PAYMENT Data Systems

STONEGATE CAPITAL PARTNERS

1/16/18

Laura S. Engel, CPA
Laura@stonegateinc.com
214-987-4121

MARKET STATISTICS

Exchange / Symbol	NASD: PYDS
Price:	$2.29
Market Cap ($mm):	$31.18
Enterprise Value ($mm):	$28.98
Shares Outstanding (mm):	13.62
Float (%):	28%
Volume (3 month avg.):	981,600
52 Week Range:	$1.17-$4.10
Industry:	Payment Services

CONDENSED BALANCE SHEET

($mm, except per share data)

Balance Sheet Date:	9/30/2017
Cash & Cash Equivalent:	$2.20*
Cash/Share:	$0.16
Equity (Book Value):	$11.36
Equity/Share:	$0.83

***excludes proceeds of 12/26/17 offering**

CONDENSED INCOME STATEMENTS

($mm, except per share data)

FY – 12/31	Revenue	Op. Income	Adj. EBITDA	EPS
FY14	$13.39	$2.25	$2.58	$0.41
FY15	$14.38	$0.95	$2.55	$0.08
FY16	$12.08	$(1.36)	$0.59	$(0.15)
Fy17E	$14.72	$(2.85)	$(0.63)	$(0.31)
FY18E	$25.60	$(2.27)	$0.81	$(0.19)

LARGEST SHAREHOLDERS

Michael Long	2,358,775
Louis Hoch	2,292,778
Vaden Landers	1,815,152
National Services, Inc.	712,500
Houston Frost	394,027
CVI Investments, Inc.	392,000
Hudson Bay Master Fund, Ltd.	392,000
Special Situations Fund III QP, LP	243,108
Lowell T. Jewell	199,163

STOCK CHART



COMPANY DESCRIPTION

Payment Data Systems, Inc., together with its subsidiaries, provides integrated electronic payment processing services to merchants and businesses in the United States. The Company offers various types of automated clearing house (ACH) processing, and credit card, prepaid card, and debit card-based processing services. The Company also offers 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 through a physical terminal. Furthermore, the Company creates, manages, and processes prepaid card programs for corporate clients to issue prepaid cards to their customer base or employees and also issues general purpose, reloadable cards to consumers as an alternative to a traditional bank account. Payment Data Systems, Inc. was founded in 1998 and is headquartered in San Antonio, Texas.

SUMMARY

Payment Data Systems is using the cash flow from its core ACH, credit card and debit card processing business to invest in new business opportunities. With a solid balance sheet and positive cash flow, the Company is investing for the long-term, and hopes to continue its growth by:

- Operating in niche verticals where it can be a leader in ACH and credit card payment processing
- Focusing on delivering a better customer experience compared to larger competitors by offering its customers leading technology platforms and customization. As an example, Payment Data Systems states that it was the first prepaid card integrated with Apple Pay
- Enabling organic growth through continued use of its indirect sales model to drive revenue growth
- Using its cash flow to fund growth initiatives such as continuously innovating its merchant processing platform
- Expanding its ACH banking relationships
- Increasing the brand awareness of its Akimbo platform
- Supplementing its organic growth by targeting acquisitions of credit card processing portfolios that can provide immediate cash flow
- An example of acquiring a company with complementary products and services is the deal just recently closed on Singular Payments as of 9/1/17; Singular Payments processed $440M in payments and 2.5M transactions in 2016. The acquisition of Singular has the potential to increase the Company's processed payments by ~15% and its processed transactions by ~20%
- Continuing to rely on its balance sheet that shows no debt and has a clean capital structure

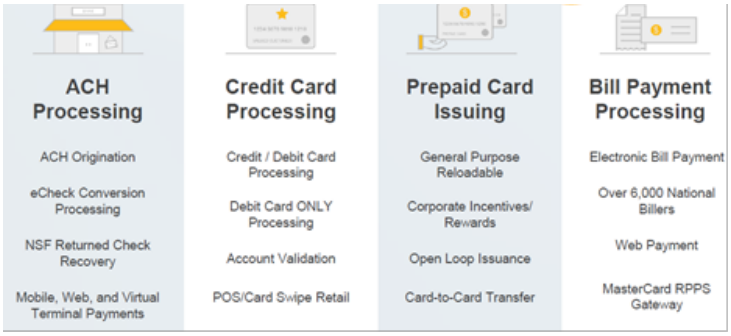
We employ a comparative company analysis using a Price/Sales framework for valuation. The details are on page 5. We have factored in the recent Q317 results, and as such, have slightly adjusted our estimates. As expected, there has been a fairly seamless transition of the business from Singular; Vaden Landers, CEO of Singular Payments and now Chief Revenue Officer of the Company, and all Singular employees, have joined the PYDS team.

