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, 2022.

☐ **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	**98-0190072**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3611 Paesanos Parkway, Suite 300, San Antonio, TX	**78231**
(Address of principal executive offices)	(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 ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging Growth company ☐

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

Indicate by check mark whether the registrant has filed a report 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, 2022, was $38,541,584 based on 15,860,735 shares of the registrant's common stock held by non-affiliates on June 30, 2022 at the closing price of $2.43 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 3, 2023, the number of outstanding shares of the registrant's common stock was 26,392,315.

DOCUMENTS INCORPORATED BY REFERENCE: Items 10 (as to directors and Section 16(a) Beneficial Ownership Reporting Compliance), 11, 12, 13 and 14 of Part III will incorporate 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 2023 Annual Meeting of Stockholders to be held on June 20, 2023

Usio, Inc.
FORM 10-K
For the Year Ended December 31, 2022
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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.

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

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 provide integrated payment processing services to merchants and businesses, including all types of Automated Clearing House, or ACH, processing, credit, prepaid card and debit card-based processing services. We offer customizable prepaid cards companies use for expense management, incentives, refunds, claims and disbursements, unique forms of compensation like per diems, and more. 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. Usio's Card platform supports Apple Pay®, Samsung Pay™ and Google Pay™. Our PIN-less debit product allows merchants to debit and credit accounts in real-time. 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, and Wells Fargo Bank.

Through our Akimbo Now technology we offer a comprehensive money disbursement platform that allows businesses to pay their contractors, employees, or other recipients by choosing between a prepaid debit Mastercard, real-time deposit to a checking account, traditional ACH, direct deposit or paper check.

With the acquisition of the assets of Information Management Solutions, LLC, or IMS, in December 2020, 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 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.

Usio, Inc. We provide integrated electronic payment processing services to merchants and businesses, including credit and debit card-based processing services and transaction processing 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 ten 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 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, fax 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™.

Our strategy is to drive growth through a leveraged, one to many, distribution model in the software development marketplace. 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.

Our electronic payment processing may take place 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 to 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.

FiCentive, Inc. We provide prepaid card issuance services for corporate clients and consumers through our wholly owned subsidiary, FiCentive, Inc. 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.

Usio Card: Through our December 2014 acquisition of the assets of Akimbo Financial, Inc., we also added a highly talented technical staff of industry subject matter experts and an innovative cardholder service platform including cardholder web and mobile applications. 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.

Output Solutions: On December 15, 2020, we acquired the assets of IMS and 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, we acquired new customers and their sales force. We bought an existing portfolio of customers with a significant revenue stream. This acquisition increased our ability to grow new revenue streams and allows us to reenter the electronic bill presentment and payment revenue stream. The success of this new business line will continue to depend on our ability to realize the anticipated growth opportunities and we cannot provide any assurance that we will be able to realize these opportunities.

Our websites are www.usio.com, www.payfacinabox.com, www.ficentive.com, www.akimbocard.com, and www.usiooutput.com. Information contained on our websites do not constitute part of, and are not incorporated by reference into, this annual report.

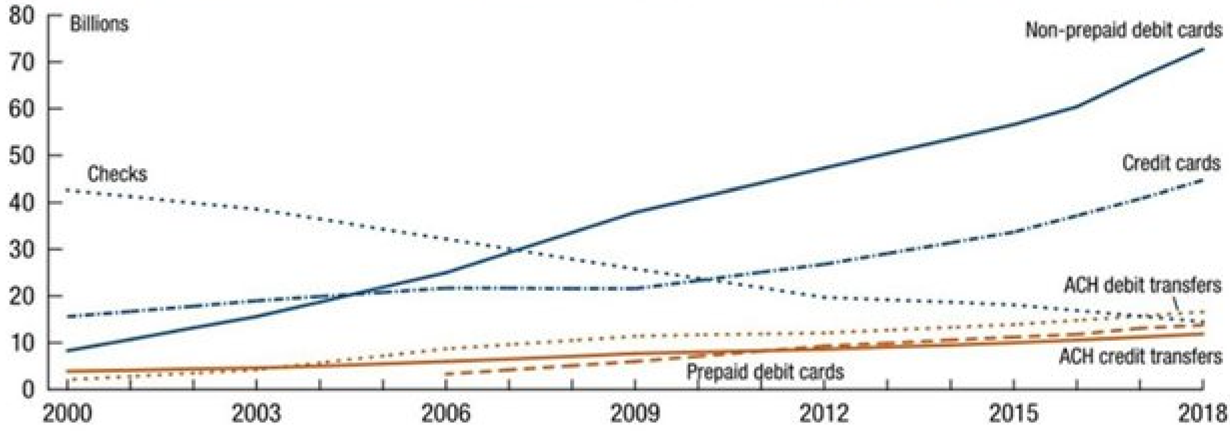
Industry Background

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 2019 Federal Reserve Payments Study, or FRPS, as updated through January 14, 2022, the estimated number of non-cash payments continue to increase at accelerated rates. The FRPS reflects the effects of the COVID-19 pandemic.

- The number of core non-cash payments, comprising debit card, credit card, ACH, and check payments, reached 174.2 billion in 2018, an increase of 30.6 billion from 2015. The value of these payments totaled $97.04 trillion in 2018, an increase of $10.25 trillion from 2015.
- ACH payments exhibited accelerating growth, increasing 6.0% by number and 7.2% by value from 2015 to 2018. During the COVID-19 pandemic the share of ACH grew even further, outpacing card and check who declined in value from 2019 to 2020. From 2019 to 2020, ACH grew by 1.38% by number and 2.45% by value.
- In 2018, for the first time, the number of ACH payments (16.6 billion) exceeded the number of check payments (14.5 billion). In 2000, in contrast, the number of ACH payments was 2.1 billion compared to 42.6 billion check payments. In 2020, card payments were the most used method of noncash payments by number, exceeding ACH and check, whereas by value, ACH exceeded card and check.
- Card payments continued to show robust growth from 2015 to 2018, collectively increasing 8.9% per year by number and 8.6% by value up from the 6.8% yearly rate of increase in the 2012 to 2015. The total number of card payments declined from 2019 to 2020 for the first time since the number of card payments has been recorded by the FRPS., driven by a decline of in-person card payments. Some of the decline of in-person card payments was offset by remote payments late in 2020.
- From 2015 to 2018, total card payments - the sum of credit card, non-prepaid debit card and prepaid debit card payments - increased 29.7 billion to reach 131.2 billion payments by number and increased $1.56 trillion to reach $7.08 trillion by value in 2018.
- Within card payments, there was a surge in prepaid and non-prepaid debit card payments by number relative to credit card payments from 2015 to 2018, a change from previous reporting periods. Prepaid debit card payments had the highest growth rate, by number, at 10.5%, compared with 8.7% for non-prepaid debit card payments and 9.3% for credit card payments from 2015 to 2018.
- Remote payments continued to grow as a share of total general-purpose card payments. The number of remote payments increased 20.5% from 2015 to 2018, compared with in-person payments, which grew 5.8%. Over the same period, the value of remote payments increased 14.4%, compared to in-person payments, which increased 4.0%.
- Chip authenticated payments accounted for more than half of the value of in-person general-purpose card payments in 2018, compared with 2.0% in 2015.
- 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 1. Trends in noncash payments, by number, 2000–18



Note: All estimates are on a triennial basis. Card payments are also estimated for 2016 and 2017. 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 displayed for 2000 and 2003 because only EBT was collected.

Source: 2021 Federal Reserve Payments Study

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. 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 work from home mandates. 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 2022 were estimated at $1,034.1 billion, an increase of approximately 7.7% from 2021.

Products and Services

All of our service offerings are supported by our systems' infrastructure that integrates certain proprietary components with processing systems outsourced to third-party providers to offer our customers a flexible and secure payment process. We utilize secure sockets layer architecture so that connections and information are secure from outside inspection. We also use 128-bit encryption for all electronic transactions that we process to make information unreadable as it passes over the Internet. Our systems' infrastructure allows us to work with our customers to build a customized electronic payment service offering tailored to the customer's specific needs. We have designed and implemented our integrated payment systems to function as gateways between our customers and our third-party processing providers. Our systems provide for interfaces with our customers through which payment data is captured electronically and transferred through the connections we have with our processing providers. Our systems also provide a data warehousing capability so that all payment data related to a customer can be stored in one place to facilitate efficient data retrieval and analysis. All confidential data stored within and outside the data warehouse is fully encrypted. We outsource parts of our card-based transaction processing to third-party providers. Our card-based processing system can connect and communicate with all of the major card-based processors in the United States.

