in accordance with U.S. GAAP, pursuant to which we only recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities.

As with all businesses, the Company's tax returns are subject to periodic examination. The Company's federal returns for the past four years remain open to examination. The Company is subject to the Texas margin tax and Tennessee franchise tax. Management is not aware of any tax positions that would have a significant impact on its financial position.

Revenue Recognition

Application of the accounting principles in U.S. GAAP related to the measurement and recognition of revenue requires us to make judgments and estimates. Complex arrangements with nonstandard terms and conditions may require significant contract interpretation to determine the appropriate accounting. Specifically, the determination of whether we are a principal to a transaction (gross revenue) or an agent (net revenue) can require considerable judgment. Further, we provide incentive payments to consumers and merchants. Evaluating whether these incentives are a payment to a customer, or consideration payable on behalf of a customer, requires judgment. Incentives determined to be made to a customer, or payable on behalf of a customer, are recorded as a reduction to gross revenue. Changes in judgments with respect to these assumptions and estimates could impact the amount of revenue recognized.

Key Business Metrics - Non-GAAP Financial Measures

This filing includes non-GAAP financial measures, EBITDA, adjusted EBITDA, adjusted EBITDA margins and adjusted operating cash flows, as defined in Regulation G of the Securities and Exchange Act of 1934, as amended. The Company reports its financial results in compliance with GAAP, but believes that also discussing non-GAAP financial measures provides investors with financial measures it uses in the management of its business. The Company defines EBITDA as operating income (loss), before interest, taxes, depreciation and amortization of intangibles. The Company defines adjusted EBITDA as EBITDA, as defined above, plus non-cash stock option costs and certain non-recurring items, such as costs related to acquisitions. The Company defines adjusted operating cash flow as net cash provided (used) by operating activities, less changes in prepaid card load obligations, customer deposits, merchant reserves and net operating lease assets and obligations. These measures may not be comparable to similarly titled measures reported by other companies. Management uses EBITDA, adjusted EBITDA, and adjusted operating cash flows as indicators of the Company's operating performance and ability to fund acquisitions, capital expenditures and other investments and, in the absence of refinancing options, to repay debt obligations.

Management believes EBITDA, adjusted EBITDA, adjusted EBITDA margins and adjusted operating cash flows are helpful to investors in evaluating the Company's operating performance because non-cash costs and other items that management believes are not indicative of its results of operations are excluded.

We reported an adjusted EBITDA of \$0.3 million for the quarter ended December 31, 2023, as compared to an adjusted EBITDA of \$1.0 million for the same period in the prior year. The decrease in adjusted EBITDA in the 2023 quarter was attributable to increases in SG&A combined with reduced profit margins.

We reported an adjusted EBITDA of \$2.4 million for the twelve months ended December 31, 2023, as compared to an adjusted EBITDA loss of \$0.4 million for the same period in the prior year. The increase in adjusted EBITDA in 2023 was attributable to strong revenue growth contributing to increased gross profit versus the prior year, that outpaced our growth in SG&A.

The following table is a reconciliation of Net Loss to EBITDA for the three and twelve months ended December 31, 2023 and 2022.

Three Months Ended (unaudited)		Twelve Months Ended	
December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022

Reconciliation from Operating Income/(Loss) to Adjusted EBITDA:

Operating Income/(Loss)	\$	(771,712)	\$	(90,814)	\$	(1,922,500)	\$	(5,214,430)
Depreciation and amortization		521,932		571,650		2,081,533		2,735,118
EBITDA		(249,780)		480,836		159,033		(2,479,312)
Non-cash stock-based compensation expense, net		545,711		531,666		2,222,969		2,072,041
Adjusted EBITDA	\$	295,931	\$	1,012,502	\$	2,382,002	\$	(407,271)
Calculation of Adjusted EBITDA margins:								
Revenues	\$	19,362,718	\$	18,705,496	\$	82,591,109	\$	69,428,285
Adjusted EBITDA		295,931		1,012,502		2,382,002		(407,271)
Adjusted EBITDA margins		1.5%		5.4%		2.9%		(0.6)%

We reported cash provided by adjusted operating cash flows of \$2.8 million for the twelve months ended December 31, 2023 (after adjusting for the impact of operating lease right-of-use assets, operating lease liabilities, prepaid card load obligations, customer deposits, and merchant reserves), as compared to \$0.7 million provided during the twelve months ended December 31, 2022. Operating lease right-of-use assets, operating lease liabilities, prepaid card load obligations, customer deposits and merchant reserves are deducted from operating cash flow, as we believe that these metrics do not serve in providing a clear picture of the true operational cash used or provided in a given time period. These adjustments to net cash provided (used) by operating activities are not inclusive of any recurring expense items which are included in the calculation of operating income (loss), and only include changes in our assets and liabilities accounts on the balance sheet. The Company believes Non-GAAP adjusted operating cash flow to be a more accurate indicator of cash contributions that can be used to sustain current and future business operations. The increase in adjusted operating cash flows in the current year compared to the year prior was attributable to a decrease in the Company's net loss, due to revenue growth driving gross profit increases, at a rate that exceeded our SG&A increase versus the prior year.

The following table is a reconciliation from operating cash flow (used) to adjusted operating cash flow (used) for the twelve months ended December 31, 2023.

	December 31, 2023	December 31, 2022
Reconciliation from Operating Cash Flow (used) to Non-GAAP Adjusted Operating Cash Flow (used):		
Net cash provided (used) by operating activities	\$ 14,915,902	\$ (17,036,477)
Operating cash flow (used) adjustments:		
Prepaid card load obligations	(11,408,212)	16,420,132
Customer deposits	(311,609)	(189,929)
Merchant reserves	(400,594)	1,471,652
Operating lease right-of-use assets	(374,701)	(6,630)
Operating lease liabilities	403,506	24,052
Total adjustment of cash provided (used) by operating activities	\$ (12,091,610)	\$ 17,719,277
Adjusted operating cash flows (used)	\$ 2,824,292	\$ 682,800

Use of Non-GAAP Financial Measures

EBITDA, adjusted EBITDA, adjusted EBITDA margins and adjusted operating cash flow should be considered in addition to, not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. They are not measurements of our financial performance under GAAP and should not be considered as alternatives to revenue, net income, or cash provided (used) by operating activities, as applicable, or any other performance measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other businesses. EBITDA, adjusted EBITDA, adjusted EBITDA margins and adjusted operating cash flow have limitations as analytical tools and you should not consider these Non-GAAP measures in isolation or as a substitute for analysis of our operating results as reported under GAAP.

Results of Operations

Revenues

Our revenues are principally derived from providing integrated electronic payment services to merchants and businesses, including credit and debit card-based processing services and transaction processing via the Automated Clearing House, or ACH, network, the program management and processing of prepaid debit cards, and we also now offer additional output solution services relating to electronic bill presentment, document composition, document decomposition and printing and mailing services serving hundreds of customers representing a wide range of industry verticals, including utilities and financial institutions.

	Three Months Ended December 31,			
	2023	2022	\$ Change	% Change
ACH and complementary service revenue	\$ 3,940,961	\$ 3,796,884	\$ 144,077	4%
Credit card revenue	6,851,743	6,625,637	226,106	3%
Prepaid card services revenue	4,019,266	3,384,242	635,024	19%
Output solutions revenue	4,550,748	4,898,733	(347,985)	(7)%
Total Revenue	\$ 19,362,718	\$ 18,705,496	\$ 657,222	4%

	Year Ended December 31,			
	2023	2022	\$ Change	% Change
ACH and complementary service revenue	\$ 14,888,973	\$ 14,782,606	\$ 106,367	1%
Credit card revenue	28,476,591	27,121,621	1,354,970	5%
Prepaid card services revenue	18,729,350	9,117,670	9,611,680	105%
Output solutions revenue	20,496,195	18,406,388	2,089,807	11%
Total Revenue	\$ 82,591,109	\$ 69,428,285	\$ 13,162,824	19%

Total revenues for 2023 increased by 19% to \$82.6 million from \$69.4 million in 2022. Key drivers of the revenue growth include growth in our Prepaid business line as a result of sustained and growing relationships with major cities in the U.S. by facilitating disbursements to individuals and families in need of financial assistance. This growth was bolstered by gains in our Output solutions business line, thanks to our ability to capitalize on strong cross-selling efforts and execution on our well-developed pipeline of new business opportunities, along with growth in credit card revenues due to our PayFac business line's continued traction with independent software vendors, or ISVs. Our ACH and complementary services revenues were up slightly on the year, after recovering from our exit from crypto following the loss of one of our largest customers, thanks to net new customer relationships and growth in our ancillary ACH services, such as RCC.

Cost of Services

Cost of services includes the cost of personnel dedicated to the creation and maintenance of connections to third-party payment processors and the fees paid to such third-party providers for electronic payment processing services. Through our contractual relationships with our payment processors and sponsoring banks, we process ACH and debit, credit or prepaid card transactions on behalf of our customers and their consumers. We pay volume-based fees for debit, credit, ACH and prepaid transactions initiated through these processors or sponsoring banks, and pay fees for other transactions such as returns, notices of change to bank accounts and file transmission. Cost of services expense was \$64.0 million and \$54.8 million for 2023 and 2022, respectively. Cost of services expenses increased by \$9.2 million, or 17%, in 2023 as compared to 2022 primarily due to increased transaction costs associated with our revenue growth.

Gross Profit

Gross profit is the net profit after deducting the cost of services. Gross profit was \$18.6 million and \$14.6 million for 2023 and 2022, respectively. Gross profit increased by \$4.0 million, or 27%, in 2023 as compared to 2022. The key drivers of the increased gross profit were attributable to strong revenue growth, and improved gross margin percentages due to improved profitability across our business lines with increased scale.

Stock-based Compensation

Stock-based compensation expense increased marginally to \$2.2 million in 2023 from \$2.1 million in 2022. Our stock-based compensation expenses for 2023 and 2022 represented the amortization of deferred compensation expenses related to incentive stock grants to employees, officers and directors. The increase in stock-based compensation is primarily attributable to our February 8, 2023 employee stock grant. Please refer to Note 8 to our Consolidated Financial Statements included elsewhere in this annual report for incremental information regarding these stock grants.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses, or SG&A, increased to \$16.2 million in 2023 from \$15.0 million in 2022. The increase of \$1.2 million, or 8%, represented continued investments in the Company's security and IT infrastructure to strengthen the Company's defense from cybersecurity risks. Further investments were made to increase our customer success, implementations of merchant onboarding processes, and partner and client integrations strategy to sustain existing operations and future growth, as well as staffing and employee retention.

Depreciation and Amortization

Depreciation and amortization expense consist of the reduction in value of our tangible and intangible assets over their useful life. These assets include property, plant, and equipment, along with intangible assets acquired through acquisition, or developed as internal use software.

Depreciation and amortization expense decreased to \$2.1 million in 2023 as compared to \$2.7 million in 2022. The decrease of \$0.6 million, or 24%, was primarily attributable to the completed depreciation of customer list assets from our 2017 acquisition of Singular Payments.

Other Income

Interest income increased to \$1.7 million in 2023 from \$15,237 in 2022 due to higher interest-bearing cash balances. Other income (expense) was \$44,798 for 2023, as compared to expense of \$4,051 for 2022.

Income Taxes

Income tax expense was \$292,524 in 2023 and \$280,000 in 2022. The income tax expense represents amounts incurred under the Texas margin tax and Tennessee franchise tax.

Net income tax expense reported was \$292,524 in 2023, and \$280,000 in 2022.

Net Income (Loss)

We reported a net loss of \$0.5 million and \$5.5 million for the years ended December 31, 2023 and December 31, 2022, respectively. The decrease in net loss was primarily related to our strong revenue growth driving increased gross profits versus the prior year, at a rate that outpaced our increased in SG&A alongside significant improvements in interest income.