We note that on 12/27/17, PYDS announced the completion of a direct offering with institutional investors of 1,176,000 shares for net proceeds of $2.75M; funds are to be utilized for general corporate purposes and working capital.

BUSINESS OVERVIEW

Payment Data Systems is a payment solutions provider that offers integrated electronic payment processing services to merchants and businesses in the US. Its services include processing electronic payments for other companies such as Automated Clearing House (ACH) processing, and credit card, prepaid card, and debit card processing.

Exhibit 1: Service Offerings

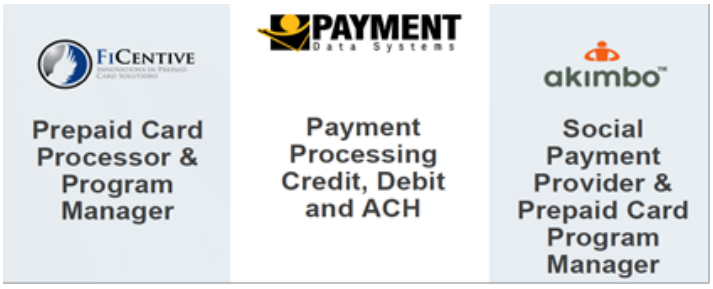


Source: Company Reports; Stonegate Capital Partners

The Company was founded in 1998 as Billserv, then offering electronic bill presentment and payment services to companies generating recurring paper-based bills. In July 2003, Billserv sold all of its assets to Saro, Inc. for $4.8M. Upon the sale, Billserv changed its name to Payment Data Systems and began to focus on building its electronic payments business. The Company is headquartered in San Antonio, TX, and trades on the NASDAQ under the symbol PYDS. In FY16, PYDS processed $2.9B in payments and processed 12.4M transactions.

The Company operates through three operating entities, Payment Data Systems, FiCentive and Akimbo, and just recently, on 9/1/17, the Company announced the closing of an acquisition on Singular Payments, LLC.

Exhibit 2: Payment Data System



Source: Company Reports; Stonegate Capital Partners

Payment Data Systems: Payment Data Systems provides integrated electronic payment processing services to merchants and businesses, including credit card and debit card-based processing services and transaction processing via the ACH network. The ACH offering enables the Company's clients to disburse and collect funds electronically using e-checks instead of traditional paper checks. The Company's card processing services allows its clients to process both card-present transactions at the point-of-sale, as well as card-not-present transactions. Additionally, the Company operates an online payment processing service at www.billx.com. This service is directed at consumers and allows them to process online payments to any individual.

FiCentive: The Company also provides prepaid card processing services for merchants and consumers through its wholly-owned subsidiary, FiCentive, Inc. FiCentive offers MasterCard prepaid cards branded with customers' corporation logos or trademarks. These prepaid cards can be used for various applications including corporate incentives, employee incentives, payroll, and general use.

Akimbo: In December 2014, the Company acquired the assets of Akimbo Financial, Inc. Akimbo is targeted at individual consumers and allows users to create customized prepaid cards for any purpose, such as allowance, groceries, and other miscellaneous expenses. The Company is positioning the Akimbo card as more than just a prepaid gift card or a card for the underbanked/unbanked, but rather as a prepaid card to help with budgeting.

The Akimbo card is linked to a bank account, and the end-user can then automate transfers to the Akimbo card. Additionally, the platform allows end-users to issue up to 5 "sub-cards" to family members or other users and instantly transfer funds to the additional cards. The Company can issue the Akimbo prepaid card in plastic form or in a virtual form that lives in an end-user's mobile device. Akimbo cards are integrated with Apple Pay, Samsung Pay and Android Pay.

Singular Payments Acquisition: PYDS announced the closing of the Singular Payments, LLC, acquisition on September 1, 2017. The deal was completed with a combination of cash on hand as well as common stock for a total of $5M ($1.5M in cash, including repayment of $600K loan, and 1.5M shares of common valued at $2.31/share).

