

USIO, Inc.

Second Quarter 2022 Earnings

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**CORPORATE PARTICIPANTS**

**Joe Hassett** – *Investor Relations*

**Louis Hoch** – *President and Chief Executive Officer*

**Houston Frost** – *Senior Vice President, Prepaid Services*

**Greg Carter** – *Executive Vice President, Payment Acceptance*

**Tom Jewell** – *Senior Vice President and Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Good morning, everyone, and welcome to the Usio Earnings Conference Call for the Second Quarter Ended June 30, 2022. All participants will be in a listen-only mode. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star and then one using a telephone keypad. To withdraw your question, you may star and two. Participants of this call are advised that the audio of this conference call is being broadcast live over the Internet and is also being recorded for playback purposes. A replay will be available shortly after the end of the call through August 18, 2022.

At this time, I'd like to turn the floor over to Joe Hassett, Investor Relations. Sir, please go ahead.

### **Joe Hassett**

Thank you, Jamie, and thank you, everyone, for participating today. Welcome to Usio's Second Quarter Fiscal 2022 Financial Results Conference Call. The earnings release, which Usio issued yesterday after market close is available on the company's Investor Relations website at [usio.com](http://usio.com), Investors under News. If you can't find it there, please contact me, and I'll be able to access for you.

On this call today are Louis Hoch, President and CEO; Tom Jewell, Senior Vice President and Chief Financial Officer; Greg Carter, Executive Vice President of Payment Acceptance; and Houston Frost, Senior Vice President of Prepaid Services. Management will provide prepared remarks, and then we will open the call to your questions.

Before we begin, please remember that comments on today's call include forward-looking statements. Forward-looking statements can be identified by the use of such words as estimate, anticipate, expect, believe, intend, may, will, should, seek, approximate, or plan or the negative of these words and other similar words and phrases.

Forward-looking statements, by their nature, involve estimates, projections, goals, forecasts, and assumptions and are subject to risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements including risks related to the COVID-19 pandemic and its effect on the economy, the realization and the opportunities from the IMS acquisition, management of the company's growth, the loss of key resellers, the relationships with the automated clearinghouse network, bank sponsors, third-party card processing providers, and merchants, the volatility of stock price, the loss of key personnel, growing competition in the electronic commerce market, the security of the company's software, hardware, and information, compliance with complex federal, state, and local laws and regulations, and other risks detailed in the company's filings with the SEC.

These forward-looking statements speak only as of the date of this conference call and should not be relied upon as predictions of future events. Usio expressly disclaims any obligations or undertaking to update or revise any forward-looking statements made today to reflect any change in Usio's expectations with regard thereto or any other changes in the events, conditions, or circumstances on which any such statement is based except as required by law. Please refer to the company's SEC filings on its Investor Relations website for additional information.

With that, I would now like to turn the call over to Louis. Louis.

**Louis Hoch**

Thank you, Joe, and welcome, everyone. I'm pleased to report another great quarter for Usio, our eighth consecutive quarter of year-over-year revenue growth and our highest card processing quarter in the history of the company. It was also another quarter in which we undertook decisive actions to build value for our shareholders.

In May, we announced the share repurchase agreement, and in the second quarter we repurchased nearly \$0.5 million dollars of our stock in the open market. We also strengthened and expanded our board with the addition of accomplished financial professional, Michelle Miller.

All of our business lines grew over the first half of 2022, and with a strong pipeline of new business opportunities and the potential of substantial spoilage from prepaid cards beginning in the third quarter and with the flexibility afforded by our strong unlevered balance sheet, we are optimistic that this will be another record revenue year for Usio.

Considering the ongoing uncertainty of the Voyager Digital exiting from bankruptcy quickly and continuing as a customer of Usio, we are revising our expectations for the full year 2022 revenue growth from 12% to 18% conditioned on the continued enthusiasm in the FinTech lending industry and favorable economic conditions.