Liquidity and Capital Resources

Our primary sources of liquidity are available cash and cash equivalents and cash flows provided by operations and, if an appropriate opportunity presents itself, the sale of debt or equity securities, although we may not be able to complete any financing on terms acceptable to us, if at all. At December 31, 2023, we had \$7.2 million of cash and cash equivalents, as compared to \$5.7 million of cash and cash equivalents at December 31, 2022. The increase was primarily a result of the decrease in net loss, combined with reduced stock repurchases in 2023 versus 2022. For the year ended December 31, 2023 net cash provided by operating activities was \$14.9 million and for the year ended December 31, 2022, cash used by operations was \$17.0 million. We expect available cash and cash equivalents and internally generated funds to be sufficient to support working capital needs, capital expenditures (including acquisitions), and our debt service obligations. We believe we have sufficient liquidity to operate for at least the next 12 months from the date of filing this report. Cash from operating activities is dependent on our net income (loss), less depreciation, amortization, credit losses, deferred federal income tax, non-cash stock-based compensation, the amortization of warrant costs, and net of the changes in our operating assets and liabilities. These assets and liabilities include our accounts receivable, prepaid expenses, operating lease right-of-use assets, inventory, other assets, accounts payable and accrued expenses, operating lease liabilities, prepaid card load obligations, merchant reserves, customer deposits, and deferred revenues. To the extent we require other sources of capital, we may seek a commercial line of credit or sell debt or equity securities, although we may not be able to complete any financing on terms acceptable to us, if at all.

We reported a net loss of \$0.5 million and \$5.5 million for the years ended December 31, 2023 and 2022, respectively. Additionally, we reported working capital of \$8.0 million and \$5.8 million at December 31, 2023 and 2022, respectively.

We have in the past, and may in the future, utilize equipment loans in order to finance the cost of particular pieces of equipment. On March 20, 2021, we entered into a debt arrangement to finance \$165,996 for the purchase of an Output Solutions sorter. The loan is for a period of 36 months with a maturity date of March 20, 2024. The repayment amount is for 36 months at \$4,902 per month. Annual payments are \$58,821. The financing is at an interest rate of 3.95%. Payments in 2023 on this equipment loan were \$54,634.

On October 1, 2023, the Company entered into a debt arrangement to finance \$811,819 for the purchase of an Output Solutions folder and inserter. The loan is for a period of 66 months with a maturity date of April 5, 2029 and annual interest of 6.75%. Monthly principal and interest payments are required in the amount of \$16,017. Payments on this equipment loan were \$9,894. We cannot assure you that such financing may be available to us on terms acceptable to us, or at all, in the future.

From time to time we have sold shares of our common stock in order to provide us liquidity. For example, on November 19, 2021, Voyager Digital purchased 142,857 unregistered shares of common stock at an offering price of \$7.00 per share in a private offering. The gross proceeds to us from the private offering were \$1,000,000. We have also sold securities in public offerings from time to time. For example, in September 2020, we sold 4,705,883 shares of our common stock and received net proceeds of approximately \$8 million. We cannot assure you that we will be able to sell shares of our equity securities on terms acceptable to us or at all.

Cash Flows

Net cash provided by operating activities totaled \$14.9 million for 2023 as compared to net cash used by operating activities of \$17.0 million in 2022. After adjusting for the impact of operating lease right-of-use assets, operating lease liabilities, prepaid card load obligations and merchant reserves included in the statement of cash flows, net cash provided by adjusted operating activities was \$2.8 million for the year ended December 31, 2023 and net cash provided by adjusted operating activities was \$0.7 million for the year ended December 31, 2022. Operating lease right-of-use assets, operating lease liabilities, prepaid card load obligations, customer deposits and merchant reserves are deducted from operating cash flow, as we believe these metrics do not serve in providing a clear picture of the true operational cash used or provided in a given time period. The Company believes Non-GAAP adjusted operating cash flow to be a more accurate indicator of cash contributions that can be used to sustain current and future business operations. The increase in net cash generated by adjusted operating activities in 2023 (after adjusting for the impact of operating lease right-of-use assets, operating lease liabilities, prepaid card load obligations and merchant reserves) was primarily attributable to decreases in our net loss related to increased interest income, revenue, and gross profit growth.

Net cash used by investing activities was \$0.8 million for 2023 and \$0.8 million in 2022. The decrease in investing activities was due to reduced expenditures on the purchase of property and equipment.

Net cash used by financing activities for 2023 was \$0.5 million compared to net cash used by financing activities of \$1.4 million for 2022. The decrease in cash used by financing activities was primarily attributable to a reduction in stock repurchases in 2023, a decrease of approximately \$0.9 million over 2022.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Usio, Inc. and Subsidiaries
San Antonio, Texas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Usio, Inc. and Subsidiaries (collectively referred to as the "Company") as of December 31, 2023 and 2022, and the related consolidated statements of operations, changes in stockholders' equity and cash flows, for each of the two years in the period ended 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 as of December 31, 2023 and 2022 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2023 in conformity with accounting principles generally accepted in the United States of America.

Basis of 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 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 a 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

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters 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 matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Intangible Assets – Customer Lists

Description of the Matter

As of December 31, 2023, the Company had intangible assets relating to acquired customer lists which are recorded at their cost basis net of accumulated amortization. On at least an annual basis, the Company performs an analysis of the carrying value of these customer lists to evaluate the assets for impairment. The customer list is amortized over a five-year term and no impairment has been recognized on the customer list portfolios since their acquisition. We identified the customer list valuation as a critical audit matter because of the significant estimates and forward-looking assumptions used which could be affected by future economic and market conditions.

How We Addressed the Matter in Our Audit

To test the fair value of the Company's customer list intangible assets, our audit procedures included, among others, evaluating the Company's valuation model, evaluating the method and significant assumptions used, and testing the completeness and accuracy of the underlying data supporting the significant assumptions and estimates. We also evaluated whether the key factors considered in the evaluation were consistent with evidence obtained in other areas of the audit.

Deferred Tax Assets – Valuation Allowance

Description of the Matter

The Company recognizes deferred tax assets to the extent that it is expected that these assets are more likely than not to be realized. The Company evaluates the realizability of the deferred tax assets, and to the extent that the Company estimates that it is more likely than not that a benefit will not be realized, the carrying amount of the deferred tax assets is reduced with a valuation allowance. We identified the valuation of deferred tax assets as a critical audit matter because of the significant judgments made by management in projecting future taxable income.

How We Addressed the Matter in Our Audit

Our audit procedures related to projected future taxable income and the determination of whether it is more likely than not that the deferred tax assets will be realized included the evaluation of the reasonableness of management's projected future taxable income. We compared the estimates to historical earnings and evaluated the inputs and assumptions used by management for developing future forecasts.

/s/ ADKF, P.C.

ADKF, P.C.
San Antonio, Texas United States
March 27, 2024

PCAOB ID 297

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

USIO, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	\$ 7,155,687	\$ 5,709,117
Accounts receivable, net	5,564,138	4,371,640
Settlement processing assets	44,899,603	49,737,068
Prepaid card load assets	31,578,973	20,170,761
Customer deposits	1,865,731	1,554,122
Inventory	422,808	507,355
Prepaid expenses and other	444,071	450,389
Current assets before merchant reserves	91,931,011	82,500,452
Merchant reserves	5,310,095	4,909,501
Total current assets	97,241,106	87,409,953
Property and equipment, net	3,660,092	3,222,816
Other assets:		
Intangibles, net	1,753,333	2,625,360
Deferred tax asset	1,504,000	1,504,000
Operating lease right-of-use assets	2,420,782	2,795,483
Other assets	355,357	355,357
Total other assets	6,033,472	7,280,200
Total Assets	\$ 106,934,670	\$ 97,912,969
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,031,141	\$ 858,622
Accrued expenses	3,801,278	3,721,108
Operating lease liabilities, current portion	633,616	617,319
Equipment loan, current portion	107,270	56,429
Settlement processing obligations	44,899,603	49,737,068
Prepaid card load obligations	31,578,973	20,170,761
Customer deposits	1,865,731	1,554,122
Current liabilities before merchant reserve obligations	83,917,612	76,715,429
Merchant reserve obligations	5,310,095	4,909,501
Total current liabilities	89,227,707	81,624,930
Non-current liabilities:		
Equipment loan, non-current portion	718,980	14,994
Operating lease liabilities, non-current portion	1,919,144	2,338,947
Total liabilities	91,865,831	83,978,871
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized; -0- shares issued and outstanding in 2023 and 2022	—	—
Common stock, \$0.001 par value, 200,000,000 shares authorized; 28,671,606 and 27,044,900 issued and 26,332,523 and 25,097,963 outstanding in 2023 and 2022 (see Note 11)	197,087	195,471
Additional paid-in capital	97,479,830	94,048,603
Treasury stock, at cost; 2,339,083 and 1,946,937 shares in 2023 and 2022 (see Note 11)	(4,362,150)	(3,749,027)
Deferred compensation	(6,907,775)	(5,697,900)
Accumulated deficit	(71,338,153)	(70,863,049)
Total stockholders' equity	15,068,839	13,934,098
Total Liabilities and Stockholders' Equity	\$ 106,934,670	\$ 97,912,969

The accompanying notes are an integral part of these consolidated financial statements.

USIO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	December 31, 2023	December 31, 2022
Revenues	\$ 82,591,109	\$ 69,428,285
Cost of services	63,992,417	54,835,069
Gross profit	18,598,692	14,593,216
Selling, general and administrative:		
Stock-based compensation	2,222,969	2,072,041
Other expenses	16,216,690	15,000,487
Depreciation and Amortization	2,081,533	2,735,118
Total operating expenses	20,521,192	19,807,646
Operating (loss)	(1,922,500)	(5,214,430)
Other income:		
Interest income	1,695,122	15,237
Other income (expense)	50,000	—
Interest expense	(5,202)	(4,051)
Other income and (expense), net	1,739,920	11,186
(Loss) before income taxes	(182,580)	(5,203,244)
Federal income tax (benefit)	—	—
State income tax expense	292,524	280,000
Income taxes	292,524	280,000
Net (Loss)	\$ (475,104)	\$ (5,483,244)
(Loss) Per Share		
Basic (loss) per common share:	\$ (0.02)	\$ (0.27)
Diluted (loss) per common share:	\$ (0.02)	\$ (0.27)
Weighted average common shares outstanding (see Note 12)		
Basic	20,105,968	20,379,386
Diluted	20,105,968	20,379,386

The accompanying notes are an integral part of these consolidated financial statements.

USIO, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid - In Capital	Treasury Stock	Deferred Compensation	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
Balance at December 31, 2021	26,807,145	\$ 195,235	\$ 93,100,129	\$ (2,404,458)	\$ (6,842,195)	\$ (65,379,805)	\$ 18,668,906
Issuance of common stock under equity incentive plan	369,755	368	1,182,939	—	(166,329)	—	1,016,978
Warrant compensation cost	—	—	20,963	—	—	—	20,963
Reversal of deferred compensation amortization that did not vest	(132,000)	(132)	(255,428)	—	145,498	—	(110,062)
Deferred compensation amortization	—	—	—	—	1,165,126	—	1,165,126
Purchase of treasury stock	—	—	—	(1,344,569)	—	—	(1,344,569)
Net (loss) for the year	—	—	—	—	—	(5,483,244)	(5,483,244)
Balance at December 31, 2022	27,044,900	\$ 195,471	\$ 94,048,603	\$ (3,749,027)	\$ (5,697,900)	\$ (70,863,049)	\$ 13,934,098
Issuance of common stock under equity incentive plan	1,731,506	1,731	3,619,315	—	(2,650,505)	—	970,541
Reversal of deferred compensation amortization that did not vest	(115,000)	(115)	(188,088)	—	103,091	—	(85,112)
Deferred compensation amortization	—	—	—	—	1,337,539	—	1,337,539
Non-cash return of treasury stock	—	—	—	(156,162)	—	—	(156,162)
Purchase of treasury stock	—	—	—	(456,961)	—	—	(456,961)
Net (loss) for the year	—	—	—	—	—	(475,104)	(475,104)
Balance at December 31, 2023	28,661,406	\$ 197,087	\$ 97,479,830	\$ (4,362,150)	\$ (6,907,775)	\$ (71,338,153)	\$ 15,068,839

The accompanying notes are an integral part of these consolidated financial statements.