The transaction was estimated to add over 1,200 new merchant customers to the Company, with a focus on healthcare, as well as over $500M in annual payment processing volume. The new subsidiary's previous CEO and now Chief Revenue Officer, Vaden Landers, as well as the team of Singular employees, have joined Payment Data Systems in what was a fairly seamless transition following months of preparation. Management has guided to the transaction adding over $10M in annualized revenue, with record all-time high revenues now expected for Q417 at over $5 million.

Benefits of the acquisition include:

- Accelerated growth for the Company's top line through the addition of a sizable portfolio of credit card processing customers
- Expanded client base and added sales expertise
- Enhanced product offerings
- The addition of Vaden Landers and his significant payment processing experience to the executive team

GROWTH STRATEGY

Payment Data Systems has a dual strategy focused on organic growth and acquisitions. Organic growth will be achieved by continuing to leverage its indirect sales model to drive revenue growth, along with using its cash flow to fund growth initiatives. Some of these initiatives include: (1) continuously innovating its merchant processing platform, (2) expanding ACH banking relationships, (3) and increasing brand awareness of its Akimbo platform.

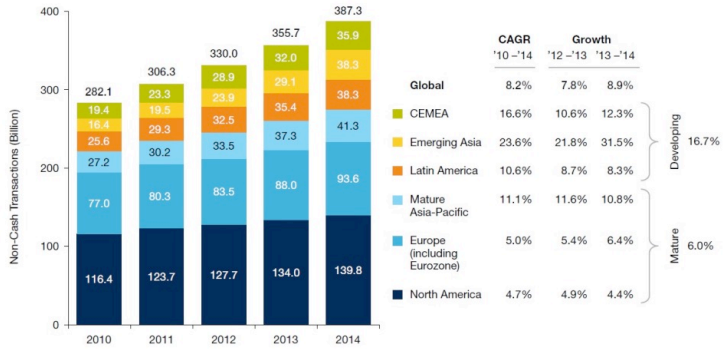
On the acquisition front, Payment Data Systems is looking at two primary sources. First are credit card processing portfolios that can add immediate cash flows. Secondarily, the Company is looking for companies that have complementary products and services.

Per its strategy, in March 2017, Payment Data Systems announced a LOI to acquire Singular Payments, LLC, a payments processor with a niche focus on healthcare and utilities located in St. Augustine, FL, with 11 employees. Singular's offerings include a flat rate billing model to its SMB customers as well as Singular BillPAY that is an electronic bill presentment and payments platform for users. Payment Data Systems has noted that in 2016, Singular processed ~$440M in payments and ~ 2.5M transactions. As previously mentioned, the transaction closed September 1, 2017.

INDUSTRY OVERVIEW

The payment processing industry continues to see solid growth. According to the 2016 World Payments Report (CapGemini & BNP Paribas), global non-cash transaction volumes grew 8.9% Y/Y in 2014 to reach 387.3B transactions. North America and Europe remain the largest noncash payments markets, together accounting for about 60% of global non-cash transaction volumes. However, as mature markets, these recorded mid-single digit growth rates over the period. On the other hand, developing markets, as illustrated below, exhibited much higher growth rates. Technological advancement and significant growth in card transactions in emerging countries are the chief drivers of the industry.

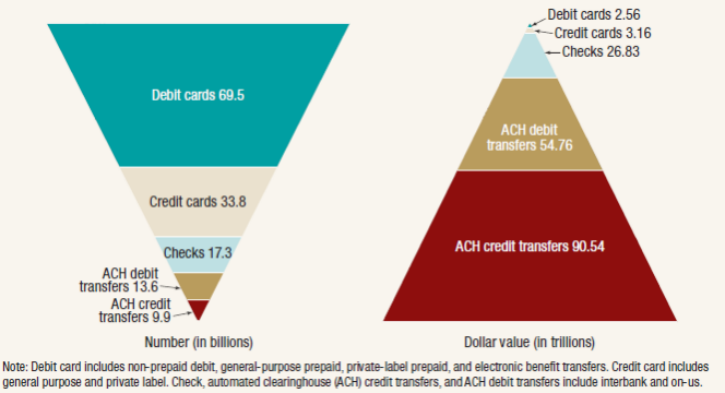
Exhibit 3: 2010-2014 Global Non-Cash Transactions by Region



Source: World Payments Report - 2016; Stonegate Capital Partners

Electronic processes and alternative payment methods are rapidly replacing paper check payments in the US. The use of paper checks has been declining since 2011, following the US government's decision to directly transfer social security and pension payments into the respective bank accounts and to issue debit cards for food stamps and unemployment benefits. As illustrated in Exhibit 4, debit card usage accounts for the largest share of transactions, while ACH accounts for the largest share of dollar value.