Payment Processing. The components of our service offerings include all forms of ACH transaction processing, such as Represented Check, which is a consumer non-sufficient funds check that is presented for payment electronically rather than through the paper check collection system, and Accounts Receivable Check Conversion, which is a consumer paper check payment that is converted into an e-check. Our customers can initiate ACH transactions directly using an online terminal accessible through a website or we can initiate ACH transactions on their behalf.

Our service offering also includes merchant account services for the processing of card-based transactions through the VISA, Mastercard, American Express, Discover, and JCB networks, including online terminal services accessed through a website or retail services accessed via a physical terminal. We offer a proprietary web-based customer service application that combines both ACH and card processing capabilities that allows companies to process one-time and recurring payments via e-checks or credit cards at the request of their consumers. In addition, we offer an Interactive Voice Response telephone system to companies that accept payments directly from consumers over the telephone using e-checks or credit cards.

Significant innovations to our payment systems have included launching a client facing web application that allows customers to more easily manage their payments; an Apple® iOS Software Development Kit, or SDK, that enables developers to easily integrate payment acceptance into their applications; and PINless debit service that allows merchants to debit and credit accounts in real time.

In 2019, our platform expanded to include remotely created check, or RCC, processing. An RCC is a digital image of a paper item originated with proper authorization from consumer checking account information held on file, but without the consumer's original signature. Our RCC gateway allows our merchants to automate billing, payment acceptance and customer management. In addition, it provides visibility into the status of payments and accelerates cash flow. Merchants and lenders with high return rates can utilize remotely created checks as an ACH alternative. It reduces the chances of fraud by validating account information upfront and is compliant with the Uniform Commercial Code, Regulation CC, Regulation J and the Check 21 Act.

In 2021 and into early 2022, we transitioned from a traditional data center to a cloud provider. This transition provides greater speed and capacity, allowing us to process transactions faster per second. We continue to develop process improvements with a focus on new tools designed to grow sales while improving our internal reporting capabilities. On the client facing front, we continue to develop enhancements to our hosted payment pages, enrollment and onboarding tools for resellers and monthly reporting and new transaction reporting.

Largely due to our NACHA certification and significant volume of transactions, we obtained a sponsoring bank and implemented a direct connection into the Fed ACH system and the sole use of a bank routing number. Through this direct connection terminal, we control the entire data flow. This connection allows us to lower overall processing costs, offer later cut off times, speed up the boarding process for merchants, and increase oversight into our ACH processing traffic.

We will continue to enhance our service offerings to meet customer demands as they arise.

Prepaid and Incentive Card Issuance. We also provide a variety of prepaid and incentive card issuance services and operate a prepaid core processing platform. We are a program manager and have card issuance agreements with Sunrise Banks, N.A. and Metropolitan Commercial Bank. We develop and manage a variety of prepaid card program types, including consumer reloadable, consumer gift, incentive, promotional, general disbursement and corporate expense cards, primarily on behalf of our corporate clients and government entities. We exclusively issue Mastercard branded cards currently, but our platform also supports the issuance of Visa and Discover branded card programs. In addition, we design, develop and operate feature-rich cardholder web and mobile applications. These web and mobile applications can be branded and customized by corporate clients. In addition, our clients can also brand or white-label physical cards and card package materials, as well as digital cards stored in popular mobile wallets. Clients can order and load virtual and physical cards in bulk using a batch processing system available 24 hours a day, 7 days a week through the web or secure file transfer protocol, FTP. There are also more than 75 API endpoints available for direct client integrations. In addition to providing card issuance and money disbursement solutions to corporate clients, we issue general purpose consumer reloadable cards direct to consumers under the Akimbo and Stream card brands. These consumer card programs work as bank account alternatives or companion cards used for household budgets and allowances. Our card issuance platform is integrated to Mastercard's Digital Enablement Services, or MDES, enabling full control of card provisioning to all popular mobile wallets, including Apple Pay®, Google Pay™ and Samsung Pay™. This integration has allowed our platform to offer several unique features to both cardholders and our corporate clients, including in-app provisioning, customized mobile wallet branding, and the real-time delivery of and access to the digital card prior to the receipt of the corresponding physical card. In general, our proprietary, full-stack card issuance and processing platform provides us with several competitive advantages as compared to other program managers and prepaid card providers. Our platform offers several features unavailable with nearly any other prepaid card processors. In addition, the platform and the current size of our organization enables us to prototype and deploy custom solutions much quicker than the competition. This is highlighted by the fact that several large / Fortune 500 tech, municipalities, and payments companies currently use our platform for research and developments purposes.

Output Solutions. With the acquisition of the assets of Information Management Solutions, LLC in December 2020, we now 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. 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. We provide full color digital printing services, producing statements, checks, notices, postcards, envelopes, newsletters, and other items. We utilize the latest technology inkjet printers and print 2-up on rolls of paper that are over 17 miles long, producing up to 58,800 full-color images per hour. In 2021 we became a seamless mailer with the USPS. This allows us to drop mailings 24 hours a day, 2 days per week.

Relationships with Sponsors and Processors

We have agreements with several processors that provide to us, on a non-exclusive basis, 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 Fifth Third Bank, North American Banking Company, or NABC, Evolve Bank & Trust, 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 Wells Fargo 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 Wells Fargo 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. and Metropolitan Commercial Bank 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 and CBW Bank 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 sponsorship with Evolve Bank & Trust 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 old 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 have resumed processing PINless debit transactions and subsequently secured a sponsoring relationship in 2021 with CBW Bank.

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 market and sell 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.

On September 1, 2017, we acquired Singular Payments, LLC. Singular Payments was a credit card processing Independent Sales Organization, or ISO, comprised primarily of highly driven sales leaders and industry leaders. Through the Singular Payments acquisition, we also acquired an existing portfolio of customers with a significant revenue stream and a talented sales force with significant experience in the credit card industry.

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.

With the acquisition of the assets of Information Management Solutions, LLC in December 2020, we now 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. Through the acquisition, we acquired new customers and their sales force and the ability to cross-sell existing service offerings to IMS customers and new Output Solutions services to existing Usio customers.

Customers

Our customers are 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, 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 11% to 5,601 customers at December 31, 2022 from 5,039 customers at December 31, 2021. Our customers are geographically dispersed throughout the United States.

No customer accounted for more than 10% of revenues in 2022 or 2021.

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. 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. 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.

Our prepaid card offerings are competitive due to our proprietary systems and our ability to create and establish corporate-branded card programs in shorter time frames than our competitors. 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 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. We also 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.usiooutput.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.

Employees

As of December 31, 2022, we had 117 full-time employees. We are not a party to any collective bargaining agreements. We believe that our relations with our employees are very good.

Available Information

Our website is located at www.usio.com. We make available on our 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.

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. Since 2014, we have completed a total of four acquisitions. 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, 2022 we had $5.7 million of cash and cash equivalents, and for the year ended December 31, 2022, we used $17.0 million in operating activities. However, 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 $0.7 million for the year ended December 31, 2022. 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 "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.

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.

We may be liable for employment taxes for vesting equity awards granted to employees in the past.

In the past we have granted equity awards, including restricted stock awards, to certain of our employees, including to our executive officers and directors. Upon vesting of these awards, we are liable for employment withholding taxes payable in cash. Some of these amounts may be substantial which may impact our business and results of operations.

We may not realize the opportunities from our acquisition of IMS.

On December 15, 2020, we entered into an asset purchase agreement to purchase substantially all the assets of IMS, a Texas limited liability company in 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, we acquired new customers and their sales force. We bought an existing portfolio of customers with a significant revenue stream. This acquisition increased our ability to grow new revenue streams and allows us to reenter the electronic bill presentment and payment revenue stream. The success of the IMS acquisition will continue to depend on our ability to realize the anticipated growth opportunities. We cannot assure you that we will be able to realize the anticipated growth opportunities.