For the quarter, revenues were \$16.2 million, a 6% increase from a year ago, while adjusted EBITDA was a \$600,000 loss. Revenues in card processing, prepaid card issuing, Output Solutions were all up for the quarter and year-over-year.

While ACH was up for the first six months of the year, it was down from a year ago quarter when cryptocurrency market was at its peak. In the first quarter, we called out our expectations for ACH for this quarter. Crypto also distorted our year-over-year total dollars process comparisons in the quarter, but on a sequential basis total dollars process \$2.4 billion in the second quarter was up sequentially from the first quarter.

This quarter was a clear illustration of the value of our strategy of being a diverse FinTech payments processor delivering our services to a variety of end markets with a mixture of electronic payment channels. Despite challenges in cryptocurrency that affected one of our most valuable customer relationships, we were able to grow revenues.

Now, let me offer some high-level comments by business lines. ACH and complimentary services was \$3.9 million in revenue down slightly from a year ago when we realized record ACH volumes and transactions as the cryptocurrency market boomed. Electronic transactions and dollars processed and returned check transactions processed were all up sequentially from the first quarter.

There are no expectations of any material contribution from the cryptocurrency market for the balance of the year, but we are seeing increased activity from our lending accounts and other verticals as the economy cools and inflation rises. As previously stated, our cryptocurrency customer accounted for approximately 8% of our revenue, most of which was ACH.

The ACH business has been through challenges before, so for the next quarter or two, we believe ACH transactions will be down 25% to 30% as compared to the same period a year ago. Over the long-term, we believe our value propositions, NACHA certification, synergies with our other electronic payment products, and more aggressive marketing will grow the business. We also expect return transactions to be up as much as 50% in the third and fourth quarters of 2022 as compared to the same periods in 2021.

As always ACH continues to board new customers and just recently we are named to be among the first of just a handful of technology firms to be chosen to participate in the Mastercard Engage partner network. This program sponsored by Mastercard is designed to help businesses and FinTechs quickly deploy open banking solutions for payments and lending decisions at scale. This is quite an honor and one that we think can lead to many exciting new opportunities and should lead to growth in our ACH revenues as we are the only provider that's selected that is NACHA certified.

Card had a record second quarter, total dollars process exceeding \$332 million with \$2.8 million transactions processed. PayFac remains cards' growth engine, and PayFac revenue was up again strongly in the second quarter, even more impressive when considering growth was over the highest revenue base of any of our business lines. With over \$650 million in volume already processed this year and several exciting large opportunities on the doorstep, card is on pace for another record year.

On a percentage basis, prepaid was our fastest growing business line, both for the quarter and for the first half of 2022 with revenues up 29% in the quarter and 112% year-to-date. Transactions processed in the quarter nearly tripled from a year ago while load volumes and purchase dollars both increased by more than 75%. Prepaid continues to have very active pipeline of new opportunities.

From a financial perspective, many of the original COVID relief and older card programs are ending. Beginning in the third quarter and continuing somewhat steady from that point forward, we expect this to lead to a stable stream of expiring cards. Upon expiration, we will be able to realize any breakage or spoilage from unused funds remaining on these cards which could potentially account for millions in revenue. Houston Frost will talk more about this and other new prepaid card programs in just a minute.

Finally, Output Solutions had a strong quarter with revenues up 12%, as they processed \$2.1 million transactions or pieces. Although down somewhat sequentially from the first quarter, much of the second quarter consisted of more reoccurring or repeating business, a much more valuable revenue stream than some of the one-time programs such as tax notices or voter registration cards recognized in the first quarter.

Again, that addition of a dedicated sales organization and the synergies with our other businesses has been a real benefit to Output Solutions. We expect to see Output Solutions continue to make a valuable contribution to our revenue growth and profits, and it is outperforming management's expectations.