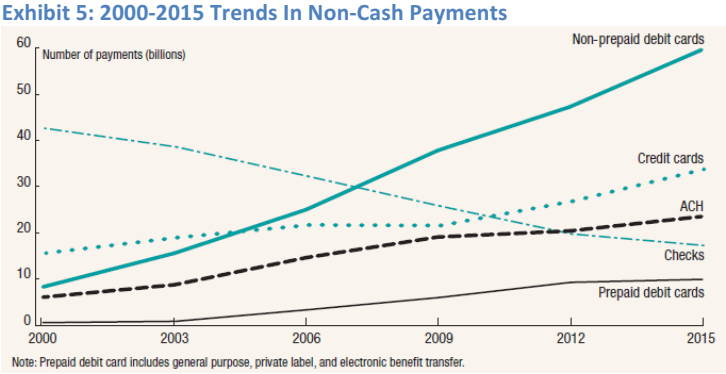
Exhibit 4: 2015 Distribution of Non-Cash Payments



Source: World Payments Report - 2016; Stonegate Capital Partners

Direct online transfer between bank accounts has eradicated the need for paper checks for both personal and business transactions. Moreover, a shift in the consumer preference from spending to budgeting has resulted in a rise in the use of pre-paid cards.

Exhibit 5: 2000-2015 Trends In Non-Cash Payments



Source: World Payments Report - 2016; Stonegate Capital Partners

According to the Federal Reserve's 2016 Payments Study, non-prepaid debit card (tied to a checking account) transactions drove almost all of the growth in the broader debit card transactions, with number of transactions growing 8.0% and the value of transactions growing 7%. Furthermore, credit card transactions where on equal footing as non-prepaid debit cards as it relates to growth rates. Prepaid debit cards were the most recently introduced transaction type added to the report and had respectable growth rates in number of transactions and value of transactions of 2.3% and 5.5%, respectively. Checks, on the other hand, continue their decline in number of transactions at a rate of -4.4%, albeit at a better decline rate than the -6.2% rate from 2000 to 2012 period.

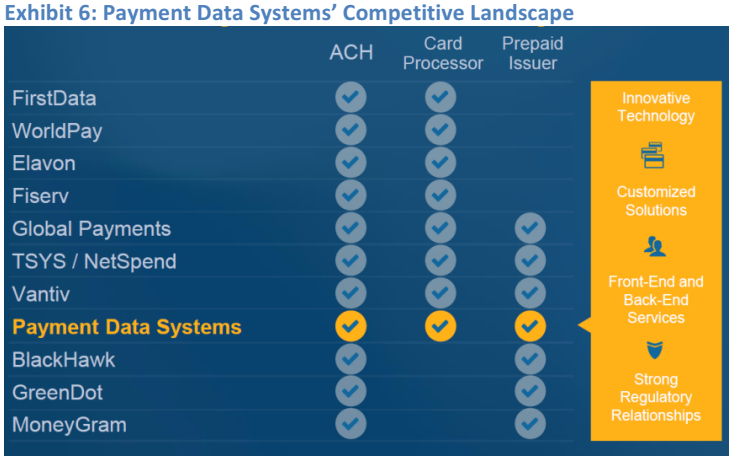
COMPETITIVE LANDSCAPE

The payment processing services industry is highly competitive, with the presence of well-established payment processing companies as well as subsidiaries of financial institutions such as Bank of America Merchant Services, Chase Paymentech, and Elavon, Inc., among others. Additionally, the industry is highly regulated and faces rapid technological changes. While these last two factors may create some barriers to entry, these barriers aren't large, and these two factors continue to cause competitive pressures.

Payment Data Systems intends to compete as follows:

(1) PYDS operates in niche verticals where it can be a leader in ACH and credit card payment processing, such as Churches.
(2) The Company is focused on delivering a better customer experience compared to much larger competitors by providing customers with leading technology platforms and customization. As an example, Payment Data Systems states they were the first prepaid card integrated with Apple Pay.
(3) The Company seeks to create a branding and marketing position that differs from its main rivals. For example, the Akimbo prepaid card has been positioned as more than just a prepaid gift card or a card for the underbanked/unbanked, but rather as a prepaid card to help with budgeting.