If cryptocurrency rules and regulations increase or the interest in trading in cryptocurrencies subsides, our revenues could decrease.

Various governmental and regulatory bodies, including legislative and executive bodies, in the United States may adopt new laws and regulations, or new interpretations of existing laws and regulations may be issued by such bodies or the judiciary, which may adversely impact the development of the crypto economy as a whole or our customers who operate in the crypto economy. Such legal and regulatory rules could have adverse effects on the crypto economy, in particular by changing how our customers operate their business, how their products and services are regulated, and what products or services they and or their competitors can offer, requiring changes to their compliance and risk mitigation measures, imposing new licensing requirements, or imposing a total ban on certain crypto asset transactions, as has occurred in certain jurisdictions in the past. These regulatory concerns could affect our customers in the crypto industry coupled with a subsiding of interest or enthusiasm for the crypto industry could adversely impact our payment processing volumes and revenues. For example, on July 6, 2022, our largest cryptocurrency customer filed for bankruptcy protection and the cryptocurrency landscape encountered significant distress during 2022. This resulted in a meaningful loss of revenue and downturn in our ACH and complementary services business segment of approximately $0.8 million in 2022.

Further, the rapidly evolving regulatory landscape with respect to cryptocurrency may subject us to inquiries or investigations from regulators and governmental authorities, require us to make product changes, restrict or discontinue product offerings, and implement additional and potentially costly controls. If we become subject to and fail to comply with regulations, requirements, prohibitions or other obligations applicable to us, we could face regulatory or other enforcement actions and potential fines and other consequences.

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.

If we do not adapt to rapid technological change, 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. 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 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, develop and bring 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.

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 Fifth Third Bank, 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 Fifth Third Bank, Metropolitan Commercial 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 Metropolitan Commercial Bank, Fifth Third 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 either, two or all four of Fifth Third Bank, Metropolitan Commercial Bank, and 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 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, 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, 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 $5.5 million and $0.3 million for the years ended December 31, 2022 and December 31, 2021, respectively. Including these results, we have an accumulated deficit of $70.9 million at December 31, 2022. 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. 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, 2022, 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. and Metropolitan Commercial Bank have 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 us being sponsored by member clearing banks. If our sponsor banks 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.

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 merchants or ISOs incur fines or penalties that we cannot collect from them, we could end up bearing the cost of fines or penalties.

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. 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 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.

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 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 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 $3.1 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 $1.9 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 3 years. We estimate the cash disbursement over time to be $1.9 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 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.

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 we fail to consistently source inventory for our Output Solutions line of business, our financial condition and results of operations may be adversely affected.

Due to the COVID-19 pandemic, supply chain issues have resulted in a reduced supply, and growing demand of paper and paper products utilized in our Output Solutions line of business. Sourcing inventory remains a key challenge to execute jobs and projects with existing and new customers. If we cannot continue to acquire sufficient inventory stock, the successful completion, margins, and growth of the Output Solutions may be impacted.

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.

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.

Increases in credit card network fees may result in the loss of customers or a reduction in our earnings.

From time to time, the card networks, including Visa, Mastercard, and Discover, increase the fees (interchange and assessment fees) that they charge processors such as us. We may attempt to pass these increases along to our merchant customers, but this strategy might result in the loss of those customers to our competitors who do not pass along the increases. If competitive practices prevent our passing along such increased fees to our merchant customers in the future, we may have to absorb all or a portion of such increases thereby increasing our operating costs and reducing our earnings.

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 $299,162 and $136,608, respectively, in 2022 and 2021. We experienced an increase in fraudulent accounts in 2022 as a result of massively expanding prepaid growth. 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. and Metropolitan Commercial Bank, the issuing banks for our prepaid card programs and in our capacity as an agent for Fifth Third Bank, 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 2022, our stock price fluctuated between $1.22 and $4.58. 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.

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 3, 2023, we had 26,392,315 shares of Common Stock outstanding of which 4,986,167 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.

Your percentage of ownership in our Common Stock may be diluted in the future.

In the future, the percentage ownership in our Common Stock owned by our stockholders may be diluted because of equity issuances for acquisitions, capital market transactions or otherwise, including equity awards that we expect to be granting to our directors, officers and employees. Such issuances may have a dilutive effect on our earnings per share, which could materially adversely affect the market price of our Common Stock.

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 3, 2023. 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 impact of COVID-19 generally and on the economy and the capital markets, including the measures taken by governmental authorities to address it;
- 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.

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 $150,129 and $143,149 for the years ended December 31, 2022 and 2021, 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 expires 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, 2022 and 2021 were $102,976 and $85,122, respectively. We will not be entering 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, 2022 and 2021 was $112,504 and $107,647 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 year ended December 31, 2022 and 2021 was $83,610 and $81,353 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 year ended December 31, 2022 and 2021 was $46,658 and $34,125 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, 2022 was $75,269

We believe that our existing and new properties will be adequate to meet our needs through December 31, 2023.

ITEM 3. LEGAL PROCEEDINGS.

KDHM, LLC

On September 1, 2021, KDHM, LLC sued PDS Acquisition Corp, now known as Usio Output Solutions, Inc., in the 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 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 Generally Accepted Accounting Principles. Yet, KDHM, and third-party defendants its principals Henry Minten and Thomas Dowe, affirmatively represented and warranted in section 3.1(e) of the agreement that "[the]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 these deposits were not conveyed to us as required by the 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 exist and that they were purchased by Usio. However, despite a written representation that these funds would be returned, KDHM and its principal have held these funds hostage. Section 2.1(b)(x) of the agreement provides that the purchased assets includes "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 asset under the agreement. We demanded the missing customer lists, but they have yet to be provided to us per the agreement.

In our counterclaims and third-party petition, we assert causes of action for fraud, breach of contract and conversion. At this time, the parties are engaging in written discovery and working on scheduling the depositions of the parties.

We consider the risk of loss as remote related to this lawsuit.

Aside from these proceedings above, 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 3, 2023, 26,392,315 shares of our common stock were issued and outstanding. As of March 3, 2023, there were 3,548 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.

Sales of Unregistered Securities

On August 21, 2018, the Company issued University Fancards, LLC a warrant to purchase 150,000 shares of the Company's common stock. 30,000 warrants vested immediately upon the date on which the first financial transaction was processed on a card account issued under the prepaid agreement, which occurred on October 5, 2018. 120,000 warrants vest annually over 4 years in 30,000 warrant increments beginning on July 31, 2019 and becoming fully vested on July 31, 2022. The exercise price for the 30,000 warrants that vested immediately on October 5, 2018 was $1.80 per share. The exercise price for the remaining 120,000 warrants will be the lesser of $2.00 per share or one hundred and twenty percent (120%) of the market price of the Company's common stock on the vesting date of the warrant. 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 $0.94 for the 30,000 warrants and $0.90 for the 120,000 warrants; (ii) the risk-free interest rate is 2.77%; (iii) the contractual life is 5 years; (iv) the dividend yield of 0%; and (v) the volatility is 64.6%. The fair value of the warrants amounted to $135,764 and will be amortized over the life of the warrants as a reduction of revenues. The reduction of revenues recorded for the year ended December 31, 2022 and 2021 was $20,963 and $35,940 respectively.

On August 12, 2020, the Company issued 27,051 shares of common stock to University FanCards, LLC in a cashless exercise at $3.46 per share in exchange for 60,000 warrants exercised by FanCards, LLC.

On February 5, 2021, the Company issued 19,795 shares of common stock to University FanCards, LLC in a cashless exercise at $5.88 per share in exchange for 30,000 warrants exercised by FanCards, LLC.

On September 1, 2021, the Company issued 19,950 shares of common stock to University FanCards, LLC in a cashless exercise at $5.97 per share in exchange for 30,000 warrants exercised by FanCards, LLC.

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.

All of the warrants described above and the shares of common stock issued upon exercise of the warrants were issued pursuant to the exemption set forth in Section 4(a)(2) of the Securities Act of 1933, as amended.