Let me take a minute to talk about margin and expenses. Margins will continue to reflect the relative contribution of our various business lines in the quarter as each have a different margin profile. In the second quarter, margins were impacted by the slowdown of ACH, our highest margin business, and a larger contribution from our other business lines, for instance Output Solutions, which has a lower margin profile.

Going forward, we're working on efficiency and productivity improvements that we believe will raise margin in each of our businesses and Usio as a whole. Expenses reflect spending that was needed to catch up with our growth as well as maintain our growth and momentum. Again, we are looking closely at our cost structure. For instance, some of the investments we made in anticipation of adding a large card program in the second half of the year.

While some of those costs were contingent, such as some of call center outsourcing, we are already unwinding some unnecessary spending. Usio is dedicated to optimizing the leverage in our business, so we can continue to contribute more to the bottom line from our strong top line growth.

This was another growth quarter for Usio. We demonstrated the resilience of our diversification strategy, serving a variety of end markets with a mixture of electronic payments and related solutions. We expect the second half of the year to be exciting time at Usio as we continue to introduce innovative new products into large and rapidly growing markets.

Our balance sheet is strong and we are committed to creating shareholder value not only through continued strong growth, but also through shareholder-friendly actions such as our shareholder repurchase program. Tom will talk more about the remainder of the year, but we expect to be back to adjusted positive EBITDA in the fourth quarter due to increased revenue and lower SG&A.

On a final note, our sales pipeline is stronger than ever. One of our large ISVs that services governmental entities for tax fees and fine payments has alerted us that they will be boarding Los Angeles County on our platform in September for payment processing and print and mail for the county's fees, fines, and notices, and associated payments. LA County is the home for over 10 million residents.

With that, I'd like to conclude my opening remarks and turn the call over to Houston Frost, our Senior Vice President of Prepaid Services.

### **Houston Frost**

Thank you, Louis, and thank you, everyone, for participating in our call this morning. Prepaid's strong year-over-year growth carried into the second quarter where card transactions processed nearly tripled, load volume was up 81%, and prepaid card purchase dollars processed were up 76%. Compared to the first quarter of 2022, however, revenue and card load volumes were down.

The first quarter included over \$600,000 of one-time revenue from printing cards for Voyager Digital as well as elevated card orders and load volumes from New York City's COVID incentive program. NYC's program began winding down in February, and while we had another substantial, albeit short-lived disbursement program boost volumes in March and April, April actually setting a record as our largest card load volume month ever, the revenue from this program in March and April fell below expectations as most of the funds were accessed as cash at ATMs. This led to decreased interchange revenue in the second quarter as compared to the first.

Since May, pandemic relief or incentive-related card volumes have been minimal, and while May and June's load volumes were down compared to the first part of 2022, it is important to mention that monthly card load volumes in May, June, and July are still up nearly ten-fold from the volumes we processed in the months prior to the pandemic.

This activity is from more sustainable programs, including corporate incentive and promotional cards as well as non-profit and government general assistance and guaranteed income programs. It's important to note that while the pandemic-related card volume spikes we experienced in the past two years may now be over, a substantial portion of the revenue from these programs is just beginning to be recognized as card accounts expire or become dormant.

We expect to recognize these revenues over the second half of this year and well into 2023. As such, we remain on track to achieve our revenue growth objectives for the year with substantial fee revenue projected for the last quarter of this year. This fee related revenue should also lead to improved gross margins for our division in the third and fourth quarters.

The extended time over which we collect revenue from our services will help to smooth out our financial results in 2022 despite the volatility we have experienced with card load volumes. It also provides us

with time to continue to grow our base of programs that generate sustained load volumes as opposed to the more short-term but sizable cash disbursement programs we managed in 2020 and 2021.

The primary driver of card volume in May and June of the second quarter was our position as the premier provider of card disbursement programs for a variety of guaranteed income and Civic Assist programs. We're supporting new programs in Chicago, Denver, and Arlington which have been added to our growing list of communities employing the company's prepaid card solutions for funds disbursement.