USIO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2023	December 31, 2022
Operating Activities		
Net (loss)	\$ (475,104)	\$ (5,483,244)
Adjustments to reconcile net (loss) to net cash provided (used) by operating activities:		
Depreciation	1,209,506	1,196,584
Amortization	872,027	1,538,534
Employee stock-based compensation	2,190,369	2,072,041
Vendor stock-based compensation	32,600	—
Amortization of warrant costs	—	20,963
Non-cash revenue from return of treasury stock	(156,162)	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,192,498)	607,853
Prepaid expenses and other	6,318	(23,426)
Operating lease right-of-use assets	374,701	6,630
Other assets	—	(10,000)
Inventory	84,547	(72,823)
Accounts payable and accrued expenses	252,689	853,965
Operating lease liabilities	(403,506)	(24,052)
Prepaid card load obligations	11,408,212	(16,420,132)
Merchant reserves	400,594	(1,471,652)
Customer deposits	311,609	189,929
Deferred revenue	—	(17,647)
Net cash provided (used) by operating activities	14,915,902	(17,036,477)
Investing Activities		
Purchases of property and equipment	(834,964)	(812,242)
Net cash (used) by investing activities	(834,964)	(812,242)
Financing Activities		
Payments on equipment loan	(56,992)	(54,771)
Purchases of treasury stock	(456,961)	(1,344,569)
Net cash (used) by financing activities	(513,953)	(1,399,340)
Change in cash, cash equivalents, prepaid card loads, customer deposits and merchant reserves	13,566,985	(19,248,059)
Cash, cash equivalents, prepaid card loads, customer deposits and merchant reserves, beginning of year	32,343,501	51,591,560
Cash, Cash Equivalents, Prepaid Card Load Assets, Customer Deposits and Merchant Reserves, End of Year	45,910,486	32,343,501
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 5,202	\$ 4,051
Income taxes	116,204	269,500
Non-cash investing and financing activities:		
Issuance of deferred stock compensation	2,650,505	166,229
Non-cash transaction for acquisition of equipment in exchange for note payable	811,819	—

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 1. Description of Business and Summary of Significant Accounting Policies

Organization: Usio, Inc., along with its subsidiaries, FiCentive, Inc., a Nevada corporation, and Zbill, Inc., a Nevada corporation, provides integrated electronic payment services, including credit and debit card-based processing services and transaction processing via the Automated Clearing House, or ACH network to billers and retailers. The Company also has an additional wholly-owned subsidiary, Usio Output Solutions, Inc., which is the entity for the Output Solutions operations. In addition, the Company operates various product websites, such as www.usio.com, www.singularpayments.com, www.payfacinabox.com, www.ficentive.com, www.akimbocard.com, and www.usiooutput.com.

Principles of Consolidation and Basis of Presentation: The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Revenue Recognition: Revenue consists primarily of fees generated through the electronic processing of payment transactions and related services. Revenue is recognized during the period in which the transactions are processed or when the related services are performed. The Company complies with ASC 606-10 and reports revenues at gross as a principal versus net as an agent. Although some of the Company's processing agreements vary with respect to specific credit risks, the Company has determined for each agreement it is acting in the principal role. Merchants may be charged for these processing services at a bundled rate based on a percentage of the dollar amount of each transaction and, in some instances, additional fees are charged for each transaction. Certain merchant customers are charged a flat fee per transaction, while others may also be charged miscellaneous fees, including fees for chargebacks or returns, monthly minimums, and other miscellaneous services. Revenues derived from electronic processing of credit, debit, and prepaid card transactions that are authorized and captured through third-party networks are reported gross of amounts paid to sponsor banks as well as interchange and assessments paid to credit card associations. Certain card distributors remit payment of fees earned 45 days after the end of the processing period. Prepaid card distributors have payment terms of 30 days following the end of the month. Sales taxes billed are reported directly as a liability to the taxing authority and are not included in revenue. Usio Output Solutions, Inc. provides bill preparation, presentment and mailing services. Revenue from Output Solutions is recognized when the related services are performed for printing and delivered to USPS for postage.

	Year Ended December 31,			
	2023	2022	\$ Change	% Change
ACH and complementary service revenue	\$ 14,888,973	\$ 14,782,606	\$ 106,367	1%
Credit card revenue	28,476,591	27,121,621	1,354,970	5%
Prepaid card services revenue	18,729,350	9,117,670	9,611,680	105%
Output solutions revenue	20,496,195	18,406,388	2,089,807	11%
Total Revenue	\$ 82,591,109	\$ 69,428,285	\$ 13,162,824	19%

Deferred Revenues: The Company records deferred revenues when it receives payments or issues invoices in advance of transferring control of promised goods or services to a customer. The advance consideration received from a customer is deferred until the Company provides the customer that product or service.

The deferred revenue balances are as follows:

	2023	2022
Deferred revenues, beginning of period	\$ —	\$ 17,647
Deferred revenues, end of period	—	—
Revenue recognized in the period from amounts included in deferred revenues at the beginning of the period	\$ —	\$ 17,647

Cash and Cash Equivalents: Cash and cash equivalents includes cash and other money market instruments. The Company considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Settlement Processing Assets and Obligations: Settlement processing assets and obligations represent intermediary balances arising in our settlement process for merchants.

Prepaid Card Load Assets: The Company maintains pre-funding accounts for its customers to facilitate prepaid card loads as initiated by our customer. These prepaid card load assets are carried on the Company's balance sheet with a corresponding liability.

Customer Deposits: The Company holds customer deposits primarily for postage expenses to ensure the Company is not out of pocket for amounts billed daily by the United States Postal Service. These customer deposits are carried on the Company's balance sheet with a corresponding liability.

Merchant Reserves: The Company has merchant reserve requirements associated with Automated Clearing House, or ACH transactions. The merchant reserve assets are carried on the Company's balance sheet with a corresponding liability. Merchant Reserves are set for each merchant. Funds are collected from each merchant and held as collateral to minimize contingent liabilities associated with any losses that may occur under the merchant agreement. While this cash is not restricted in its use, the Company believes that designating this cash to collateralize Merchant Reserves strengthens its fiduciary standing with the Company's member sponsors and is in accordance with the guidelines set by the card networks.

The reconciliation of cash and cash equivalents to cash, cash equivalents, prepaid card load assets, customer deposits and merchant reserves is as follows for each period presented:

	December 31, 2023	December 31, 2022
Beginning cash, cash equivalents, prepaid card load assets, customer deposits and merchant reserves:		
Cash and cash equivalents	\$ 5,709,117	\$ 7,255,321
Prepaid card load assets	20,170,761	36,590,893
Customer deposits	1,554,122	1,364,193
Merchant reserves	4,909,501	6,381,153
Total	\$ 32,343,501	\$ 51,591,560
Ending cash, cash equivalents, prepaid card load assets, customer deposits and merchant reserves:		
Cash and cash equivalents	\$ 7,155,687	\$ 5,709,117
Prepaid card load assets	31,578,973	20,170,761
Customer deposits	1,865,731	1,554,122
Merchant reserves	5,310,095	4,909,501
Total	\$ 45,910,486	\$ 32,343,501

Accounts Receivable/Allowance for Estimated Credit Losses: Accounts receivable are reported as outstanding principal net of an allowance for expected credit losses of \$ 319,000 at December 31, 2023 and 2022.

The Company maintains an allowance for credit losses for estimated losses resulting from the inability or failure of its customers to make required payments. The Company determines the allowance based on an account-by-account review, taking into consideration such factors as the age of the outstanding balance, historical pattern of collections and financial condition of the customer. Past losses incurred by the Company due to credit losses have been within its expectations. If the financial condition of its customers deteriorates, resulting in an impairment of their ability to make contractual payments, additional allowances might be required. Estimates for credit losses are variable based on the volume of transactions processed and could increase or decrease accordingly. The Company normally does not charge interest on accounts receivable.

Inventory: Inventory is stated at the lower of cost or net realizable value. At December 31, 2023 and 2022, inventory consisted primarily of printing and paper supplies used for Output Solutions.

Property and Equipment: Property and equipment are stated at cost. Depreciation and amortization are computed on a straight-line method over the estimated useful lives of the related assets, ranging from three to ten years. Leasehold improvements are amortized over the lesser of the estimated useful lives or remaining lease period. Expenditures for maintenance and repairs are charged to expense as incurred.

Accounting for Internal Use Software: The Company capitalizes the costs associated with software developed and / or software obtained for internal use. The software is capitalized when both the preliminary project stage is complete, and the software being developed is placed-in service. Capitalized costs include only (i) external direct costs of materials and services consumed in developing or obtaining internal-use software, (ii) payroll and other related costs for employees who are directly associated with and who devote time to the internal-use software project, and (iii) interest costs incurred, when material, while developing internal-use software. The Company ceases capitalization of such costs no later than the point at which the project is substantially complete and ready for its intended purpose. For the years ended December 31, 2023 and December 31, 2022, the Company capitalized \$ 634,571 and \$ 584,246 , respectively.

Concentration of Credit Risk: Financial instruments that potentially expose the Company to credit risk consist of cash and cash equivalents, and accounts receivable. The Company is exposed to credit risk on its cash and cash equivalents in the event of default by the financial institutions to the extent account balances exceed the amount insured by the FDIC, which is \$250,000. Accounts receivables potentially subject the Company to concentrations of credit risk. The Company's customer base operates in a variety of industries and is geographically dispersed. The Company closely monitors extensions of credit. Estimated credit losses have been recorded in the consolidated financial statements. Recent credit losses have been within management's expectations. No customer accounted for more than 10% of revenues in 2023 or 2022.

Fair Value of Financial Instruments: Cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and short-term borrowings are reflected in the accompanying consolidated financial statements at cost, which approximates fair value because of the short-term maturity of these instruments.

Impairment of Long-Lived Assets and Intangible Assets: The Company reviews periodically, on at least an annual basis, the carrying value of its long-lived assets and intangible assets and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent the fair value of a long-lived asset, determined based upon the estimated future cash inflows attributable to the asset, less estimated future cash outflows, is less than the carrying amount, an impairment loss is recognized.

Reserve for Processing Losses: If, due to insolvency or bankruptcy of one of the Company's merchant customers, or for any other reason, the Company is not able to collect amounts from its card processing, credit card, ACH or merchant prepaid customers that have been properly "charged back" by the customer or if a prepaid cardholder incurs a negative balance, the Company must bear the credit risk for the full amount of the transaction. The Company may require cash deposits and other types of collateral from certain merchants to minimize any such risk. In addition, the Company utilizes a number of systems and procedures to manage merchant risk. ACH, prepaid and credit card merchant processing loss reserves are primarily determined by performing a historical analysis of our loss experience and considering other factors that could affect that experience in the future, such as the types of transactions processed and nature of the merchant relationship with its consumers and the Company with its prepaid card holders. This reserve amount is subject to the risk that actual losses may be greater than our estimates. The Company has not incurred any significant processing losses to date. Estimates for processing losses vary based on the volume of transactions processed and could increase or decrease accordingly. The Company evaluates its risk for such transactions and estimates its potential processing losses based primarily on historical experience and other relevant factors. At December 31, 2023 and 2022, respectively, the Company's reserve for processing losses was \$ 826,528 and \$ 755,494, respectively.

Advertising Costs: Advertising is expensed as incurred. The Company incurred approximately \$ 16,500 and \$ 94,000 in advertising costs in 2023 and 2022, respectively.

Income Taxes: Deferred tax assets and liabilities are recorded based on difference between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Deferred tax assets are computed with the presumption that they will be realizable in future periods when taxable income is generated. Predicting the ability to realize these assets in future periods requires a great deal of judgment by management. U.S. generally accepted accounting principles prescribe a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Income tax benefits that meet the "more likely than not" recognition threshold should be recognized. Goodwill is amortized over 15 years for tax purposes.

As with all businesses, the Company's tax returns are subject to periodic examination. The Company's federal returns for the past four years remain open to examination. The Company is subject to the Texas margin tax and Tennessee franchise tax. Management is not aware of any tax positions that would have a significant impact on its financial position.

Stock-Based Compensation: The Company recognizes as compensation expense all share-based payment awards made to employees and directors, including grants of stock options and warrants, based on estimated fair values. Fair value is generally determined based on the closing price of the Company's common stock on the date of grant.

401(k) Plan: The Company has a defined contribution plan, or 401(k) Plan, pursuant to Section 401(k) of the Internal Revenue Code. All eligible full and part-time employees of the Company who meet certain age requirements may participate in the 401(k) Plan. Participants may contribute between 1 % and 80 % of their pre-tax compensation, but not in excess of the maximum allowable under the Code. The 401(k) Plan allows for discretionary and matching contributions by the Company. In 2023, the Company matched 100 % of employee contributions up to 3 % and 50 % of the employee contribution over 3 % with a maximum employer contribution of 4 %. The Company made matching contributions of \$ 280,619 and \$ 262,530 in 2023 and 2022, respectively.