Exhibit 6: Payment Data Systems' Competitive Landscape



Source: Company Reports; Stonegate Capital Partners

RISKS

A highly regulated industry - The payment processing industry in the US is subject to extensive regulation and supervision by varying federal and state banking agencies. Such regulations and investigations could limit the Company's business activity. Any unfavorable change in current laws and regulations related to the industry could adversely impact the Company's future revenues and earnings.

Reliance on resellers - Payment Data Systems uses an indirect sales model that is supported by an internal sales team. Should any resellers switch to another transaction processor and/or stop promoting Payment Data Systems' services, financial results would be negatively impacted.

Technological risk related to critical data - The Company's business involves the use of significant private and confidential customer information. Any incidence of data hacking or unauthorized system infiltration could result in unexpected liability, litigation, regulation investigation and penalties, and eventually, loss of customers.

Acquisitions may not meet expectations - Part of Payment Data Systems' business strategy is focused on acquisitions. Acquisitions contain multiple risks such as a failure to meet financial expectations, an inability to successful integrate operations, and potential lack of focus by management. Any negative impact from failed acquisitions could materially impact operating results.

RECENT RESULTS

For the third quarter ended September 30, 2017, Payment Data Systems' revenues were $3.6 million, up 17% compared to $3.1 million for the third quarter of 2016. The revenue increase can be primarily attributed to the recent Singular acquisition, which added one month of credit card processing volume. Additionally, the Company saw continued growth in PINless debit processing.

Gross margin dollars were $825K, or 23% of revenues, compared to $965K, or 31.5% of revenues, in the third quarter of 2016. The decline in gross margin dollars was due to the increase in revenues from credit card processing as a result of the Singular acquisition; the acquired credit card portfolio brings with it a lower margin but long-term relationships.

Operating losses were $892K compared to operating losses of $575K in the third quarter of 2016, reflecting the lower gross margins.

Adjusted EBITDA was a loss of $347K, or 9.7% of revenue, compared with a loss of $130K, or 4.2% of revenue, in the third quarter of 2016.

Net loss was $890K, or ($0.10) per basic and diluted share, compared to a net loss of $566K, or ($0.07) per basic and diluted share in the third quarter of 2016. The net loss reflects lower gross margins and certain higher expenses in the third quarter of 2017.

The Company also ended the quarter with $2.2M in cash and cash equivalents, positive operating cash flow for the first nine months of the year, and no debt.

VALUATION

We are using a comparative company analysis to value Payment Data Systems. For our comparison companies, we are primarily using US based merchant acquirers/processors as well as prepaid payment providers. We use both types of organizations given Payment Data Systems' service offerings.

COMPARATIVE COMPANY ANALYSIS

						EV/S (2)			EV/EBITDA (2)			P/E (2)		
Name	Ticker	Price (1)	Sh	Mrkt Cap	EV	TTM	2017 E	2018 E	TTM	2017 E	2018 E	TTM	2017 E	2018 E
Merchant Acquiring/Processing														
First Data Corporation	FDC	$ 17.66	923.5	$ 16,309.0	$ 37,393.4	4.7x	3.1x	3.0x	13.3x	12.3x	11.4x	23.2x	11.6x	11.5x
Global Payments, Inc.	GPN	$ 103.26	159.1	$ 16,428.7	$ 20,670.9	4.8x	5.9x	5.2x	17.3x	17.8x	14.9x	63.3x	25.8x	21.7x
Total System Services, Inc.	TSS	$ 82.00	183.8	$ 15,071.6	$ 17,635.1	3.7x	5.2x	4.8x	17.9x	14.8x	13.7x	36.4x	24.6x	21.9x
Worldpay, Inc.	WP	$ 77.60	162.5	$ 12,610.0	$ 17,325.9	4.4x	8.2x	4.4x	19.0x	17.2x	9.1x	62.1x	23.2x	21.4x
Square, Inc.	SQ	$ 41.25	388.6	$ 16,029.8	$ 15,514.3	7.6x	16.0x	12.2x	nm	114.1x	63.0x	nm	158.7x	91.7x
					Average	**5.0x**	**7.7x**	**5.9x**	**16.9x**	**35.2x**	**22.4x**	**46.3x**	**48.8x**	**33.7x**
					Median	**4.7x**	**5.9x**	**4.8x**	**17.6x**	**17.2x**	**13.7x**	**49.3x**	**24.6x**	**21.7x**
Prepaid/Debit Payments														
Blackhawk Network Holdings, Inc.	HAWK	$ 36.50	56.8	$ 2,073.2	$ 2,517.9	1.2x	1.2x	1.1x	16.7x	10.8x	9.3x	nm	22.4x	17.6x
Green Dot Corporation	GDOT	$ 61.61	49.5	$ 3,049.7	$ 2,404.9	2.9x	2.7x	2.4x	18.9x	11.9x	10.1x	44.3x	28.9x	23.9x
EML Payments, Ltd.	ASX:EML	$ 1.57	246.9	$ 387.6	$ 355.0	7.8x	5.9x	5.1x	136.5x	19.6x	14.4x	nm	31.4x	19.6x
					Average	**3.9x**	**3.3x**	**2.9x**	**57.4x**	**14.1x**	**11.3x**	**44.3x**	**27.6x**	**20.4x**
					Median	**2.9x**	**2.7x**	**2.4x**	**18.9x**	**11.9x**	**10.1x**	**44.3x**	**28.9x**	**19.6x**
Payment Data Systems, Inc.	**PYDS**	**$ 2.29**	**13.6**	**$ 31.2**	**$ 29.0**	**2.4x**	**2.0x**	**1.1x**	**nm**	**nm**	**nm**	**nm**	**nm**	**nm**