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 2022 stock purchases under the buyback plan as of December 31, 2022:

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, 2022 to October 31, 2022	184,019	$ 1.71	1,537,928	$ 2,861,854
November 1, 2022 to November 30, 2022	54,606	$ 2.24	1,592,534	$ 2,739,288
December 1, 2022 to December 31, 2022	4,722	$ 2.03	1,597,256	$ 2,729,688
Total	243,347			$ 2,729,688

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 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.

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 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 provide integrated payment processing services to merchants and businesses, including all types of Automated Clearing House, or ACH, processing, credit, prepaid card and debit card-based processing services and statement preparation, presentment and mailing services.

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 PIN-less debit product allows merchants to debit and credit accounts in real-time. 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, and Wells Fargo Bank.

Our strategy is to drive growth through a leveraged, one to many, distribution model in the software development marketplace. 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.

With the acquisition of the assets of Information Management Solutions, LLC, or IMS, in December 2020, we now 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 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. In particular, we are focused on growing our ACH merchants, adding new software integrators, growing our electronic bill presentment, document composition, document decomposition, printing and mailing services business while 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 $5.5 million and $0.3 million for the years ended December 31, 2022 and December 31, 2021, respectively. We had an accumulated deficit of $70.9 million at December 31, 2022.

In 2022, we processed $7.2 billion for all payment types, which was down 24% from the prior year volume of $9.5 billion total dollars processed due to our exit from the crypto space. Total transactions processed were up 16% to a record 40.8 million. ACH or electronic check transaction processing volumes for 2022 decreased by 6% compared to 2021. Returned check transactions increased by 31% in 2022 compared to 2021. Credit card dollars processed in 2022 increased by 10% compared to 2021 and credit card transactions processed for 2022 increased by 44% compared to 2021. Both the credit card dollars and transactions processed represent all-time records for the Company. Prepaid card load volume increased by 14% and transaction volume increased by 39%.

Material Trends and Uncertainties

On July 6, 2022, our largest cryptocurrency customer, Voyager Digital filed for bankruptcy protection and the cryptocurrency landscape encountered marked distress during 2022. Due to this bankruptcy, we lost a significant customer, and have pulled out of the cryptocurrency space, resulting in a meaningful loss of revenue and downturn in our ACH and complementary services business segment, which contributes substantial gross profit to the Company. Our lost revenue in the ACH and complementary services business was approximately $0.8 million in 2022. We continue to closely monitor the cryptocurrency environment, and the unique risks associated with cryptocurrencies, including technological, legal, and regulatory risks alongside the potentially consequential upsides associated with re-entering the market and offering our services.

On August 16, 2022, President Biden signed the Inflation Reduction Act, or IRA, which implemented a 1% excise tax on certain corporate stock repurchases. 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. As of December 31, 2022 the Company has repurchased $1.3 million of stock as part of its buy back program, of which $1.1 million qualifies under the IRA's 1% excise tax. Should the company opt to continue the repurchase of its securities on the open market, and the IRA remain in effect, we may continue to qualify for this tax in 2023, and future years.

The ongoing COVID-19 pandemic has had a notable impact on general economic conditions, including but not limited to the temporary closures of many businesses, “shelter in place” and other governmental regulations, reduced consumer spending due to both job losses and other effects attributable to the COVID-19 pandemic. There remain many uncertainties as a result of the pandemic. As a result of the spread of COVID-19, economic uncertainties could continue to impact our operations. Any potential incremental financial impact is unknown at this time.

During 2020 and 2021, the government issued several rounds of COVID-19 relief and stimulus payments and other programs to stimulate economic activity and facilitate an economic recovery.

In April and May of 2020, the Company's business was adversely affected as doctor's offices, dental offices, veterinarian offices and non-bank consumer lending accounts were ordered closed in connection with curbing the spread of the pandemic. As these doctors, dental and veterinarian offices re-opened, these businesses quickly recovered and returned to levels higher than pre-COVID. Consumer lending merchants were adversely affected by COVID relief payments made during the pandemic and a pause placed on past due amounts owed. The level of activity for consumer lending merchants continues to recover to pre-COVID levels. The Company recorded an increase in revenues in its prepaid business line, as it was able to work in conjunction with major cities across the U.S. to use its prepaid debit cards to facilitate the transfer of money via its debit cards from city foundations to the local residents in need of financial assistance. The efforts have included the disbursement of funds to encourage vaccinations.

Since 2020, the Company has experienced some difficulty in recruiting and retaining certain categories of employees due to limited labor availability. The Company continues to monitor labor availability and is taking necessary steps to retain employees and recruit employees to fill open positions.

Due to the COVID-19 pandemic and global economic challenges, supply chain issues have resulted in a reduced supply, and growing demand of paper and paper products utilized in our Output Solutions line of business. Sourcing inventory remains a key challenge to execute jobs and projects with existing and new customers. While these efforts have been successful thus far, if the Company cannot continue to acquire sufficient inventory stock, the successful completion, margins, and growth of Output Solutions may be impacted.

The impacts and recovery from the COVID-19 pandemic are still a work in process. To date, the Company has not been adversely impacted in the magnitude that other payment processors were, as our customer base had limited exposure to retail facing businesses. Within that framework, the Company will continue to monitor the overall impact on its operations and take necessary steps to ensure the safety of its employees and the well-being of its customers.

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, bad debt, 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 Doubtful Accounts

We establish an allowance for accounts receivable, which represents our estimate of current expected allowances for doubtful accounts. 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 $1.0 million for the quarter ended December 31, 2022, as compared to an adjusted EBITDA of $1.3 million for the same period in the prior year. The decrease in adjusted EBITDA in the current quarter was attributable to increases in SG&A combined with reduced profit margins.

We reported an adjusted EBITDA loss of $0.4 million for the twelve months ended December 31, 2022, as compared to an adjusted EBITDA of $4.0 million for the same period in the prior year. The decrease in adjusted EBITDA in the current year was attributable to increases in SG&A combined with reduced profit margins.

The following table is a reconciliation of Net Loss to EBITDA for the three and twelve months ended December 31, 2022 and 2021.

	Three Months Ended (unaudited)		Twelve Months Ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Reconciliation from Operating (Loss) to Adjusted EBITDA:				
Operating (Loss)	$ (90,814)	$ (1,497)	$ (5,214,430)	$ (155,381)
Depreciation and amortization	571,650	759,407	2,735,118	2,643,675
EBITDA	480,836	757,910	(2,479,312)	2,488,294
Non-cash stock-based compensation expense, net	531,666	501,409	2,072,041	1,489,976
Adjusted EBITDA	$ 1,012,502	$ 1,259,319	$ (407,271)	$ 3,978,270
Calculation of Adjusted EBITDA margins:				
Revenues	$ 18,705,496	$ 17,426,465	$ 69,428,285	$ 61,942,316
Adjusted EBITDA	1,012,502	1,259,319	(407,271)	3,978,270
Adjusted EBITDA margins	5.4%	7.2%	(0.6)%	6.4%

We reported cash provided by adjusted operating cash flows of $0.7 million for the twelve months ended December 31, 2022 (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 $2.6 million provided in the twelve months ended December 31, 2021. 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 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 decrease in adjusted operating cash flows in the current year compared to the year prior was attributable to an increase the Company's net loss, due to increases in SG&A combined with reduced profit margins.

The following table is a reconciliation from operating cash flow (used) to adjusted operating cash flow (used) for the twelve months ended December 31, 2022.

	December 31, 2022	December 31, 2021
Reconciliation from net cash provided (used) by operating activities to Non-GAAP Adjusted Operating Cash Flow (used):		
Net cash provided (used) by operating activities	$ (17,036,477)	$ 29,784,917
Operating cash flow (used) adjustments:		

Prepaid card load obligations	16,420,132	(28,980,651)
Customer deposits	(189,929)	(58,897)
Merchant reserves	1,471,652	1,884,402
Operating lease right-of-use assets	(6,630)	130,847
Operating lease liabilities	24,052	(137,522)
Total adjustments to net cash provided (used) by operating activities	$ 17,719,277	$ (27,161,821)
Adjusted operating cash flows (used)	$ 682,800	$ 2,623,096

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.