We have also expanded our efforts into the commercial market. We're particularly excited about our partnership with Inmar where we are supporting their promotional and rebate programs, and we expect to see substantial growth from their programs this year as they continue to migrate payment volumes to our platform.

Steve Peterson, our SVP of Emerging Markets, has opened several doors to us in the healthcare vertical since his arrival in late 2021. We have two new healthcare clients that are currently integrating with our API and leveraging a virtual commercial card solution to facilitate discount, rebate, and coupon programs. This is a large market and we see great opportunity to increase the volume on our corporate debit product which generates 60% to 65% more interchange revenue per dollar transacted than our consumer programs.

Finally, let me follow up on a couple of Louis's comments about Voyager Digital. In the first quarter, we did dedicate significant resources to prepare for this program launch. While this did not slow or delay any client or program implementations, it did delay some platform enhancements and other development work that could have bolstered revenue and reduced costs in the second and third quarters this year.

There are no additional costs being occurred related to Voyager at this point and we do expect several platform enhancements to be ready by the end of the year that will increase our operational efficiency, gross margins, and provide better service to our customers. We believe that rapid growth of prepaid over the last couple years is just the beginning. The FinTech prepaid and debit card market generates several billion dollars a year in revenue in the US and continues to grow at a rapid pace. We have a lot of room to scale this business. We are on track for another year of exceptional growth and continue to build momentum for success in 2023 and beyond.

With that, I'll conclude my remarks and turn the call over to Greg Carter, Executive Vice President of Payment Acceptance.

### **Greg Carter**

Thank you, Houston, and good morning, everyone. The card business continues to generate exceptional growth led by PayFac's increase in market penetration. PayFac revenue was up nearly 8% in the second quarter as volumes were up 23% year-over-year. This led to a 5% quarter-over-quarter growth in total card revenue as total dollars processed were a quarterly record of \$332 million with 2.8 million transactions processed, also a record. Relative to the quarter a year ago, dollars processed were up 10% and transactions increased by 14%. Card operations were also profitable for the fifth consecutive quarter.

PayFac remains our growth engine. In the second quarter, we signed five new ISV agreements. Our pipeline also remains robust including a sizeable opportunity in the healthcare industry which we feel confident we'll contract and onboard soon.

Let me provide some color on another success story that shows how Usio is winning in the market. We got in on the ground floor of an ISV that provides a solution for schools to raise money. From literally a

standing start, they're on their way to becoming a multimillion-dollar account in the next several months. They are growing and deploying more terminals every week. It's really rewarding to work with a startup, educating them on best practices, what works, and what doesn't with respect to technology and marketing is really a bright spot. That's the heart of Usio and what really sets us apart.

We have our own proprietary technology. We're flexible, we're nimble, and our customer service team is unparalleled so that we can work with ISVs at any and all stages of their life cycle, and we onboard new merchants every single day from both legacy and new ISVs. We do have employees who watch customer counts on a daily basis, but when I look back to see how we performed for the quarter, I see that our total merchant count has significantly increased.

Just a quick update on some other metrics that are of value to you. Both attrition and our penetration of the ISV customer basis remains far better than industry averages, and for most of our ISVs, we are still getting the majority of the net new merchants they bring on whether that is mandated or otherwise, while continuing to work hard to increase our penetration of their existing merchant base.

So, our PayFac business remains a three-leg stool. We continue to add new ISVs, those ISVs continue to grow their customer base, and the individual merchants continue to grow as well. It is a true picture of our leverage distribution model, and in an inflationary economy as prices go up, this naturally increases dollars processed as well as our revenues as we continue to earn the same proportion of these higher-dollar values going through our network.

We have integrated two new products into our marketing and sales strategies, our funds disbursement solution we are calling Consumer Choice and point of sale lending also known as Buy Now, Pay Later. These are just a couple of examples of how we continue to broaden our products and solutions to respond to emerging market trends, enhance our value proposition as a one-stop-shop, and increase our revenue streams. Both solutions have already begun to garner much excitement, and we continue to iterate, refine, enhance, and expand our sales and marketing efforts.