Earnings (Loss) Per Share: Basic and diluted (loss) per common share are calculated by dividing earnings by the weighted average number of common shares outstanding during the period.

Recently Adopted Accounting Pronouncements: In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses* (Topic 326), to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in Topic 326 replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Topic 326 is effective for fiscal years beginning after December 25, 2022, including interim periods within those fiscal years for smaller reporting companies. We adopted this guidance effective January 1 2023 on a prospective basis. Our financial statements were not materially impacted upon adoption. For additional information, see "Note 4 - Valuation Accounts."

Accounting standards that have been issued or proposed by the FASB, the SEC or other standard setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

Note 2. Property and Equipment

Property and equipment consisted of the following at December 31:

	2023	2022
Software	\$ 7,688,476	\$ 7,053,905
Equipment	3,542,707	2,530,498
Furniture and fixtures	818,522	818,522
Leasehold improvements	207,624	207,624
Total property and equipment	12,257,329	10,610,548
Less: accumulated depreciation	(8,597,237)	(7,387,732)
Net property and equipment	\$ 3,660,092	\$ 3,222,816

Note 3. Intangibles

Akimbo Financial, Inc. Acquisition (2015)

On December 22, 2014, we acquired substantially all of the assets of Akimbo Financial, Inc. The intangibles acquired in the acquisition consist of the customer list and contracts at cost of \$ 396,824 (net of accumulated amortization of \$ 396,824 at December 31, 2023) and goodwill of \$ 9,759. The intangible asset was fully amortized as of December 31, 2017. The fair value of the customer list and contracts was calculated using the net present value of the projected gross profit to be generated by the customer list over a period of 36 months beginning in January 2015 and was amortized over 3 years at \$ 163,139 annually.

Goodwill was determined based on the purchase price paid over the assets acquired and has an indefinite life, which is tested for impairment annually.

Singular Payments, LLC Acquisition (2017)

On September 1, 2017, we acquired all of the membership interest of Singular Payments, LLC. The intangibles acquired in such acquisition consist of customer list assets of \$ 5,000,000 at cost (net of accumulated amortization of \$ 5,000,000 at December 31, 2023). The fair value of the customer list was calculated using the net present value of the projected gross profit to be generated by the customer list over 60 months beginning in September 2017 and ending in August 2022. Amortization expense in 2023 and 2022 was \$ 0 and \$ 666,667 respectively.

Information Management Solutions, LLC Acquisition (2020)

On December 15, 2020, we acquired substantially all of assets of Information Management Solutions, LLC. The intangibles acquired in such acquisition consist of customer list assets of \$ 4,359,335 at cost (net of accumulated amortization of \$ 2,615,761 at December 31, 2023). The fair value of the customer list was calculated using the net present value of the projected gross profit to be generated by the customer list over 60 months beginning in January 2021 and ending in December 2025. Annual amortization expense will be \$ 871,867 per year through the year 2025.

Note 4. Valuation Accounts

Valuation and allowance accounts included the following at December 31:

	Balance Beginning of Year	Net Charged to Costs and Expenses	Transfers	Net Write-Off	Balance End of Year
2023					
Allowance for expected credit losses	\$ 319,000	\$ —	\$ —	\$ —	\$ 319,000
Reserve for processing losses	755,494	71,034	—	—	826,528
2022					
Allowance for expected credit losses	\$ 319,000	\$ —	\$ —	\$ —	\$ 319,000
Reserve for processing losses	623,494	132,000	—	—	755,494

Note 5. Loans

Equipment Loans

On March 20, 2021, the Company entered into a debt arrangement to finance \$ 165,996 for the purchase of an Output Solutions sorter. The loan is for a period of 36 months with a maturity date of March 20, 2024. The repayment amount is for 36 months at \$ 4,902 per month. Annual payments are \$ 58,821. The financing is at an interest rate of 3.95 %. Current year payments on the Equipment Loan were \$ 54,634.

On October 1, 2023, the Company entered into a debt arrangement to finance \$ 811,819 for the purchase of an Output Solutions folder and inserter. The loan is for a period of 66 months with a maturity date of April 5, 2029 and annual interest of 6.75 %. Monthly principal and interest payments are required in the amount of \$ 16,017. Current year payments on the Equipment Loan were \$ 9,894.

Note 6. Accrued Expenses

Accrued expenses consisted of the following balances at December 31:

	2023	2022
Accrued commissions	\$ 2,433,353	\$ 1,479,580
Reserve for processing losses	826,528	755,494
Other accrued expenses	246,444	821,167
Accrued taxes	294,953	320,854
Accrued salaries	—	344,013
Total accrued expenses	\$ 3,801,278	\$ 3,721,108

Note 7. Operating Leases

The Company leases approximately 10,535 square feet of office space for its San Antonio, TX executive offices and operations. Rental expense under the operating lease was \$ 157,682 and \$ 150,129 for the years ended December 31, 2023 and 2022, respectively. The lease expires on July 31, 2024.

The Company leased approximately 3,794 square feet of office space for its Nashville, Tennessee sales offices and operations. Rental expense under the operating lease was \$ 36,995 and \$ 102,976 for the years ended December 31, 2023 and 2022, respectively. The lease expired on April 30, 2023. We did enter into a lease extension, or new lease agreement in Nashville, Tennessee upon the expiration of the lease agreement.

The Company assumed a lease in San Antonio, Texas as a part of the Information Management Solutions, LLC acquisition for its Output Solutions employees and warehouse operations. The lease has a remaining life of 45 months and expires on September 30, 2024. The space leased is 22,400 square feet. Annual rents during the lease term range from \$ 123,554 to \$ 133,703. Rental expense for the years ended December 31, 2023 and 2022 was \$ 117,836 and \$ 112,504 respectively.

On January 1, 2021, we entered into a lease in Austin, Texas commencing on January 1, 2021 for our Austin technology organization. The lease is for a period of 25 months and expires on January 31, 2023. The space leased is 1,890 square feet. Rental expense for the years ended December 31, 2023 and 2022 was \$ 79,467 and \$ 83,610 respectively. On January 26, 2023, the Company entered into a lease amendment commencing on February 1, 2023, extending the term of the existing lease for a period of 23 months and expiring on January 31, 2025.

On March 15, 2021, we entered into a lease amendment to our existing lease in San Antonio, Texas commencing April 1, 2021 and expiring on September 30, 2024 running concurrently with the existing lease. The incremental space leased is 2,734 square feet. The incremental annual rent during the lease term ranges from \$ 56,047 to \$ 60,148. Rental expense for the years ended December 31, 2023 and 2022 was \$ 48,113 and \$ 46,658 respectively.

On October 19, 2021, the Company entered into a lease amendment to the existing lease in San Antonio, Texas commencing April 1, 2022 and expiring on September 24, 2024 running concurrently with the existing lease. The incremental space lease is 6,628 square feet. The incremental annual rent during the lease term ranges from \$ 135,874 to \$ 145,816. Rental expense for the year ended December 31, 2023 and 2022 was \$ 104,375 and \$ 75,269 respectively.

The Company has various copier equipment with leases that have not expired. Rental expense under the operating lease was \$ 6,546 and \$ 12,729 for the years ended December 31, 2023 and 2022, respectively.

The weighted average remaining lease term is 4.20 years. The weighted average discount rate is 4.47 %

The Company recognized total operating lease expense of approximately \$ 674,000 and \$ 711,000 for the years ended December 31, 2023 and 2022, respectively. In 2023, the operating lease expense of \$ 674,000 consisted of \$ 544,000 of fixed operating expense and \$ 130,000 of interest expense.

The maturities of lease liabilities are as follows at December 31, 2023:

	Year ended December 31,	
2024		\$ 633,616
2025		454,928
2026		447,683
2027		447,683
2028		447,683
Thereafter		478,836
Total minimum lease payments		2,910,429
Less imputed interest		(357,669)
Total lease liabilities		\$ 2,552,760

Note 8. Related Party Transactions

Louis Hoch

During the year ended December 31, 2023 and 2022, the Company purchased \$ 24,389 and \$ 22,835 , respectively, of corporate imprinted sportswear, promotional items and caps from Angry Pug Sportswear. Louis Hoch, Chairman, President, Chief Executive Officer, and Chief Operating Officer is a 50 % owner of Angry Pug Sportswear.

Officers and Directors

On January 6, 2022, we repurchased 11,361 shares for \$ 47,930 in a private transaction at the closing price on January 6, 2022 of \$ 4.21 per share from Tom Jewell, the Company's former Chief Financial Officer, to cover his share of taxes.

On October 4, 2022, we repurchased 26,234 shares for \$ 42,761 in a private transaction at the closing price on October 4, 2022 of \$ 1.63 per share from Louis Hoch, the Company's Chairman, President, Chief Executive Officer and Chief Operating Officer, to cover his share of taxes.

On November 18, 2023 we repurchased 2,619 shares for \$ 4,452 in a private transaction at a closing price on November 18, 2023 of \$ 1.70 per share from Tom Jewell, the Company's former Chief Financial Officer, to cover his share of taxes.

On November 18, 2023 we repurchased 3,927 shares for \$ 6,675 in a private transaction at a closing price on November 18, 2023 of \$ 1.70 per share from Louis Hoch, the Company's Chairman, President, Chief Executive Officer and Chief Operating Officer, to cover his share of taxes.

On February 8, 2022, the Company granted 1,000 RSUs with a 3 -year vesting period to Houston Frost as a performance bonus at an issue price of \$ 3.32 per share.

On June 26, 2022, the Company granted 66,667 RSUs with a 3 -year vesting period to Elizabeth Michelle Miller for joining the Board of Directors at an issue price of \$ 2.28 per share.

Effective on February 17, 2023, the Company entered into an employment agreement with Greg Carter, the Company's Executive Vice President, Payment Acceptance. Under the terms of this agreement, Mr. Carter will receive an annual salary of \$250,000, Override/Commissions of 10 % of the actual cash commissions paid to salespersons under direct management of Mr. Carter, to be paid quarterly, and the payment of a one-time signing bonus of \$ 40,000 .

On February 8, 2023, the Company granted 1,493,000 shares of restricted common stock with a 10 -year vesting period and 273,000 RSUs with a 3-year vesting period to employees and Directors as a performance bonus at an issue price of \$ 1.75 per share. Executive officers and Directors included in the 10 -year restricted stock grant were Louis Hoch (330,000 shares), Tom Jewell (200,000 shares), Greg Carter (100,000 shares) and Houston Frost (100,000 shares). Executive officers included in the RSU grant were Louis Hoch (33,000 RSUs), Tom Jewell (21,000 RSUs), Greg Carter (12,000 RSUs) and Houston Frost (12,000 RSUs).

On March 16, 2023, the Company granted 69,000 RSUs with a 3-year vesting period to Directors as a performance bonus at an issue price of \$ 1.60 per share. Directors included in the RSU grant were Blaise Bender (21,000 RSUs), Brad Rollins (21,000 RSUs), Ernesto Beyer (21,000 RSUs) and Michelle Miller (6,000 RSUs).

On November 30, 2023, Tom Jewell, the Senior Vice President, Chief Financial Officer, and principal financial and accounting officer of the Company notified the Company of his intention to retire. On December 11, 2023, Mr. Jewell entered into a Separation and Mutual Release of Claims Agreement ("Separation Agreement") with the Company. Pursuant to the Separation Agreement, Mr. Jewell will be paid installment payments equal to his current base salary until and including April 18, 2024. Additionally, Mr. Jewell will be permitted to retain any unvested Company stock options or other equity awards which shall vest in accordance with the applicable schedules. Mr. Jewell will also receive all employee benefits including, but not limited to, health, dental, vision and life insurances that he was receiving prior to his execution of the Agreement until April 18, 2024.