With the acquisition of the assets of IMS in December 2020, we 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,			
	2022	2021	$ Change	% Change
ACH and complementary service revenue	$ 3,796,884	$ 4,618,891	$ (822,007)	(18)%
Credit card revenue	6,625,637	6,383,450	242,187	4%
Prepaid card services revenue	3,384,242	2,573,887	810,355	31%
Output solutions revenue	4,898,733	3,850,237	1,048,496	27%
Total Revenue	$ 18,705,496	$ 17,426,465	$ 1,279,031	7%

	Year Ended December 31,			
	2022	2021	$ Change	% Change
ACH and complementary service revenue	$ 14,782,606	$ 15,432,787	$ (650,181)	(4)%
Credit card revenue	27,121,621	25,174,579	1,947,042	8%
Prepaid card services revenue	9,117,670	6,542,651	2,575,019	39%
Output solutions revenue	18,406,388	14,792,299	3,614,089	24%
Total Revenue	$ 69,428,285	$ 61,942,316	$ 7,485,969	12%

Total revenues for 2022 increased by 12% to $69.4 million from $61.9 million in 2021. Key drivers of the revenue growth include our Prepaid business line associated with sustained, and growing relationships with major cities in the U.S. 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 the capitalization of strong cross-selling efforts and execution on our well-developed pipeline of new business opportunities, along with growth in our Payfac business line due to continued traction with ISVs. Our ACH and complementary services revenues were down slightly on the year, due to our exit from crypto following the loss of one of our largest customers, but its impact was minimized due to growth in our ACH return volume, and 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 $54.8 million and $46.3 million for 2022 and 2021, respectively. Cost of services expenses increased by $8.5 million, or 18%, in 2022 as compared to 2021 primarily due to increased transaction costs associated with our revenue growth. The cost of services growth outpaced our revenue growth largely due to a shift in business mix over the year.

Gross Profit

Gross profit is the net profit after deducting the cost of services. Gross profits were $14.6 million and $15.6 million for 2022 and 2021, respectively. Gross profit decreased by $1.0 million, or 7%, in 2022 as compared to 2021. The key drivers of the decreased gross profits were attributable to a decline in our ACH business unit, our highest margin portfolio, due to our exit from the crypto space in July of 2022 along with increased revenue contributions from our lower margin business lines, Prepaid, Output Solutions, and Credit Card .

Stock-based Compensation

Stock-based compensation expense increased to $2.1 million in 2022 from $1.5 million in 2021. Our stock-based compensation expenses for 2022 and 2021 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 November 18, 2021 employee stock grant. Please refer to Note 8 for incremental information regarding this stock grant.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses, or SG&A, increased to $15.0 million in 2022 from $11.7 million in 2021. The increase of $3.3 million, or 29%, represented continued investments in preparation for increased service requirements for growing card holders in our prepaid line of business, security and IT infrastructure, 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 increased to $2.7 million in 2022 as compared to $2.6 million in 2021. The increase of $0.09 million, or 3.5%, was primarily attributable to the depreciation of incremental intangible assets.

Other Income

Interest income increased to $15,237 in 2022 from $7,643 in 2021 due to higher interest-bearing cash balances. Other income (expense) was $0 for 2022, as compared to expense of $279 for 2021.

Income Taxes

Income tax expense was $280,000 in 2022 and $169,861 in 2021. Federal income tax benefit in 2022 was $0, and $110,000 in 2021. The income tax expense represents amounts incurred under the Texas margin tax and Tennessee franchise tax.

Net income tax expense reported was $280,000 in 2022, and $279,861 in 2020.

Net Income (Loss)

We reported a net loss of $5.5 million and $0.3 million for the years ended December 31, 2022 and December 31, 2021, respectively. The increase in net loss was primarily related to our decreased gross profits generated by a shifting business mix, alongside increases in SG&A expenses versus the prior year.

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, 2022, we had $5.7 million of cash and cash equivalents, as compared to $7.3 million of cash and cash equivalents at December 31, 2021. The decrease was primarily as a result of our repurchasing approximately $1.1 million of our stock during 2022. For the year ended December 31, 2022 net cash used by operating activities was $17.0 million and for the year ended December 31, 2021, cash provided by operations was $29.8 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, bad debt, 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.

We reported a net loss of $5.5 million and $0.3 million for the years ended December 31, 2022 and 2021, respectively. Additionally, we reported working capital of $5.8 million and $8.8 million at December 31, 2022 and 2021, respectively.

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 used by operating activities totaled $17.0 million for 2022 as compared to net cash provided by operating activities of $29.8 million in 2021. 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 generated by adjusted operating activities was $0.7 million for the year ended December 31, 2022 and net cash provided by adjusted operating activities was $2.6 million for the year ended December 31, 2021. 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 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 decrease in net cash generated by adjusted operating activities in 2022 (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 increases in our net loss related to increased SG&A and reduced gross profits.

Net cash used by investing activities was $0.8 million for 2022 and $1.3 million in 2021. The decrease in investing activities was due to reduced expenditures on the purchase of property and equipment.

Net cash used from financing activities for 2022 was $1.4 million compared to net cash provided from financing activities of $0.9 million for 2021. The decrease in cash provided (used) by financing activities was primarily attributable to treasury stock purchases of $1.3 million in 2022, an increase of approximately $1.1 million over 2021 and the impact of a $1.0 million private placement of our common stock in 2021. We did not conduct any offerings of securities in 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.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2022 and 2021, 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, 2022, 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, 2022 and 2021 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2022 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, 2022, 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 8, 2023

PCAOB ID 297

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

USIO, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2022	December 31, 2021
ASSETS		
Cash and cash equivalents	$ 5,709,117	$ 7,255,321
Accounts receivable, net	4,371,640	4,979,493
Settlement processing assets	49,737,068	63,824,646
Prepaid card load assets	20,170,761	36,590,893
Customer deposits	1,554,122	1,364,193
Inventory	507,355	434,532
Prepaid expenses and other	450,389	426,963
Current assets before merchant reserves	82,500,452	114,876,041
Merchant reserves	4,909,501	6,381,153
Total current assets	87,409,953	121,257,194
Property and equipment, net	3,222,816	3,607,157
Other assets:		
Intangibles, net	2,625,360	4,163,894
Deferred tax asset	1,504,000	1,504,000
Operating lease right-of-use assets	2,795,483	2,802,113
Other assets	355,357	345,357
Total other assets	7,280,200	8,815,364
Total Assets	$ 97,912,969	$ 133,679,715
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 858,622	$ 1,400,100
Accrued expenses	3,721,108	2,325,665
Operating lease liabilities, current portion	617,319	504,027
Equipment loan, current portion	56,429	54,760
Settlement processing obligations	49,737,068	63,824,646
Prepaid card load obligations	20,170,761	36,590,893
Customer deposits	1,554,122	1,364,193
Deferred revenues	—	17,647
Current liabilities before merchant reserve obligations	76,715,429	106,081,931
Merchant reserve obligations	4,909,501	6,381,153
Total current liabilities	81,624,930	112,463,084
Non-current liabilities:		
Equipment loan, non-current portion	14,994	71,434
Operating lease liabilities, non-current portion	2,338,947	2,476,291
Total liabilities	83,978,871	115,010,809
Stockholders' Equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized; -0- shares issued and outstanding in 2022 and 2021	—	—
Common stock, $0.001 par value, 200,000,000 shares authorized; 27,044,900 and 26,807,145 issued and 25,097,963 and 25,473,453 outstanding in 2022 and 2021 (see Note 11)	195,471	195,235
Additional paid-in capital	94,048,603	93,100,129
Treasury stock, at cost; 1,946,937 and 1,333,692 shares in 2022 and 2021 (see Note 11)	(3,749,027)	(2,404,458)
Deferred compensation	(5,697,900)	(6,842,195)
Accumulated deficit	(70,863,049)	(65,379,805)
Total stockholders' equity	13,934,098	18,668,906
Total Liabilities and Stockholders' Equity	$ 97,912,969	$ 133,679,715