Most recently, we made some tweaks to our website that immediately resulted in a greater than 50% increase to our lead conversion rate. This has led to higher qualified leads from which we've already seen some wins. We've also strengthened our business development team. Keep in mind, in many instances, the PayFac business development team can often be the catalyst for other new business opportunities at Usio including ACH, prepaid, and Output Solutions which have limited business development resources.

We are often the hub around which an enterprise has various payment needs to resolve. This gives us a unique perspective, window, and insight to the needs of these customers. So, our efforts not only uncover PayFac opportunities but generates leads and cross-selling opportunities for the entire Usio enterprise as well.

The takeaway from the first half of the year is that we continue to execute adding new ISVs, merchants, and opportunities, but keep in mind we are growing compared to a consistently bigger numbers from a year ago. Nevertheless, as shown by this quarter's record performance, we are on pace to meet our commitment to Usio's full year 2022 revenue growth objective.

Let me conclude once again by recognizing the hard work and outstanding performance of the many Usio employees across the organization. Usio is growing rapidly, and without their commitment and dedication, we wouldn't be able to provide the level of service that delights our customers.

With that, I'd like to conclude my remarks and turn the call over to Tom Jewell, our Senior Vice President and Chief Financial Officer, to discuss financial results in greater detail.

**Tom Jewell**

Thanks, Greg, and welcome everyone. Thanks for joining our call today and your interest in Usio. I'm going to conclude today's prepared remarks with a brief recap of our second quarter financial results before opening the call to questions.

Revenues for the quarter ended June 30, 2022, were \$16.2 million up 6% compared to \$15.2 million in the same period last year. All of our growth was organic.

ACH and complimentary service revenues were \$3.9 million, down 3% from a year ago, but up sequentially from \$3.8 million in the first quarter. As Louis mentioned, the year ago quarter benefited from record cryptocurrency transactions.

Revenues from Output Solutions were \$4 million, up 12% from \$3.8 million a year ago, all of which was organic growth. Total pieces processed in the quarter were very strong. Output Solutions continues to run ahead of our expectations.

Prepaid had another quarter of strong growth with revenues up 29% to \$1.4 million. We continue to support this growth by investing in more engineering and customer service resources to further enhance our reputation for providing innovative new technologies and a high level of customer satisfaction. On a sequential basis, prepaid revenue is down from the first quarter when we booked \$600,000 of zero margin prepaid card sales and had no comparable revenues in Q2.

Revenues in our credit card line were up 5% to \$6.9 million; both dollar volume and transactions processed in the quarter were a record. For the quarter, our card business was profitable.

Gross profits in the quarter were \$3.4 million. Gross profit margin in the quarter was 20.1% up sequentially from 19.4% in the first quarter, but down from the year ago quarter. In the second quarter, we saw faster growth in our lower-margin products while revenues and our most profitable ACH products were down year-over-year.

For the quarter, total selling, general, and administrative costs were \$3.8 million flat sequentially with the first quarter. We are focused on optimizing SG&A. We built up our cost structure and anticipation of new growth opportunities, and we recognized our cost structure needs to be reassessed. We will be taking action quickly to review all costs.

For the quarter, our operating loss was \$1.9 million with adjusted EBITDA, a loss of \$590,000, both primarily due to the increase in expenses being incurred to strengthen the organization and invest in our growth initiatives coupled with lower gross profits.

As Louis mentioned, we expect to be back to positive adjusted EBITDA by Q4. The net loss for the quarter was \$1.9 million or \$0.10 per share compared to income of \$0.01 per share in the prior year period. There were 20.3 million outstanding shares used in the EPS calculation.