Note 9. Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax asset are as follows at December 31:

	2023	2022
Deferred tax assets:		
Net operating loss carryforwards	\$ 4,696,000	\$ 5,024,000
Depreciation and amortization	1,137,000	1,159,000
Non-cash compensation	1,649,000	(117,000)
Other	124,000	69,000
Total	7,596,000	6,135,000
Valuation Allowance	(6,092,000)	(4,631,000)
Deferred tax asset	\$ 1,504,000	\$ 1,504,000

Management has reviewed its net deferred asset position, and due to the history of operating losses has determined that the application of a valuation allowance at December 31, 2023 and 2022 is warranted. If applicable, the Company would recognize interest expense and penalties related to uncertain tax positions in interest expense. As of December 31, 2023, the Company had not accrued any interest or penalties related to uncertain tax provisions.

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The Company has net operating loss carryforwards for tax purposes of approximately \$ 23.3 million. Net operating loss carryforwards prior to 2017 are available to offset taxable income of future periods and expire 20 years after the loss was generated. The schedule below outlines when our pre-2017 net operating losses were generated and the year they may expire.

Tax Year End	NOL	Expiration
2005	\$ 1,768,851	2025
2006	1,350,961	2026
2007	1,740,724	2027
2008	918,960	2028
2009	835,322	2029
2010	429,827	2030
2013	504,862	2033
2016	474,465	2036
2017	1,267,336	2037
Total	\$ 9,291,308	

Effective for tax years ending in 2018 or later, net operating losses cannot be carried back but can be carried forward to future tax years indefinitely, subject to annual limitations for utilization. Net operating losses generated in 2018 and later total approximately \$ 13,023,000 .

The tax provision for federal and state income tax is as follows for the years ended December 31:

	2023	2022
Current provision:		
Federal	\$ —	\$ —
State	292,524	280,000
	292,524	280,000
Deferred provision:		
Federal expense (benefit)	—	—
Expense for income taxes	\$ 292,524	\$ 280,000

The reconciliation of federal income tax computed at the U.S. federal statutory tax rates to total income tax expense is as follows for the years ended December 31:

	2023	2022
Income tax (benefit) at 21%	\$ (99,772)	\$ (1,134,200)
Change in valuation allowance	(1,361,228)	(581,000)
Permanent and other differences	1,461,000	1,715,200
Federal income tax (benefit)	—	—
State taxes	292,524	280,000
Income tax expense	\$ 292,524	\$ 280,000

Note 10. Stock Options, Incentive Plans, Stock Awards, and Employee Benefit Plan

Stock Option Plans: The Company's 2015 Equity Incentive Plan provides for the grant of incentive stock options as defined in Section 422 of the Internal Revenue Code and the grant of Stock Options, Restricted Stock, Restricted Stock Units, Performance Awards, or other Awards to employees, non-employee directors, and consultants. The Board of Directors has authorized 5,000,000 shares of common capital stock for issuance under the 2015 Equity Incentive Plan, including automatic increases provided for in the 2015 Equity Incentive Plan through fiscal year 2025. The number of shares of common stock reserved for issuance under the 2015 Equity Incentive Plan will automatically increase, with no further action by the stockholders, on the first business day of each fiscal year during the term of the 2015 Equity Incentive Plan, beginning January 1, 2016, in an amount equal to 5 % of the issued and outstanding shares of common stock on the last day of the immediately preceding year, or such lesser amount if so determined by the Board or the Plan Administrator. During 2023, the Company granted 273,000 shares of stock to several employees as incentive compensation or new-hire bonuses. During 2023, the Company granted 402,900 restricted stock units to employees and directors as a new hire bonus or as incentive compensation.

Treasury Stock: The Company purchased 26,606 shares of common stock with a value of \$ 47,382 to cover the employee's share of tax liabilities related to the vesting of commons stock and restricted stock units in 2023.

Stock Awards: The Company has granted restricted stock awards to its employees at different periods from 2005 through 2023. The majority of the shares granted to those employees vest 10 years from the grant date and are forfeited in the event that the recipient's employment relationship with the Company is terminated prior to vesting.

During 2023, a portion of the restricted stock awards were granted, but not issued and are not listed as outstanding in the financial statements for 2023.

Stock-based compensation expense related to stock and restricted stock awards was \$ 2.2 million in 2023 and \$ 2.1 million in 2022.

A summary of stock awards outstanding and 2023 activities are as follows:

Stock Awards	Shares	Weighted Average Exercise Price	Weighted Average Contractual Remaining Life	Aggregate Intrinsic Value
Outstanding, December 31, 2022	4,982,900	\$ 2.27		
Granted	1,520,000	1.74		
Vested	3,000	—		
Forfeited	115,000	—		
Outstanding, December 31, 2023	6,384,900	\$ 2.17	5.13	\$ (0.45)
Expected to Vest after December 31, 2023	6,384,900	\$ 2.17	5.13	\$ (0.45)

As of December 31, 2023, there was \$ 6,907,775 of unrecognized compensation costs related to the un-vested share-based compensation arrangements granted. The cost is expected to be recognized over the weighted average remaining contractual life of 5.13 years.

The aggregate intrinsic value represents the difference between the weighted average exercise price and the closing price of the Company's stock on December 31, 2023, or \$ 1.72 .

Employee Stock Purchase Plan:

The Company's board of directors adopted the 2023 Employee Stock Purchase Plan (the "ESPP") and the Company's stockholders approved the ESPP in July 2023. The ESPP was adopted under the requirements of Section 423 of the Internal Revenue Code to allow eligible employees to purchase the Company's common stock at regular intervals. Participating employees may purchase common stock through voluntary payroll deductions at the end of each participation period at a purchase price equal to 85 % of the lower of the fair market value of the common stock at the beginning or the end of the participation period.

The ESPP initially authorized the issuance of 2,500,000 shares of our common stock under purchase rights granted to our employees or to employees of any of our designated affiliates. The number of shares of our common stock reserved for issuance automatically increases on January 1 of each calendar year, beginning on January 1, 2024 through December 31, 2033, by the lesser of (i) 1 % of the total number of shares of our common stock outstanding on the last day of the fiscal year before the date of the automatic increase (determined on an as-converted to voting common stock basis); and (ii) such number of shares of common stock that would cause the aggregate number of shares of common stock then reserved for issuance under the ESPP to not exceed 2,500,000 shares; provided that before the date of any such increase, our board of directors may determine that there will be no increase or that such increase will be for a lesser number of shares. As of the date hereof, no shares of our common stock have been purchased under the ESPP.

Stock Warrants:

On December 15, 2020, the Company issued warrants to purchase 945,599 unregistered warrants to purchase shares of Usio, Inc. for 945,599 shares of our common stock, with an exercise price of \$ 4.23 to IMS. The warrants were valued using the Black-Scholes option pricing model. Assumptions used were as follows: (i) the fair value of the underlying stock was \$0.58; (ii) the risk-free interest rate is 0.09%; (iii) the contractual life is 5 years; (iv) the dividend yield of 0%; and (v) the volatility is 59.9%. The fair value of the warrants amounted to \$ 552,283 and will be recorded as an increase in the customer list asset and have a term of five years from time of vest.

Note 11. Net (Loss) per Share

Basic (loss) per share (EPS) was computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted EPS differs from basic EPS due to the assumed conversion of potentially dilutive options that were outstanding during the period. The following is a reconciliation of the numerators and the denominators of the basic and diluted per share computations for net (loss).

	2023	2022
Numerator:		
Numerator for basic and diluted earnings per share, net (loss) available to common shareholders	\$ (475,104)	\$ (5,483,244)
Denominator:		
Denominator for basic (loss) per share, weighted average shares outstanding	20,105,968	20,379,386
Effect of dilutive securities-stock options and restricted awards	—	—
Denominator for diluted (loss) per share, adjusted weighted average shares and assumed conversion	20,105,968	20,379,386
Basic (loss) per common share	\$ (0.02)	\$ (0.27)
Diluted (loss) per common share and common share equivalent	\$ (0.02)	\$ (0.27)

The awards and options to purchase shares of common stock that were outstanding at December 31, 2023 and 2022 that were not included in the computation of diluted (loss) per share because the effect would have been anti-dilutive, are as follows:

	Year Ended December 31,	
	2023	2022
Anti-dilutive awards and options	6,384,900	4,982,900

Note 12. Concentration of Credit Risk and Significant Customers

The Company has no significant off-balance sheet or concentrations of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements. The Company currently maintains the majority of its cash and cash equivalent balance with one financial institution. No customers account for more than 10% of the revenues of the company.

Note 13. Legal Proceedings

BEN KAUDER, NINA PIOLETTI, & TRIPLE PAY PLAY, INC.

In 2017, USIO acquired Singular Payments, Inc. ("Singular"), another payment processing company with offices in Nashville, Tennessee and St. Augustine, Florida.

Ben Kauder and Nina Pioletti were executives of Singular; after the acquisition, USIO hired them as executive-level employees. USIO hired Kauder to serve as Senior Vice President of Integrated Payments, and Pioletti was hired to serve as Director of Sales. As a condition of employment, Kauder and Pioletti agreed to be bound by certain USIO policies, including as it relates to preserving the confidentiality of USIO's proprietary information. As USIO executives, Kauder and Pioletti were afforded access to and contributed to the development of USIO's trade secrets and other proprietary information not generally known by the public at large, including but not limited to financial information, marketing plans, cost and operational/strategic plans, and sales presentations.

In May 2021, Kauder resigned from USIO followed by Pioletti in July of 2022. Thereafter, Kauder and Pioletti formed Triple Pay Play, another payment processing company which competes with the same services as USIO. Upon information and belief, Kauder and Pioletti were working to form Triple Pay Play while employed by USIO, during USIO business hours, and while using USIO resources and USIO property.

On or about June 21, 2023, USIO filed suit against Ben Kauder, Nina Pioletti and Triple Pay Play for breach of contract and misappropriation of trade secrets and unfair business competition.

On July 6, 2023, Ben Kauder, Nina Pioletti and Triple Pay Play filed a Motion to Dismiss for Lack of Jurisdiction. The motion was granted. Subsequently, in February of 2024, USIO refiled its case in Tennessee, where Kauder, Nina, and Triple Pay Play reside.

Currently, this case is in the early-stage discovery.

GREENWICH BUSINESS CAPITAL, LLC

On or about September 25, 2019, Usio, Inc., (USIO) and Greenwich Business Capital LLC ("GBC"), entered into an Agreement for payment processing services (the "Agreement"). Pursuant to the terms of the Agreement, USIO effectively terminated the Agreement with GBC on October 31, 2023, by providing Greenwich with a 30-days written notice as required by the Agreement.

On November 13, 2023, GBC filed lawsuit against USIO, alleging violations of the NACHA rules. In early March of 2024, USIO filed a Motion to Dismiss for improper venue and failure to state a claim. The motion is set to be heard in May of 2024.

KDHM, LLC

On September 1, 2021, KDHM, LLC, an entity owned by the former owners of IMS, sued PDS Acquisition Corp, now known as Usio Output Solutions, Inc., in the 73rd District Court of Bexar County, Texas claiming a breach of the asset purchase agreement executed by the parties on December 14, 2020. The lawsuit alleges that due to a mistake, accident, or inadvertence, certain customer deposits in the amount of \$ 317,000 were improperly transferred to us.

We believe that plaintiff's claims in the lawsuit have no merit and contradict the express terms of the asset purchase agreement. As a result of this post-sale dispute, we discovered that KDHM, LLC and its principals made certain misrepresentations and breached the terms of the asset purchase agreement.

On September 28, 2021, we filed an answer generally denying the plaintiff's allegations. On October 5, 2021, we filed a counterclaim and third-party petition. Therein, we allege that neither KDHM nor its principals disclosed that KDHM was not accounting for the customer deposits in accordance with GAAP. KDHM and third-party defendants, its principals Henry Minten and Thomas Dowe, affirmatively represented and warranted in section 3.1(e) of the asset purchase agreement that "[t]he Annual Financial Statements and the Interim Financial Statements have been prepared from the books and records of Seller in accordance with GAAP applied on a consistent basis."