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

USIO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	December 31, 2022	December 31, 2021
Revenues	$ 69,428,285	$ 61,942,316
Cost of services	54,835,069	46,309,706
Gross profit	14,593,216	15,632,610
Selling, general and administrative:		
Stock-based compensation	2,072,041	1,489,976
Other expenses	15,000,487	11,654,340
Depreciation and Amortization	2,735,118	2,643,675
Total operating expenses	19,807,646	15,787,991
Operating (loss)	(5,214,430)	(155,381)
Other income:		
Interest income	15,237	7,643
Other income (expense)	—	279
Interest expense	(4,051)	(4,314)
Other income and (expense), net	11,186	3,608
(Loss) before income taxes	(5,203,244)	(151,773)
Federal income tax (benefit)	—	(110,000)
State income tax expense	280,000	279,861
Income taxes	280,000	169,861
Net (Loss)	$ (5,483,244)	$ (321,634)
(Loss) Per Share		
Basic (loss) per common share:	$ (0.27)	$ (0.02)
Diluted (loss) per common share:	$ (0.27)	$ (0.02)
Weighted average common shares outstanding (see Note 12)		
Basic	20,379,386	20,028,850
Diluted	20,379,386	20,028,850

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, 2020	**26,260,776**	**$ 194,692**	**$89,659,433**	**$(2,165,721)**	**$ (5,926,872)**	**$(65,058,171)**	**$ 16,703,361**
Issuance of common stock under equity incentive plan	536,878	535	2,750,204	—	(2,168,347)	—	582,392
Warrant compensation cost	—	—	35,940	—	—	—	35,940
Cashless warrant exercise	39,745	39	(39)	—	—	—	—
Reversal of deferred compensation amortization that did not vest	(173,111)	(173)	(345,267)	—	241,295	—	(104,145)
Issuance of common stock, private offering	142,857	142	999,858	—	—	—	1,000,000
Deferred compensation amortization	—	—	—	—	1,011,729	—	1,011,729
Purchase of treasury stock	—	—	—	(238,737)	—	—	(238,737)
Net (loss) for the year	—	—	—	—	—	(321,634)	(321,634)
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**

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

USIO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2022	December 31, 2021
Operating Activities		
Net (loss)	$ (5,483,244)	$ (321,634)
Adjustments to reconcile net (loss) to net cash provided (used) by operating activities:		
Depreciation	1,196,584	771,808
Amortization	1,538,534	1,871,867
Bad Debt	—	151,951
Deferred federal income tax	—	(110,000)
Non-cash stock-based compensation	2,072,041	1,489,976
Amortization of warrant costs	20,963	35,940
Changes in operating assets and liabilities:		
Accounts receivable	607,853	(2,267,806)
Prepaid expenses and other	(23,426)	(125,208)
Operating lease right-of-use assets	6,630	(130,847)
Other assets	(10,000)	22,721
Inventory	(72,823)	(258,066)
Accounts payable and accrued expenses	853,965	1,410,472
Operating lease liabilities	(24,052)	137,522
Prepaid card load obligations	(16,420,132)	28,980,651
Merchant reserves	(1,471,652)	(1,884,402)
Customer deposits	189,929	58,897
Deferred revenue	(17,647)	(48,925)
Net cash provided (used) by operating activities	(17,036,477)	29,784,917
Investing Activities		
Purchases of property and equipment	(812,242)	(1,273,039)
Net cash (used) by investing activities	(812,242)	(1,273,039)
Financing Activities		
Proceeds from equipment loan	—	165,996
Payments on equipment loan	(54,771)	(39,802)
Proceeds from private offering	—	1,000,000
Purchases of treasury stock	(1,344,569)	(238,737)
Net cash provided (used) by financing activities	(1,399,340)	887,457
Change in cash, cash equivalents, prepaid card loads, customer deposits and merchant reserves	(19,248,059)	29,399,335
Cash, cash equivalents, prepaid card loads, customer deposits and merchant reserves, beginning of year	51,591,560	22,192,225
Cash, Cash Equivalents, Prepaid Card Load Assets, Customer Deposits and Merchant Reserves, End of Year	$ 32,343,501	$ 51,591,560
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ 4,051	$ 4,314
Income taxes	269,500	116,204
Non-cash transactions:		
Issuance of deferred stock compensation	166,330	2,164,361

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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,			
	2022	2021	$ Change	% Change
ACH and complementary service revenue	$ 14,782,606	$ 15,432,787	$ (650,181)	(4)%
Credit card revenue	27,121,621	25,174,579	1,947,042	8%
Prepaid card services revenue	9,117,670	6,542,651	2,575,019	39%
Output solutions revenue	18,406,388	14,792,299	3,614,089	24%
Total Revenue	$ 69,428,285	$ 61,942,316	$ 7,485,969	12%

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:

	2022	2021
Deferred revenues, beginning of period	$ 17,647	$ 66,572
Deferred revenues, end of period	—	17,647
Revenue recognized in the period from amounts included in deferred revenues at the beginning of the period	$ 17,647	$ 48,925

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, 2022	December 31, 2021
Beginning cash, cash equivalents, prepaid card load assets, customer deposits and merchant reserves:		
Cash and cash equivalents	$ 7,255,321	$ 5,011,132
Prepaid card load assets	36,590,893	7,610,242
Customer deposits	1,364,193	1,305,296
Merchant reserves	6,381,153	8,265,555
Total	$ 51,591,560	$ 22,192,225
Ending 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

Accounts Receivable/Allowance for Estimated Losses: Accounts receivable are reported as outstanding principal net of an allowance for doubtful accounts of $319,000 at December 31, 2022 and 2021.

The Company maintains an allowance for doubtful accounts 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 bad debts 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 bad debt 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, 2022 and 2021, 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, 2022 and December 31, 2021, the Company capitalized $584,246 and $735,813, 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 2022 or 2021.

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, 2022 and 2021, respectively, the Company's reserve for processing losses was $755,494 and $623,494, respectively.

Advertising Costs: Advertising is expensed as incurred. The Company incurred approximately $94,000 and $179,000 in advertising costs in 2022 and 2021, 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 15% 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 2022, the Company matched 100% of employee contributions up to 3% and 50% of the employee contribution over 3% with a maximum employer contribution of 5%. The Company made matching contributions of $262,530 and $212,870 in 2022 and 2021, 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.

New 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. The Company does not expect the adoption of the amendments in ASU 2016-13 to have a significant effect on its financial position and the results of its operations when such amendment is adopted.

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:

	2022	2021
Software	$ 7,053,905	$ 6,455,040
Equipment	2,530,498	2,418,421
Furniture and fixtures	818,522	732,153
Leasehold improvements	207,624	192,692
Total property and equipment	10,610,549	9,798,306
Less: accumulated depreciation	(7,387,732)	(6,191,149)
Net property and equipment	$ 3,222,816	$ 3,607,157

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, 2022) 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, 2022). 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 2022 and 2021 was $666,667 and $1,000,000 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 $1,743,734 at December 31, 2022). 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
2022					
Allowance for doubtful accounts	$ 319,000	$ —	$ —	$ —	$ 319,000
Reserve for processing losses	623,494	132,000	—	—	755,494
2021					
Allowance for doubtful accounts	$ 205,522	$ 151,951	$ —	$ (38,473)	$ 319,000
Reserve for processing losses	515,199	132,000	—	(23,705)	623,494

Note 5. Loans

Equipment Loan

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.

Note 6. Accrued Expenses

Accrued expenses consisted of the following balances at December 31:

	2022	2021
Accrued commissions	$ 1,479,580	$ 879,120
Reserve for processing losses	755,494	623,494
Other accrued expenses	821,167	226,888
Accrued taxes	320,854	298,168
Accrued salaries	344,013	297,995
Total accrued expenses	$ 3,721,108	$ 2,325,665

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 $150,129 and $143,149 for the years ended December 31, 2022 and 2021, respectively. The lease expires on July 31, 2024.