Recapping the results for the first half of the year, revenues were \$34.3 million up 20% from the first half of 2021. Gross profits were \$6.8 million down 3.8% versus \$7 million in the prior year period. Operating income for the first six months of 2022 was a loss of \$3.4 million versus a loss of \$0.4 million from the same year ago period, primarily due to increases in operating expenses which I previously mentioned



were representative of actions to strengthen our infrastructure and maintain our rapid revenue growth especially in prepaid and PayFac business lines.

Adjusted cash used by operating activities was \$1.2 million for the six months ended June 30, 2022, adjusted cash used by operating activities excluding merchant reserves, prepaid card load assets, customer deposits, and lease right of use assets and liabilities.

Coupled with our purchases of property plant and equipment and treasury stock, our first half cash usage was \$2.2 million which still positions us in solid financial condition with cash balances at June 30<sup>th</sup> of \$5.1 million and no significant debt.

After the first two quarters of the year, we're on pace to meet our 12% to 18% revenue growth objective for the year, and as Louis mentioned, we are working on some exciting new business opportunities. With much of our business recurring in nature, these new opportunities can be incremental to our ongoing run rate of recurring revenue.

In addition, in the third quarter, we will begin recognizing breakage and spoilage from the unused balances on prepaid cards we have issued for the various programs we've managed. Again, we have over \$5.1 million in cash and virtually no debt which provides resources to fuel our growth initiatives. This should all add up for another record revenue year for Usio.

That concludes our prepared remarks for today. We would now like to open up the call for any questions.

## **QUESTIONS AND ANSWERS**

### **Operator**

Ladies and gentlemen, at this time, we'll begin the question-and-answer session. To ask a question, you may press star and then one using a telephone keypad. If you are using a speakerphone, we ask that you please pick up your handset prior to pressing the keys to ensure the best sound quality. To withdraw your question, you may press star and two. We will pause momentarily to assemble the roster.

Our first question today comes from Barry Sine from Spartan Capital Securities. Please go ahead with your question.

### **Barry Sine**

Good morning, gentlemen. I know the stock is down quite a bit, but from my perspective, I see a strength in all the diversity of the businesses and customers. Maybe it's just the illiquidity on the stock. On Voyager, obviously that's the elephant in the room.

A three part question, if you don't mind. First of all, if you look at the Voyager relationship in hindsight, would you do it again? You got a lot of very profitable revenue. Obviously, it didn't last, but you structured it so that there's no write-off, and if a buyer comes in, in an auction, you may actually continue that.

Secondly, maybe you could discuss the transition process a bit more. I'm not sure if I heard that you've backed out of all the expenses, people, call center, telecom. What is the process, and how long will it take?

Then, thirdly, from a consolidated standpoint, and you talked about the new Los Angeles contract, you talked about a number of contracts for ISV that Greg has talked about, and you've talked about getting back to EBITDA positive by fourth quarter. Maybe you could provide a little more visibility on how we

recover from Voyager and get back to growing in profitability. So, I know that's a lot, but a three-part question on Voyager.

### **Louis Hoch**

It is a lot, but I mean, it's great questions. The first one is yes, we would gladly take Voyager over again and any customer like it. I mean, Voyager was a great example of the value that we provide to a customer. We had Voyager since they were a startup, and we integrated our systems with theirs in a way that allowed them to grow from zero revenues to—I don't even now what their latest revenues were the last quarter, \$168 million.

They grew rapidly, and we like to think that we helped them grow by providing them first-class services, and they're a great customer for us. It's unfortunate that they're in the situation they are. We believe they're a great management team, and we're hopeful that they exit out of bankruptcy in a way that we continue the relationship. Obviously, that's very uncertain, and we are operating in a manner that that's not going to happen. We're not planning on that happening.

We had high hopes for their card program, and we thought it was going to come live in June. So, we geared up for that mostly in our customer service area, telecom, we took lease space, and we're going to have to scale that back. It's an outsourced call center lease space. That's not going to go away. Head count, we can adjust, but it was going to be a huge, huge program.