We also discovered that KDHM by and through its principals failed to disclose that \$ 305,000 in additional customer deposits existed and that these deposits were not conveyed to us as required by the asset purchase agreement. KDHM, Minten and Dowe provided us with fraudulent and misleading profit and loss statements that did not disclose these additional customer deposits. KDHM and the defendants do not dispute that these additional customer deposits existed and that they were purchased by Usio. However, despite a written representation that these funds would be returned, KDHM and its principals have held these funds hostage. Section 2.1(b)(x) of the asset purchase agreement provides that the purchased assets include "All of Seller's deposits from its customer, including without limitation, those customer deposits listed on Schedule 2.1(b)(xi) of the Disclosure Schedules." Finally, we discovered that KDHM did not provide us with all customer lists, which are identified as purchased assets under the agreement.

In our counterclaims and third-party petition, we assert causes of action for fraud, breach of contract and conversion.

On August 18, 2023, the judge granted a summary motion entitling KDHM to deposits for customer accounts that were printed and mailed prior to the acquisition, and Usio Output Solutions, Inc. was entitled to deposits for accounts that were not yet printed and printed but not yet mailed prior to the acquisition. Usio has requested a reconsideration of the motion, as it does not consider that deposits are only owed to KDHM if they were earned and offset against accounts receivable.

On March 4, 2024, the court held a hearing on KDHM's Supplemental Rule 166(G) Motion; the court granted the motion in favor of KDHM. However, USIO believes the court erred in granting the motion and ultimately filed a motion for reconsideration on March 19, 2024.

Usio's Motion for Reconsideration of Order Granting Plaintiff's Supplemental Rule 166(g) Motion is set to be heard on March 28, 2024.

OTHER PROCEEDINGS

Aside from these proceedings, the Company may be involved in legal matters arising in the ordinary course of business from time to time. While we believe that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which we are or could become involved in litigation will not have a material adverse effect on our business, financial condition, or results of operations.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures as of December 31, 2023 are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management's assessment of the effectiveness of our internal control over financial reporting is expressed at the level of reasonable assurance that the control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for our Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management conducted an assessment of the effectiveness of our internal controls over financial reporting as of December 31, 2023 based on criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management concluded that, as of December 31, 2023, our internal control over financial reporting was effective.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all controls issues and instances of fraud, if any, within the Company have been detected.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the year ended December 31, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference to the definitive proxy statement for our 2024 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2023, or the 2024 Proxy Statement.

Item 405 of Regulation S-K requires the disclosure of, based upon our review of the forms submitted to us during and with respect to our most recent fiscal year, any known failure by any director, officer, or beneficial owner of more than ten percent of any class of our securities, or any other person subject to Section 16 of the Exchange Act, or reporting person, to file timely a report required by Section 16(a) of the Exchange Act. This disclosure is contained in the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2024 Proxy Statement.

Code of Ethics

We have adopted a Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. Our code of ethics was filed as Exhibit 14.1 to our quarterly report on Form 10-Q for the quarter ended June 30, 2015 on August 14, 2015. We will provide a copy of our code of ethics to any person without charge, upon request. Requests should be addressed to: Usio, Inc., Attn: Investor Relations Department, 3611 Paesanos Parkway, Suite 300, San Antonio, Texas 78231.

Procedure for Nominating Directors

We have not made any material changes to the procedures by which security holders may recommend nominees to our Board of Directors.

We consider recommendations for director candidates from our directors, officers, employees, stockholders, customers and vendors. Stockholders wishing to nominate individuals to serve as directors may submit such nominations, along with a nominee's qualifications, to our Board of Directors at Usio, Inc., 3611 Paesanos Parkway, Suite 300, San Antonio, Texas, 78231, and the Board of Directors will consider such nominee. The Board of Directors selects the director candidates slated for election. We have a designated Nominations and Corporate Governance Committee, which reviews and make recommendations to the Board of Directors with respect to proposed director candidates.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the 2024 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to the 2024 Proxy Statement.

The information required to be disclosed by Item 201(d) of Regulation S-K, "Securities Authorized for Issuance Under Equity Compensation Plans," appears under the caption "Equity Compensation Plan Information" in the 2024 Proxy Statement and such information is incorporated by reference into this report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to the 2024 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference to the 2024 Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Consolidated Financial Statements.

The following documents are filed in Part II, Item 8 of this annual report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2023 and 2022

Consolidated Statements of Operations for the years ended December 31, 2023 and 2022

Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the years ended December 31, 2023 and 2022 Consolidated Statements of Cash Flows for the years ended December 31, 2023 and 2022 and Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules.

All financial statement schedules have been omitted as they are not required, not applicable, or the required information is otherwise included.

(a)(3) Exhibits

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation (included as exhibit 3.1 to the Form 10-KSB filed March 31, 2006, and incorporated herein by reference).
3.2	Amendment to the Amended and Restated Articles of Incorporation (included as exhibit A to the Schedule 14C filed April 18, 2007, and incorporated herein by reference).
3.3	Certificate of Change Filed Pursuant to NRS 78.209 (included as exhibit 3.1 to the Form 8-K filed July 23, 2015, and incorporated herein by reference).
3.4	Certificate of Amendment of Restated Articles of Incorporation of Usio, Inc., as amended, effective June 26, 2019 (included as exhibit 3.1 to the Form 8-K filed July 1, 2019, and incorporated herein by reference).
3.5	Amendment to the Amended and Restated By-laws (included as exhibit 3.1 to the Form 8-K filed December 1, 2023, and incorporated herein by reference).
4.1	Description of Securities
10.1*	Employment Agreement between the Company and Louis A. Hoch, dated February 27, 2007 (included as exhibit 10.2 to the Form 8-K filed March 2, 2007, and incorporated herein by reference).
10.2*	First Amendment to Employment Agreement between the Company and Louis A. Hoch, dated November 12, 2009 (included as exhibit 10.16 to the Form 10-Q filed November 16, 2009, and incorporated herein by reference).
10.3*	Second Amendment to Employment Agreement between the Company and Louis A. Hoch, dated April 12, 2010 (included as exhibit 10.17 to the Form 10-K filed April 15, 2010, and incorporated herein by reference).
10.4	Bank Sponsorship Agreement between the Company and University National Bank, dated August 29, 2011 (included as exhibit 10.18 to the Form 10-K filed April 3, 2012, and incorporated herein by reference).
10.5*	Third Amendment to Employment Agreement between the Company and Louis A. Hoch, dated January 14, 2011 (included as exhibit 10.20 to the Form 10-K filed April 3, 2012, and incorporated herein by reference).
10.6*	Fourth Amendment to Employment Agreement between the Company and Louis A. Hoch, dated July 2, 2012 (included as exhibit 10.19 to the Form 10-Q filed August 20, 2012, and incorporated herein by reference).
10.7	Bank Sponsorship Agreement between the Company and Metropolitan Commercial Bank, dated December 11, 2014 (included as exhibit 10.26 to the Form 10-K filed March 30, 2015, and incorporated herein by reference).
10.8*	Fifth Amendment to Employment Agreement between the Company and Louis A. Hoch, dated August 3, 2016 (included as exhibit 10.2 to the Form 8-K filed August 9, 2016, and incorporated herein by reference).
10.9*	Sixth Amendment to Employment Agreement between the Company and Louis A. Hoch, dated September 8, 2016 (included as exhibit 10.2 to the Form 8-K filed September 14, 2016, and incorporated herein by reference).
10.10*	Independent Director Agreement between the Company and Brad Rollins, dated May 5, 2017 (included as exhibit 10.1 to the Form 8-K, filed May 11, 2017, and incorporated herein by reference).

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10.11	Lease Agreement between the Company and Blauers Paesanos Parkway LP, dated February 9, 2018 (included as exhibit 10.43 to the Form 10-K filed March 30, 2018, and incorporated herein by reference).
10.12	Lease Agreement between the Company and RP Circle 1 Building, LLC, dated December 11, 2017 (included as exhibit 10.44 to the Form 10-K filed March 30, 2018, and incorporated herein by reference).
10.13*	Independent Director Agreement between the Company and Blaise Bender, dated April 1, 2019 (included as exhibit 10.2 to the Form 8-K filed April 3, 2019, and incorporated herein by reference).
10.14*	2015 Equity Incentive Plan (included as Appendix B to the Definitive Proxy Statement on Schedule 14A filed on June 5, 2015 and incorporated herein by reference).
10.15	Warrant Agreement between the Company and University FanCards, LLC dated August 21, 2018 (included as exhibit 10.41 to the form 10-Q filed on November 12, 2020, and incorporated by reference).
10.16*	Independent Director Agreement dated August 29, 2020, by and between the Company and Ernesto Beyer (included as exhibit 10.1 to the Form 8-K filed on August 31, 2020, and incorporated by reference).
10.17+	Asset Purchase Agreement between the Company and Information Management Solutions, LLC dated December 15, 2020 (included as exhibit 10.2 to the Form 8-K filed on December 18, 2020, and incorporated herein by reference).
10.18+	Warrant Agreement between the Company and Information Management Solutions, LLC dated December 15, 2020. (included as exhibit 10.2 to the Form 8-K filed on December 18, 2020, and incorporated herein by reference).
10.19	Lease agreement between Information Management Systems, LLC and Industrial Properties Corp. dated June 16, 2011 (included as exhibit 10.40 to the Form 10-K filed on March 30, 2021, and incorporated herein by reference).
10.20	First amendment to lease between Information Management Systems, LLC and Industrial Properties Corp. dated April 4, 2013 (included as exhibit 10.41 to the Form 10-K filed on March 30, 2021, and incorporated herein by reference).
10.21	Second amendment to lease between Information Management Systems, LLC and Industrial Properties Corp. dated March 5, 2018 (included as exhibit 10.42 to the Form 10-K filed on March 30, 2021, and incorporated herein by reference).
10.22	Third amendment to lease between the Company as successor to Information Management Systems, LLC and ICON IPC TX Property Owner Pool 6 West/Southwest, LLC, dated December 22, 2020 (included as exhibit 10.43 to the Form 10-K filed on March 30, 2021, and incorporated herein by reference).
10.23	Lease agreement between the Company and Smartyfi, LLC for Austin offices dated January 1, 2021 (included as exhibit 10.44 to the Form 10-K filed on March 30, 2021, and incorporated herein by reference).
10.24	First amendment to lease between the Company and Paesanos Office Building, LLC for San Antonio offices dated March 15, 2021 (included as exhibit 10.45 to the Form 10-K filed on March 30, 2021, and incorporated herein by reference).
10.25*	Seventh Amendment to Employment Agreement between the Company and Louis A. Hoch, dated April 18, 2021 (included as exhibit 10.1 to the Form 8-K filed on April 21, 2021, and incorporated herein by reference).
10.26	Second Amendment to Lease agreement between the Company and Paesanos Office Building, LLC for San Antonio offices, dated October 19, 2021 (included as exhibit 10.43 to the Form 10-Q filed on November 10, 2021, and incorporated herein by reference).
10.27*	Independent Director Agreement dated June 16, 2022, by and between the Company and Michelle Miller (Included as exhibit 10.1 to the Form 8-K file on June 22, 2022, and incorporated herein by reference).
10.28*	Eighth Amendment to Employment Agreement between Usio, Inc. and Louis A. Hoch, dated June 29, 2022 (included as exhibit 10.1 to the Form 8-K filed on July 6, 2022, and incorporated herein by reference).
10.29*	Employment Agreement Dated February 17, 2023 between Usio Inc and Greg Carter, the Company's Executive Vice President of Payment Acceptance.
10.30*	Usio, Inc. Employee Stock Purchase Plan (included as Appendix A to the Definitive Proxy Statement on Schedule 14A filed on June 2, 2023 and incorporated herein by reference).
10.31*	Ninth Amendment to Employment Agreement between Usio, Inc. and Louis A. Hoch, dated February 1, 2024 (included as exhibit 10.1 to the Form 8-K filed on February 1, 2024, and incorporated herein by reference).
14.1	Code of Ethics (included as exhibit 14.1 to the Form 10-Q filed August 14, 2015, and incorporated herein by reference).

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21.1	Subsidiaries of the Company (filed herewith).
23.1	Consent of ADKF, P.C. (filed herewith).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of the Chief Executive Officer and the /Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
97.1	Clawback Policy (filed herewith)
101.INS	Inline XBRL Instance Document (filed herewith).
101.SCH	Inline XBRL Taxonomy Extension Schema Document (filed herewith).
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (filed herewith).
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (filed herewith).
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document (filed herewith).
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

† Confidential treatment has been granted for portions of this agreement.
+ The schedules to the exhibit have been omitted from this filing pursuant to Item 601(a)(5) of Regulation S-K. The Company will furnish copies of any such schedules to the SEC upon request.
* Management Compensatory Plan or Arrangement

Copies of the above exhibits not contained herein are available to any stockholder, upon written request to: Chief Financial Officer, Usio, Inc., 3611 Paesanos Parkway, Suite 300, San Antonio, TX 78231.