The Company leases approximately 3,794 square feet of office space for its Nashville, Tennessee sales offices and operations. Rental expense under the operating lease was $102,976 and $85,122 for the years ended December 31, 2022 and 2021, respectively. The lease expires on April 30, 2023. We will not be entering into a lease extension, or new lease agreement in Nashville, Tennessee upon the expiration of this current 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, 2022 and 2021 was $112,504 and $107,647 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, 2022 and 2021 was $83,610 and $81,353 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, 2022 and 2021 was $46,658 and $34,125 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 32, 2022 was $75,269

The Company has various copier equipment with leases that have not expired. Rental expense under the operating lease was $12,729 and $25,000 for the years ended December 31, 2022 and 2021, respectively.

The weighted average remaining lease term is 5.27 years. The weighted average discount rate is 4.17%

The Company recognized total operating lease expense of approximately $711,000 and $591,000 for the years ended December 31, 2022 and 2021, respectively. In 2022, the operating lease expense of $711,000 consisted of $577,000 of fixed operating expense and $134,000 of interest expense.

The maturities of lease liabilities are as follows at December 31, 2022:

Year ended December 31,		
2023	$	617,319
2024		554,916
2025		518,935
2026		414,138
2027		414,138
Thereafter		917,081
Total minimum lease payments		3,436,527
Less imputed interest		(480,261)
Total lease liabilities	$	2,956,266

Note 8. Related Party Transactions

Louis Hoch

During the year ended December 31, 2022 and 2021, the Company purchased $22,835 and $4,009, 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, 2021, the Company repurchased 11,860 shares for $38,545 in a private transaction at the closing price on January 6, 2021 of $3.25 per share from Tom Jewell, the Company's Chief Financial Officer, to cover his share of taxes.

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 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.

The Company granted 319,900 shares of restricted common stock with a 10-year vesting period and 141,900 restricted stock units (RSUs) with a 3-year vesting period to employees and Directors as a performance bonus on November 18, 2021 at an issue price of $6.39 per share. Executive officers and Directors included in the 10-year restricted stock grant were Louis Hoch (100,000 shares), Tom Jewell (50,000 shares), Greg Carter (30,000 shares) and Houston Frost (25,000 shares). Executive officers and Directors included in the RSU grant were Louis Hoch (30,000 shares), Tom Jewell (21,000 shares), Greg Carter (9,000 shares) Houston Frost (6,000 shares), Blaise Bender (12,000 RSUs), Brad Rollins (12,000 RSUs) and Ernesto Beyer (12,000 RSUs).

On April 1, 2021, the Company granted 1,444,000 shares of restricted common stock with a 10-year vesting period and 103,000 restricted stock units (RSUs) with a 3-year vesting period to employees and Directors as a performance bonus at an issue price of $1.08 per share. Executive officers and Directors included in the grants were Louis Hoch (300,000 shares), Tom Jewell (200,000 shares), Blaise Bender (10,000 RSUs) and Brad Rollins (30,000 RSUs).

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:

	2022	2021
Deferred tax assets:		
Net operating loss carryforwards	$ 5,024,000	$ 5,942,000
Depreciation and amortization	1,159,000	999,000
Non-cash compensation	(117,000)	(326,000)
Other	69,000	101,000
Total	6,135,000	6,716,000
Valuation Allowance	(4,631,000)	(5,212,000)
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, 2022 and 2021 is warranted. If applicable, the Company would recognize interest expense and penalties related to uncertain tax positions in interest expense. As of December 31, 2022, the Company had not accrued any interest or penalties related to uncertain tax provisions.

The Company has net operating loss carryforwards for tax purposes of approximately $23.9 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 Net operating loss carryforward that expired in 2022 was in the amount of $9.1 million. The schedule below outlines when our pre-2017 net operating losses were generated and the year they may expire.

Tax Year End	NOL	Expiration
2004	1,621,096	2024
2005	1,788,157	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	$ 10,931,710	

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 $12,994,000.

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

	2022	2021
Current provision:		
Federal	$ —	$ —
State	280,000	279,861
	280,000	279,861
Deferred provision:		
Federal expense (benefit)	—	(110,000)
Expense for income taxes	$ 280,000	$ 169,861

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:

	2022	2021
Income tax (benefit) at 21%	$ (1,134,200)	$ (67,543)
Change in valuation allowance	(581,000)	(2,322,000)
Permanent and other differences	1,715,200	2,389,543
Federal income tax (benefit)	—	(110,000)
State taxes	280,000	279,861
Income tax expense	$ 280,000	$ 169,861

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 2022, the Company granted 103,000 shares of stock to several employees as incentive compensation or new-hire bonuses. During 2022, the Company granted 291,867 restricted stock units to employees and directors as a new hire bonus or as incentive compensation.

Treasury Stock: The Company purchased 105,805 shares of common stock with a value of $227,975 to cover the employee's share of tax liabilities related to the vesting of commons stock and restricted stock units in 2022.

Stock Awards: The Company has granted restricted stock awards to its employees at different periods from 2005 through 2022. 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 2022, a portion of the restricted stock awards were granted, but not issued and are not listed as outstanding in the financial statements for 2022.

Stock-based compensation expense related to stock and restricted stock awards was $2.1 million in 2022 and $1.5 million in 2021.

A summary of stock awards outstanding and 2022 activities are as follows:

Stock Awards	Shares	Weighted Average Exercise Price	Weighted Average Contractual Remaining Life	Aggregate Intrinsic Value
Outstanding, December 31, 2021	5,241,902	$ 2.25		
Granted	103,000	1.61		
Vested	230,002	—		
Forfeited	132,000	—		
Outstanding, December 31, 2022	4,982,900	$ 2.27	5.06	$ (0.62)
Expected to Vest after December 31, 2022	4,982,900	$ 2.27	5.06	$ (0.62)

As of December 31, 2022, there was $5,697,900 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 5.06 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, 2022, or $1.65.

Employee Stock Purchase Plan: The Company established the 1999 Employee Stock Purchase Plan ("ESPP") 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 Company issued -0- shares from the ESPP in 2022 and 2021, respectively. The ESPP is no longer active.

Stock Warrants: On August 21, 2018, the Company issued University Fancards, LLC a warrant to purchase 150,000 shares of the Company's common stock. 30,000 warrants vested immediately upon the date on which the first financial transaction was processed on a card account issued under the prepaid agreement, which occurred on October 5, 2018. 120,000 warrants vest annually over 4 years in 30,000 warrant increments beginning on July 31, 2019 and becoming fully vested on July 31, 2022. The exercise price for the 30,000 warrants that vested immediately on October 5, 2018 was $1.80 per share. The exercise price for the remaining 120,000 warrants will be the lesser of $2.00 per share or one hundred and twenty percent (120%) of the market price of the Company's common stock on the vesting date of the warrant. 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 $0.94 for the 30,000 warrants and $0.90 for the 120,000 warrants; (ii) the risk-free interest rate is 2.77%; (iii) the contractual life is 5 years; (iv) the dividend yield of 0%; and (v) the volatility is 64.6%. The fair value of the warrants amounted to $135,764 and will be amortized over the life of the warrants as a reduction of revenues. The reduction of revenues recorded for the year ended December 31, 2022 and 2021 was $20,963 and $35,940 respectively.

On August 12, 2020, the Company issued 27,051 shares of common stock to University FanCards, LLC in a cashless exercise at $3.46 per share in exchange for 60,000 warrants exercised by FanCards, LLC.

On February 5, 2021, the Company issued 19,795 shares of common stock to University FanCards, LLC in a cashless exercise at $5.88 per share in exchange for 30,000 warrants exercised by FanCards, LLC.

On September 1, 2021, the Company issued 19,950 shares of common stock to University FanCards, LLC in a cashless exercise at $5.97 per share in exchange for 30,000 warrants exercised by FanCards, LLC.

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).