To kind of give you an idea of the scale, we had about 800 cardholders live and off of those 800 cardholders in one month, we earned \$13,000 in interchange. So, if you can kind of extrapolate that to the scale of customers that they had, over a million potential cardholders, it would've been a substantial deal for us, and this would've been substantial growth for us this year, and so that's why we geared up and now we're gearing down for that.

Prepaid has tons of opportunities on the horizon. We're very excited about prepaid, but Voyager was going to be important to us this year on prepaid. The good news is we had only projected in our planning only a million dollars in revenue for that account, even though once we got into it, we knew it was much larger than that.

Then, LA county, which came to us from one of our ISVs, LA county is obviously very, very huge, 10 million residents. Our ISV software manages all of the counties, fees, fines, and the fees or parking tickets and speeding tickets, court fines, those types of items, and not only are we going to be processing the payments for those, but we're also going to be printing the notices. So, it's hitting two divisions for our company, and it should be substantial volume. Obviously, we haven't seen any the volume, but based upon 10 million residents, that one deal alone probably could replace Voyager's revenue and income.

Then, PayFac's pipeline is also very rich. So, we like our position. There's nothing wrong with our business model, and the Voyager is just kind of a bump in the road for us, but it has nothing to do with our business. It was a great customer that was going through hard times. They didn't leave us because they didn't like us. They loved us, but hopefully that answers your question.

### **Barry Sine**

That's fantastic. If I could squeeze in one more on card spoilage, maybe you can kind of educate us because it sounds like there's a big pile of revenue just sitting there waiting to start to get recognized later this year, and that will continue. So, I just want confirm that cash is already there. You're just waiting for the clock to run down, and maybe you could talk about your visibility on how you determine what spoilage is likely to be in the future and maybe put some numbers around that, and then how investors can get

some predictability on that. If I look at, let's say, car load volume from six to eight quarters ago, is that predictive? How should we think about that card's spoilage and that revenue to come?

**Louis Hoch**

The first thing is the money's already sitting on the cards. So, it's not like we have to go collect that from somebody. It's already there. It's just the matter of recognizing it through fee in the cards. So, we have great visibility into it, and these cards start to expire in September, and then will continue to expire from September on. The funds are taken off in the form of a monthly fee, and as long as there's funds there, we'll capture them until there's no more funds on the cards.

We know the balances on the programs that spoil or potential to spoil are significant, and the way we look at it is kind of through a waterfall and a waterfall analysis, and we're able to determine with some amount of certainty what the revenue will be? We're pretty confident what's going to occur in the end of this quarter and in the fourth quarter. The balances are huge, and so the revenue will come off quicker in the beginning and slower in the end slower in the end because the balances will decrease. There is no way for you to, with the data we give you, for you to know exactly, I mean to predict what future spoilage is because the numbers we give you don't help you there because load dollars are a mixture of reloadable cards versus that have no spoilage versus cards that do have spoilage.

**Barry Sine**

Thank you, Louis. That answers my question. Now I know who to call to get out of a speeding ticket at LA County.

**Louis Hoch**

Yes, there you go. Thanks, Barry.

**Operator**

Our next question comes from Jon Hickman from Ladenburg. Please go ahead with your question.

**Jon Hickman**

I was wondering if you could elaborate a little bit on this Mastercard relationship. What's it called again, and what's it going to do for you exactly?

**Louis Hoch**

Mastercard has this program called to Engage Program. It's their open banking platform, and they invited a handful, I believe there was three or four ACH companies, to provide services to their end clients, and these are larger clients. We're the only one that is NACHA certified.

So, their clients get to choose among that list of preferred providers who they want to use, and we believe that we will stick out as the preferred provider. We also, as you know, have an amazing relationship with Mastercard, and we think it was a great honor to be chosen, and we're already integrated. So, we haven't seen any revenue from there yet, but Mastercard did an announcement about us a few weeks ago.