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 on its behalf by the undersigned, thereunto duly authorized.

Usio, Inc.

Date: March 27, 2024

By: /s/ Louis A. Hoch
Louis A. Hoch
Chief Executive Officer
(Principal Executive Officer)

Date: March 27, 2024

By: /s/ Michael White
Michael White
Chief Accounting Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 27, 2024

By: /s/ Michael White
Michael White
Chief Accounting Officer
(Principal Financial and Accounting Officer)

Date: March 27, 2024

By: /s/ Louis A. Hoch
Louis A. Hoch
President, Chief Executive Officer, and Director (Principal Executive Officer)

Date: March 27, 2024

By: /s/ Blaise Bender
Blaise Bender
Director

Date: March 27, 2024

By: /s/ Ernesto Beyer
Ernesto Beyer
Director

Date: March 27, 2024

By: /s/ Bradley Rollins
Bradley Rollins
Director

Date: March 27, 2024

By: /s/ Elizabeth Michelle Miller
Elizabeth Michelle Miller
Director

Exhibit 4.1

DESCRIPTION OF SECURITIES

Our amended and restated articles of incorporation authorize us to issue 200,000,000 shares of common stock, par value \$0.001 per share and 10,000,000 shares of preferred stock, par value \$0,001 per share. As of March 25, 2024, we had 26,392,315 shares of common stock and no shares of preferred stock outstanding.

Common Stock

The following description of our common stock, may not be complete and is subject to, and qualified in its entirety by reference to, Nevada law and the actual terms and provisions contained in our amended and restated articles of incorporation and our bylaws, each as amended from time to time.

Voting Rights: Each outstanding share of our common stock is entitled to one vote per share of record on all matters submitted to a vote of stockholders and to vote together as a single class for the election of directors and in respect of other corporate matters. At a meeting of stockholders at which a quorum is present, for all matters other than the election of directors, an affirmative vote of the majority of shares entitled to vote on a matter and that are represented either in person or by proxy at a meeting of stockholders decides all questions, unless the matter is one upon which a different vote is required by express provision of law or our amended and restated articles incorporation or our bylaws. Directors will be elected by a plurality of the votes of the shares present at a meeting. Holders of shares of common stock do not have cumulative voting rights with respect to the election of directors or any other matter.

Dividends: Holders of our common stock are entitled to receive dividends or other distributions when, as and if declared by our board of directors. The right of our board of directors to declare dividends, however, is subject to any rights of the holders of other classes of our capital stock, any indebtedness outstanding from time to time and the availability of sufficient funds, as determined under Nevada law, to pay dividends.

Preemptive Rights: The holders of our common stock do not have preemptive rights to purchase or subscribe for any of our capital stock or other securities

Redemption: Shares of our common stock are not subject to redemption by operation of a sinking fund or otherwise.

Liquidation Rights: In the event of any liquidation, dissolution, or winding up of our company, subject to the rights, if any, of the holders of other classes of our capital stock, the holders of shares of our common stock are entitled to receive any of our assets available for distribution to our stockholders ratably in proportion to the number of shares held by them.

Listing: Our common stock is traded on the Nasdaq Capital Market under the symbol "USIO."

Transfer Agent and Registrar: The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC, 6201 15th Avenue, Brooklyn, NY 11219, telephone (718) 921-8200.

Preferred Stock

Under our amended and restated articles of incorporation, as amended, we have the authority to issue 10,000,000 shares of preferred stock, par value \$0.01 per share, which are issuable in series on terms to be determined by our board of directors. Accordingly, our board of directors is authorized, without action by the stockholders, to issue preferred stock from time to time with such dividend, liquidation, conversion, voting, redemption, sinking fund and other rights and restrictions as it may determine. All shares of any one series of our preferred stock will be identical, except that shares of any one series issued at different times may differ as to the dates from which dividends may be cumulative. The Board may determine:

- the distinctive designation of each series and the number of shares that will constitute the series;
- the voting rights, if any, of shares of the series and the terms and conditions of the voting rights;
- the dividend rate on the shares of the series, the dates on which dividends are payable, any restriction, limitation or condition upon the payment of dividends, whether dividends will be cumulative, and the dates from and after which dividends shall accumulate;
- the prices at which, and the terms and conditions on which, the shares of the series may be redeemed, if the shares are redeemable;
- the terms and conditions of a sinking or purchase fund for the purchase or redemption of shares of the series, if such a fund is provided;
- any preferential amount payable upon shares of the series in the event of the liquidation, dissolution or winding up of, or upon the distribution of any of our assets; and
- the prices or rates of conversion or exchange at which, and the terms and conditions on which, the shares of the series may be converted or exchanged into other securities, if the shares are convertible or exchangeable.

If our board of directors decides to issue any shares of preferred stock, it may discourage or make more difficult a merger, tender offer, business combination or proxy contest, assumption of control by a holder of a large block of our securities, or the removal of incumbent management, even if these events were favorable to the interests of stockholders. Our board of directors, without stockholder approval, may issue preferred stock with voting and conversion rights and dividend and liquidation preferences that may adversely affect the holders of our other equity or debt securities.

Certain Provisions of Nevada Law And Our Charter And Bylaws

The following paragraphs summarize certain provisions of Nevada law and our restated articles of incorporation, as amended, and our amended and restated bylaws, as amended. The summary does not purport to be complete and is subject to and qualified in its entirety by reference to Nevada law and to our restated certificate of incorporation, as amended, and our amended and restated bylaws, as amended, copies of which are on file with the SEC as exhibits to reports previously filed by us.

General

Certain provisions of our amended and restated articles of incorporation, as amended, and our amended and restated bylaws and Nevada law could make our acquisition by a third party, a change in our incumbent management, or a similar change in control more difficult, including:

- An acquisition of us by means of a tender or exchange offer;
- An acquisition of us by means of a proxy contest or otherwise; or
- The removal of a majority or all of our incumbent officers and directors.

These provisions, which are summarized below, are likely to discourage certain types of coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that these provisions help to protect our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us, and that this benefit outweighs the potential disadvantages of discouraging such a proposal because our ability to negotiate with the proponent could result in an improvement of the terms of the proposal. The existence of these provisions which are described below could limit the price that investors might otherwise pay in the future for our securities.

Articles of Incorporation and Bylaws

Authorized But Unissued Capital Stock. We have shares of common stock and preferred stock available for future issuance without stockholder approval, subject to any limitations imposed by the listing standards of any securities exchange on which our stock may be listed. We may utilize these additional shares for a variety of corporate purposes, including for future public offerings to raise additional capital or facilitate corporate acquisitions or for payment as a dividend on our capital stock. The existence of unissued and unreserved common stock and preferred stock may enable our board of directors to issue shares to persons friendly to current management or to issue preferred stock with terms that could have the effect of making it more difficult for a third party to acquire, or could discourage a third party from seeking to acquire, a controlling interest in our company by means of a merger, tender offer, proxy contest, or otherwise. In addition, if we issue preferred stock, the issuance could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation.

Blank Check Preferred Stock. Our board of directors, without stockholder approval, has the authority under our amended and restated articles of incorporation, as amended, to issue preferred stock with rights superior to the rights of the holders of common stock. As a result, preferred stock could be issued quickly and easily, could impair the rights of holders of common stock, and could be issued with terms calculated to delay or prevent a change in control or make removal of management more difficult.

Election of Directors. Our amended and restated bylaws provide that a majority of directors then in office may fill any vacancy occurring on our board of directors, even though less than a quorum may then be in office. These provisions may discourage a third party from voting to remove incumbent directors and simultaneously gaining control of our board of directors by filling the vacancies created by that removal with its own nominees.

Removal of Directors. A director may be removed from office only by the affirmative vote of two-thirds or more of the combined voting power of the then issued and outstanding shares of our capital stock entitled to vote in the election of directors, voting together as a single class.

Anti-takeover Effects of Nevada Law

Business Combinations with Interested Stockholders

The "business combination with interested stockholders" provisions of Sections 78.411 to 78.444, inclusive, of the Nevada Revised Statutes, or NRS, generally prohibit a Nevada corporation with at least 200 stockholders of record from engaging in various "combination" transactions with any interested stockholder for a period of two years after the date of the transaction in which the person became an interested stockholder, unless the combination is approved by our board of directors prior to the date the interested stockholder obtained such status or the combination is approved by our board of directors and at such time or thereafter is approved at a meeting of the stockholders by the affirmative vote of stockholders representing at least 60% of the outstanding voting power held by disinterested stockholders, and extends beyond the expiration of the two-year period, unless:

- the combination was approved by our board of directors prior to the person becoming an interested stockholder or the transaction by which the person first became an interested stockholder was approved by our board of directors before the person became an interested stockholder or the combination is later approved by a majority of the voting power held by disinterested stockholders; or
- if the consideration to be paid by the interested stockholder is at least equal to the highest of: (a) the highest price per share paid by the interested stockholder within the two years immediately preceding the date of the announcement of the combination or in the transaction in which it became an interested stockholder, whichever is higher; (b) the market value per share of common stock on the date of announcement of the combination and the date the interested stockholder acquired the shares, whichever is higher; or (c) for holders of preferred stock, the highest liquidation value of the preferred stock, if it is higher.

Notwithstanding the foregoing, NRS 78.411 to 78.444, inclusive, do not apply to any combination of a resident domestic corporation with an interested stockholder after the expiration of four years after the person first became an interested stockholder.

A "combination" is generally defined to include mergers or consolidations or any sale, lease exchange, mortgage, pledge, transfer, or other disposition, in one transaction or a series of transactions, with an "interested stockholder" having: (a) an aggregate market value equal to more than 5% of the aggregate market value of the assets of the corporation, (b) an aggregate market value equal to more than 5% of the aggregate market value of all outstanding voting shares of the corporation, (c) more than 10% of the earning power or net income of the corporation, and (d) certain other transactions with an interested stockholder or an affiliate or associate of an interested stockholder.

In general, an "interested stockholder" is a person who, together with affiliates and associates, owns (or within two years, did own) 10% or more of a corporation's voting stock. The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire our company even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price.

A Nevada corporation may "opt out" of these provisions either with an express provision in its original articles of incorporation or in an amendment to its articles of incorporation or bylaws approved by its stockholders. However, we have not opted out, and do not currently intend to opt out of, these provisions. The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

Control Share Acquisitions

The "control share" provisions of Sections 78.378 to 78.3793, inclusive, of the NRS apply to "issuing corporations" that are Nevada corporations with at least 200 stockholders of record, including at least 100 stockholders of record who are Nevada residents, and that conduct business directly or indirectly in Nevada. The control share statute prohibits an acquirer, under certain circumstances, from voting its shares of a target corporation's stock after crossing certain ownership threshold percentages, unless the acquirer obtains approval of the target corporation's disinterested stockholders. The statute specifies three thresholds: one-fifth or more but less than one-third, one-third but less than a majority, and a majority or more, of the outstanding voting power. Generally, once an acquirer crosses one of the above thresholds, those shares in an offer or acquisition and acquired within 90 days thereof become "control shares" and such control shares are deprived of the right to vote until disinterested stockholders restore the right. These provisions also provide that if control shares are accorded full voting rights and the acquiring person has acquired a majority or more of all voting power, all other stockholders who do not vote in favor of authorizing voting rights to the control shares are entitled to demand payment for the fair value of their shares in accordance with statutory procedures established for dissenters' rights.

A corporation may elect to not be governed by, or "opt out" of, the control share provisions by making an election in its articles of incorporation or bylaws, provided that the opt-out election must be in place on the 10th day following the date an acquiring person has acquired a controlling interest, that is, crossing any of the three thresholds described above. We have not opted out of the control share statutes, and will be subject to these statutes if we are an "issuing corporation" as defined

in such statutes.

The effect of the Nevada control share statutes is that the acquiring person, and those acting in association with the acquiring person, will obtain only such voting rights in the control shares as are conferred by a resolution of the stockholders at an annual or special meeting. The Nevada control share law, if applicable, could have the effect of discouraging takeovers of our company.