	2022	2021
Numerator:		
Numerator for basic and diluted earnings per share, net (loss) available to common shareholders	$ (5,483,244)	$ (321,634)
Denominator:		
Denominator for basic (loss) per share, weighted average shares outstanding	20,379,386	20,028,850
Effect of dilutive securities-stock options and restricted awards	—	—
Denominator for diluted (loss) per share, adjusted weighted average shares and assumed conversion	20,379,386	20,028,850
Basic (loss) per common share	$ (0.27)	$ (0.02)
Diluted (loss) per common share and common share equivalent	$ (0.27)	$ (0.02)

The awards and options to purchase shares of common stock that were outstanding at December 31, 2022 and 2021 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,	
	2022	2021
Anti-dilutive awards and options	4,982,900	5,241,902

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

KDHM, LLC

On September 1, 2021, KDHM, LLC sued PDS Acquisition Corp, now known as Usio Output Solutions, Inc., in the 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 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 Generally Accepted Accounting Principles. Yet, KDHM, and third-party defendants its principals Henry Minten and Thomas Dowe, affirmatively represented and warranted in section 3.1(e) of the agreement that "[t]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 these deposits were not conveyed to us as required by the 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 exist and that they were purchased by Usio. However, despite a written representation that these funds would be returned, KDHM and its principal have held these funds hostage. Section 2.1(b)(x) of the agreement provides that the purchased assets includes "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 asset under the agreement. We demanded the missing customer lists, but they have yet to be provided to us per the agreement.

In our counterclaims and third-party petition, we assert causes of action for fraud, breach of contract and conversion. At this time, the parties are engaging in written discovery and working on scheduling the depositions of the parties.

We consider the risk of loss as remote related to this lawsuit.

Aside from these proceedings above, 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.

Note 14. COVID-19

The ongoing COVID-19 pandemic has had a notable impact on general economic conditions, including but not limited to the temporary closures of many businesses, "shelter in place" and other governmental regulations, reduced consumer spending due to both job losses and other effects attributable to the COVID-19 pandemic. There remain many uncertainties as a result of the pandemic. As a result of the spread of COVID-19, economic uncertainties could continue to impact our operations. Any potential incremental financial impact is unknown at this time.

During 2020 and 2021, the government issued several rounds of COVID-19 relief and stimulus payments and other programs to stimulate economic activity and facilitate an economic recovery.

In April and May of 2020, the Company's business was adversely affected as doctor's offices, dental offices, veterinarian offices and non-bank consumer lending accounts were ordered closed in connection with curbing the spread of the pandemic. As these doctors, dental and veterinarian offices re-opened, these businesses quickly recovered and returned to levels higher than pre-COVID. Consumer lending merchants were adversely affected by COVID relief payments made during the pandemic and a pause placed on past due amounts owed. The level of activity for consumer lending merchants continues to recover to pre-COVID levels. The Company recorded an increase in revenues in its prepaid business line, as it was able to work in conjunction with major cities across the U.S. to use its prepaid debit cards to facilitate the transfer of money via its debit cards from city foundations to the local residents in need of financial assistance. The efforts have included the disbursement of funds to encourage vaccinations.

Since 2020, the Company has experienced some difficulty in recruiting and retaining certain categories of employees due to limited labor availability. The Company continues to monitor labor availability and is taking necessary steps to retain employees and recruit employees to fill open positions.

Due to the COVID-19 pandemic and global economic challenges, supply chain issues have resulted in a reduced supply, and growing demand of paper and paper products utilized in our Output Solutions line of business. Sourcing inventory remains a key challenge to execute jobs and projects with existing and new customers. While these efforts have been successful thus far, if the Company cannot continue to acquire sufficient inventory stock, the successful completion, margins, and growth of Output Solutions may be impacted.

The impacts and recovery from the COVID-19 pandemic are still a work in process. To date, the Company has not been adversely impacted in the magnitude that other payment processors were, as our customer base had limited exposure to retail facing businesses. Within that framework, the Company will continue to monitor the overall impact on its operations and take necessary steps to ensure the safety of its employees and the well-being of its customers.

Note 15. Cyber Event

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.

This cyber event had no material impact on the business, and no cardholder, or payments related data was compromised. The Company has undertaken and continues to undertake certain system upgrades and re-platforming efforts designed to improve the security, availability, reliability, resiliency, and speed of its information technology systems in order to prevent and mitigate such events in the future, and believe this incident to be resolved.

Note 16. Subsequent Events

The Company granted 1,403,000 shares of restricted common stock with a 10-year vesting period and 273,000 restricted stock units (RSUs) with a 3-year vesting period to employees and Directors as a performance bonus on February 8, 2023 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 shares), Tom Jewell (21,000 shares), Greg Carter (12,000 shares) and Houston Frost (12,000 shares).

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 January 26, 2023, the Company entered into a lease amendment to the existing lease in Austin, Texas commencing on February 1, 2023, extending the term of our existing lease in for a period of 24 months and expiring on January 31, 2025.

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, 2022 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, 2022 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, 2022, 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, 2022 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 2023 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, 2022, or the 2023 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 2023 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 2023 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 2023 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 2023 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 2023 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference to the 2023 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, 2022 and 2021

Consolidated Statements of Operations for the years ended December 31, 2022 and 2021

Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the years ended December 31, 2022 and 2021 Consolidated Statements of Cash Flows for the years ended December 31, 2022 and 2021
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	Amended and Restated By-laws (included as exhibit 3.2 to the Form 10-KSB filed March 31, 2006, and incorporated herein by reference).
3.6	Amendment to the Amended and Restated By-laws (included as exhibit A to Schedule 14C filed April18,2007, 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*	Employment Agreement between the Company and Tom Jewell, dated January 6, 2017 (included as exhibit 10.1 to the Form 8-K filed January 6, 2017, and incorporated herein by reference).
10.11*	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).

10.12*	First Amendment to Employment Agreement between the Company and Tom Jewell, dated November 27, 2017 (included as exhibit 10.1 to the Form 8-K, filed November 28, 2017, and incorporated herein by reference).
10.13	Lease Agreement between the Company and Blauners 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).
10.14	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).
10.15*	Second Amendment to Employment Agreement between the Company and Tom Jewell, dated November 28, 2018 (included as exhibit 10.1 go the Form 8-K filed November 28, 2018, and incorporated herein by reference).
10.16*	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).
10.17*	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)
10.18	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)
10.19*	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)
10.20*	Third Amendment to the Employment Agreement between the Company and Tom Jewell, effective October 12, 2020 (included as exhibit 10.1 to the Form 8-K filed on October 28, 2020, and incorporated herein by reference)
10.21+	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)
10.22+	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)
10.23	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).
10.24	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).
10.25	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).
10.26	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).
10.27	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).
10.28	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).
10.29*	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).
10.30*	Fourth Amendment to Employment Agreement between the Company and Tom Jewell, dated April 18, 2021 (included as exhibit 10.2 to the Form 8-K filed on April 21, 2021, and incorporated herein by reference).

10.31	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).
10.32	Securities Purchase Agreement between the Company and Voyager Digital Holdings, Inc. dated November 19, 2021 (included as exhibit 10.1 to the Form 8-K filed on November 23, 2021, and incorporated herein by reference).
10.33*	Fifth Amendment to the Employment Agreement between the Company and Tom Jewell, dated November 22, 2021 (included as exhibit 10.2 to the Form 8-K filed on November 23, 2021, and incorporated herein by reference).
10.34*	Employment Agreement Dated February 17, 2023 between Usio Inc and Greg Carter, the Company's Executive Vice President of Payment Acceptance
14.1	Code of Ethics (included as exhibit 14.1 to the Form 10-Q filed August 14, 2015, and incorporated herein by reference).

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).
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 8, 2023	By:/s/ Louis A. Hoch Louis A. Hoch Chief Executive Officer (Principal Executive Officer)
Date: March 8, 2023	By:/s/ Tom Jewell Tom Jewell Chief Financial 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 8, 2023	By: /s/ Tom Jewell Tom Jewell Chief Financial Officer (Principal Financial and Accounting Officer)
Date: March 8, 2023	By: /s/ Louis A. Hoch Louis A. Hoch President, Chief Executive Officer, and Director (Principal Executive Officer)
Date: March 8, 2023	By: /s/ Blaise Bender Blaise Bender Director
Date: March 8, 2023	By: /s/ Ernesto Beyer Ernesto Beyer Director
Date: March 8, 2023	By: /s/ Bradley Rollins Bradley Rollins Director
Date: March 8, 2023	By: /s/ Michelle Miller Michelle Miller Director