**John Hickman**

How would that like—if I'm one of Mastercard's clients, and I need ACH services and you are on the list and I pick you, then what happens after that? You're integrated with Mastercard. It's just all of a sudden transactions start occurring across your network.

**Louis Hoch**

No, no. I mean, obviously, we'd get contacted, and we would contract with them, but yes, through the Mastercard Engage network is how those transactions would flow to us, but yes, we would contract with the end customer.

**Jon Hickman**

Okay, and then I was wondering if you could—it was great to hear about LA County in your pipeline and the fact that it's closed. Is there any other near-term, I don't know, contracts, maybe not that size, but that you could mention or elaborate on?

**Louis Hoch**

The one that Greg was talking about, the healthcare account on PayFac, is pretty substantial. It's actually potentially worth \$6 million a year in annualized revenue. It is a card account, so it's lower margin than the LA County one, which will be higher margin, but that one is likely to close in the near future.

**Jon Hickman**

That's a copay card like I use it to—

**Louis Hoch**

It's not a card. It's actually PayFac is credit card processing.

**Jon Hickman**

But, it's for a copay user type?

**Tom Jewell**

Jon, we're doing some other work on the prepaid card side that I mentioned in the healthcare space, but just to make sure you're talking about unrelated solutions here between what Greg's team is doing on the PayFac side and what we're doing on the prepaid side. So, I don't know if you're getting mixed up with those two.

**Greg Carter**

The healthcare opportunity is just billing for healthcare services via the PayFac.

**Jon Hickman**

Okay. It's just a straight—but, it's an ISV that's bringing you more business. I got it. Okay, and then on the prepaid side, you are getting involved in copay type products or services.

**Tom Jewell**

Yes, it's not—copay usually refers to insurance, etc. These are more kind of rebate and promotional pay aspects of those kind of purchases. So, you're close there, but yes, it's related to clients using our virtual card platform to facilitate a similar type of payment to a copay, I guess, if you will.

**Jon Hickman**

More like a coupon, take it to the pharmacy.

**Tom Jewell**

Yes. Promotional and rebate type payment.

**Jon Hickman**

Okay, thank you for that. My other questions have been answered. Thanks.

**Louis Hoch**

Thanks, Jon.

**Operator**

Our next question comes from Michael Diana from Maxim Group. Please go ahead with your question.

**Michael Diana**

Thank you. So, Greg mentioned a tweak that they made to the website that had a big impact. It sounds fascinating. Could you just tell us a little more about that?

**Greg Carter**

Sure. Just the way that we had labeled our solutions and products just differentiating between mainly just terminologies was instrumental. The people come to the website or prospective customers come to the website, and they're looking for a solution versus a product. So, we massaged the way that that's presented, and we did a comparison from the previous version next to this changed or amended version, and we saw an increased click-through with higher quality leads. So, it was really more stylistic in terminology versus net new, but it did have a positive impact.

As you can probably appreciate, we get lots of interest through the website and a significant amount of that is noise. So, we are now able to get more qualified leads that we can pursue, and as I said, some of those have led to new contracts.

**Michael Diana**

Okay, great. Thanks. Also, you mentioned an IOC that related to schools. Is that like universities or public schools or—

**Greg Carter**

That's a good question. It's primarily elementary and high school. It's not at the university level yet, and there are service addresses, not only tickets, but booster type fundraising events whether that's concessions at a volleyball game or a football game or fundraising events for the teams themselves, and the rate at which this entity is growing is really impressive. That was before school started. So, we're seeing tremendous pickup now that the school year has started in a lot of areas.

**Michael Diana**

Great. Thanks very much.

**CONCLUSION**

**Operator**

Ladies and gentlemen, with that I'm showing no additional questions. We'll end today's question and answer session as well as today's conference call. We do thank you for attending today's presentation. You may now disconnect your lines.