Usio, Inc.
Subsidiaries of the Registrant

Subsidiary Legal Name	Jurisdiction of Incorporation
FiCentive, Inc.	Nevada
ZBILL, Inc.	Nevada
Usio Output Solutions, Inc.	Nevada

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statements (No. 333-82530, No. 333-122312, No. 333-125510, No. 333-134451, No. 333-206521, No. 333-221184, No. 333-231645, No. 333-266036, and No. 333-273406) on Form S-8 and (No. 333-97869, No. 333-221178, and No. 333-251140) on Form S-3 of our report dated March 27, 2024, with respect to the consolidated financial statements of Usio, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 2023.

We further consent to our designation as an expert in accounting and auditing.

/s/ ADKF, P.C.

ADKF, P.C.

San Antonio, Texas

March 27, 2024

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, Louis A. Hoch, certify that:

1. I have reviewed this Annual Report on Form 10-K of Usio, Inc. for the year ended December 31, 2023;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. As the registrant's certifying officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding 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 my 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 quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. As the registrant's certifying officer, I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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 27, 2024

By: /s/ Louis A. Hoch
Louis A. Hoch
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, Michael White, certify that:

1. I have reviewed this Annual Report on Form 10-K of Usio, Inc. for the year ended December 31, 2023;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. As the registrant's certifying officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding 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 my 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 quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. As the registrant's certifying officer, I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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 27, 2024

By: /s/ Michael White
Michael White
Chief Accounting Officer
(Principal Accounting Officer)

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officers of Usio, Inc., a Nevada corporation (the "Company"), do hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the year ended December 31, 2023 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 27, 2024

By: /s/ Louis A. Hoch
Louis A. Hoch
Chief Executive Officer
(Principal Executive Officer)

Date: March 27, 2024

By: /s/ Michael White
Michael White
Chief Accounting Officer
(Principal Accounting Officer)

USIO, INC.
COMPENSATION CLAWBACK POLICY

(Adopted as of November 6, 2023)

1. INTRODUCTION

Usio, Inc. (the "**Company**") is adopting this Compensation Clawback Policy (this "**Policy**") to provide for the Company's recovery of certain Incentive Compensation (as defined below) erroneously awarded to Affected Officers (as defined below) under certain circumstances.

This Policy is administered by the Compensation Committee (the "**Committee**") of the Company's Board of Directors (the "**Board**"). The Committee shall have full and final authority to make any and all determinations required or permitted under this Policy. Any determination by the Committee with respect to this Policy shall be final, conclusive and binding on all parties. The Board may amend or terminate this Policy at any time.

This Policy is intended to comply with Section 10D of the Securities and Exchange Act of 1934, as amended (the "**Exchange Act**"), Rule 10D-1 thereunder and the applicable rules (the "**Rules**") of the Nasdaq Stock Market (the "**Market**") and will be interpreted and administered consistent with that intent.

2. EFFECTIVE DATE

This Policy shall apply to all Incentive Compensation (as defined below) paid or awarded on or after the date of adoption of this Policy, and to the extent permitted or required by applicable law.

3. DEFINITIONS

For purposes of this Policy, the following terms shall have the meanings set forth below:

"**Affected Officer**" means any current or former "officer" as defined in Exchange Act Rule 16a-1, and any other senior executives as determined by the Committee.

"**Applicable Period**" means the three completed fiscal years immediately preceding the date on which the Company is required to prepare a Restatement, as well as any transition period (that results from a change in the Company's fiscal year) within or immediately following those three completed fiscal years (except that a transition period that comprises a period of at least nine months shall count as a completed fiscal year). The "date on which the Company is required to prepare a Restatement" is the earlier to occur of (a) the date the Committee concludes, or reasonably should have concluded, that the Company is required to prepare a Restatement or (b) the date a court, regulator or other legally authorized body directs the Company to prepare a Restatement, in each case regardless of if or when the restated financial statements are filed.

"**Erroneously Awarded Compensation**" means, with respect to each Affected Officer in connection with a Restatement, the amount of Incentive Compensation received that exceeds the amount of Incentive Compensation that otherwise would have been received had it been determined based on the amounts set forth in the Restatement, computed without regard to any taxes paid. In the case of Incentive Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the Restatement, the amount shall reflect a reasonable estimate of the effect of the Restatement on the stock price or total shareholder return upon which the Incentive Compensation was received, as determined by the Committee in its sole discretion. Such determination shall be properly documented and the Committee shall provide such documentation to the Market. The Committee may determine the form and amount of Erroneously Awarded Compensation in its sole discretion.

"**Financial Reporting Measure**" means any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's consolidated financial statements, and any measures that are derived wholly or in part from such measures, whether or not such measure is presented within the consolidated financial statements or included in a filing with the Securities and Exchange Commission (the "**SEC**"). Stock price and total shareholder return are Financial Reporting Measures. Stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return) shall, for purposes of this policy, be considered Financial Reporting Measures.

"**Incentive Compensation**" means any compensation that is granted, earned or vested based in whole or in part on the attainment of a Financial Reporting Measure. For purposes of clarity, base salaries, bonuses or equity awards paid solely upon satisfying one or more subjective standards, strategic or operational measures, or continued employment are not considered Incentive Compensation, unless such awards were granted, paid or vested based in part on a Financial Reporting Measure.

"**Restatement**" means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (i.e., a "Big R" restatement), or that would result in a material misstatement if the error was corrected in the current period or left uncorrected in the current period (i.e., a "little r" restatement).

4. RECOVERY

If the Company is required to prepare a Restatement, the Company shall seek to recover and claw back from any Affected Officer reasonably promptly the Erroneously Awarded Compensation that is received by the Affected Officer during the Applicable Period:

- (i) after the person begins service as an Affected Officer;
- (ii) who serves as an Affected Officer at any time during the performance period for that Incentive Compensation; and
- (iii) while the Company has a class of securities listed on the Market.

If, after the release of earnings for any period for which a Restatement subsequently occurs and prior to the announcement of the Restatement for such period, the Affected Officer sold any securities constituting, or any securities issuable on exercise, settlement or exchange of any equity award constituting, Incentive Compensation, the excess of (a) the actual aggregate sales proceeds from the Affected Officer's sale of those shares, over (b) the aggregate sales proceeds the Affected Officer would have received from the sale of those shares at a price per share determined appropriate by the Committee in its discretion to reflect what the Company's common stock price would have been if the Restatement had occurred prior to such sales, shall be deemed to be Erroneously Awarded Compensation; provided, however, that the aggregate sales proceeds determined by the Committee under this clause (b) with respect to shares acquired upon exercise of an option shall not be less than the aggregate exercise price paid for those shares.

For purposes of this Policy:

- Erroneously Awarded Compensation is deemed to be received in the Company's fiscal year during which the Financial Reporting Measure specified in the Incentive Compensation is attained, even if the payment or grant of the Incentive Compensation occurs after the end of that period; and
- the date the Company is required to prepare a Restatement is the earlier of (x) the date the Board, the Committee or any officer of the Company authorized to take such action concludes, or reasonably should have concluded, that the Company is required to prepare the Restatement, or (y) the date a court, regulator, or other legally authorized body directs the Company to prepare the Restatement.

In the event of a Restatement:

- the Committee shall determine the amount of any Erroneously Awarded Compensation received by each Affected Officer and shall promptly notify each Affected Officer with a written notice containing the amount of any Erroneously Awarded Compensation and a demand for repayment or return of such compensation, as applicable;
- the Committee shall have discretion to determine the appropriate means of recovering Erroneously Awarded Compensation based on the particular facts and circumstances. Notwithstanding the foregoing, except as set forth in Section 6 below, in no event may the Company accept an amount that is less than the amount of Erroneously Awarded Compensation in satisfaction of an Affected Officer's obligations hereunder;
- to the extent that the Affected Officer has already reimbursed the Company for any Erroneously Awarded Compensation received under any duplicative recovery obligations established by the Company or applicable law, it shall be appropriate for any such reimbursed amount to be credited to the amount of Erroneously Awarded Compensation that is subject to recovery under this Policy; and
- to the extent that an Affected Officer fails to repay all Erroneously Awarded Compensation to the Company when due, the Company shall take all actions reasonable to and appropriate to recover such Erroneously Awarded Compensation from the applicable Affected Officer. The applicable Affected Officer shall be required to reimburse the Company for any and all expenses reasonable incurred (including legal fees) by the Company in recovering such Erroneously Awarded Compensation in accordance with the immediately preceding sentence.

For purposes of clarity, in no event shall the Company be required to award any Affected Officers an additional payment or other compensation if the Restatement would have resulted in the grant, payment or vesting of Incentive Compensation that is greater than the Incentive Compensation actually received by the Affected Officer.

The Company shall file all disclosures with respect to this Policy required by the SEC.

5. SOURCES OF RECOUPMENT

To the extent permitted by applicable law, the Committee may, in its discretion, seek recoupment from the Affected Officer(s) through any means it determines, which may include any of the following sources: (i) prior Incentive Compensation payments; (ii) future payments of Incentive Compensation; (iii) cancellation of outstanding Incentive Compensation; (iv) direct repayment; and (v) non-Incentive Compensation or securities held by the Affected Officer. To the extent permitted by applicable law, the Company may offset such amount against any compensation or other amounts owed by the Company to the Affected Officer.

6. LIMITED EXCEPTIONS TO RECOVERY

Notwithstanding the foregoing, the Committee, in its discretion, may choose to forgo recovery of Erroneously Awarded Compensation under the following circumstances, provided that the Committee (or a majority of the independent members of the Board) has made a determination that recovery would be impracticable because:

- (i) The direct expense paid to a third party to assist in enforcing this Policy would exceed the recoverable amounts; provided that the Company has made a reasonable attempt to recover such Erroneously Awarded Compensation, has documented such attempt(s), and has (to the extent required) provided that documentation to the Market;
- (ii) Recovery would violate home country law where the law was adopted prior to November 28, 2022, and the Company provides an opinion of home country counsel to that effect to the Market that is acceptable to the Market; or
- (iii) Recovery would likely cause an otherwise tax-qualified retirement plan to fail to meet the requirements of Section 401(a) (13) or Section 411(a) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

7. NO INDEMNIFICATION OR INSURANCE

The Company will not indemnify, insure or otherwise reimburse any Affected Officer against the recovery of Erroneously Awarded Compensation. Further, the Company shall not enter into any agreement that exempts any Incentive Compensation that is granted, paid or awarded to an Affected Officer from the application of this Policy or that waives the Company's right to recovery of any Erroneously Awarded Compensation and this Policy shall supersede any such agreement (whether entered into before, on or after the Effective Date of this Policy)

8. NO IMPAIRMENT OF OTHER REMEDIES

This Policy does not preclude the Company from taking any other action to enforce an Affected Officer's obligations to the Company, including termination of employment, institution of civil proceedings, or reporting of any misconduct to appropriate government authorities. This Policy is in addition to the requirements of Section 304 of the Sarbanes-Oxley Act of 2002 that are applicable to the Company's Chief Executive Officer and Chief Financial Officer. Any employment agreement, equity award agreement, compensatory plan or any other agreement or arrangement with an Affected Officer shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by the Affected Officer to abide by the terms of this Policy. Any right of recovery under this Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company under applicable law, regulation or rule or pursuant to the terms of any policy of the Company or any provision in any employment agreement, equity award agreement, compensatory plan, agreement or other arrangements.

9. AMENDMENT; TERMINATION

The Committee may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary. Notwithstanding anything in this Section 9 to the contrary, no amendment or termination of this Policy shall be effective if such amendment or termination would (after taking into account any actions taken by the Company contemporaneously with such amendment or termination cause the Company to violate any federal securities laws, SEC rule or Market rule.

ATTESTATION AND ACKNOWLEDGEMENT OF POLICY FOR THE RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION

By my signature below, I acknowledge and agree that:

- I have received and read the attached Policy for the Recovery of Erroneously Awarded Compensation (this " **Policy**").
- I hereby agree to abide by all of the terms of this Policy both during and after my employment with the Company, including, without limitation, by promptly repaying or returning any Erroneously Awarded Compensation to the Company as determined in accordance with this Policy.

Signature: _____

Printed Name: _____

Date: _____