(1) Previous day's closing price
(2) Estimates are from Capital IQ except those for Payment Data Systems, which are Stonegate estimates

Source: Company Reports, Stonegate Capital Partners

Price/Sales analysis

As seen above, Payment Data Systems is trading at a 1.1x EV/S multiple on our FY18 estimates. This compares to average multiples for Merchant Acquirers and Prepaid Processors of 5.9x and 2.9x, respectively.

As the Company moves forward following the Singular Payments acquisition, we expect to see an improving top line as well as bottom, including improved gross margins longer term. Even selecting a 2.0x EV/S multiple applied to our FY18 estimates, which we believe is appropriate given (1) PDS is a significantly smaller player in the market, (2) the Merchant Acquirers have maintained consistently higher margins, and (3) the Company has experienced several previous quarters of declining revenue, results in a valuation of approximately $4.00 per share.

INCOME STATEMENTS

Payment Data Systems, Inc. (NASDAQ: PYDS)
Consolidated Statements of Income
Fiscal Year: December

	FY 2014	FY 2015	FY 2016	FY 2017 E	FY 2018 E
Revenues					
Revenues	$13,395,130	$14,380,460	$12,076,358	$14,720,370	$25,603,592
Total revenue	**13,395,130**	**14,380,460**	**12,076,358**	**14,720,370**	**25,603,592**
Cost of revenues					
Cost of sales	9,216,904	9,417,334	8,293,354	10,157,055	18,690,622
Total cost of revenues	9,216,904	9,417,334	8,293,354	10,157,055	18,690,622
Gross (loss) profit	**4,178,226**	**4,963,126**	**3,783,004**	**4,563,315**	**6,912,970**
Operating expenses					
Stock comp	291,980	1,111,194	1,053,570	980,000	1,260,000
Other expenses	1,600,286	2,408,686	3,188,407	5,190,000	6,100,000
D&A	40,953	496,368	901,600	1,245,000	1,820,000
Total operating expenses	1,933,219	4,016,248	5,143,577	7,415,000	9,180,000
Income (loss) from operations	**2,245,007**	**946,878**	**(1,360,573)**	**(2,851,685)**	**(2,267,030)**
Other income (expense):					
Interest income	66,785	79,005	97,323	100,927	137,500
Other income/expense	44,269	65,491	99,276	2,900	8,000
Total other income (expense):	111,054	144,496	196,599	103,827	145,500
Pre-tax income (loss)	**2,356,061**	**1,091,374**	**(1,163,974)**	**(2,747,858)**	**(2,121,530)**
Provision for taxes (benefit)	(1,482,226)	75,285	32,668	34,348	31,823
Net income (loss)	**$3,838,287**	**$1,016,089**	**($1,196,642)**	**($2,782,207)**	**($2,153,353)**
Basic EPS (loss)	**$0.59**	**$0.14**	**($0.15)**	**($0.31)**	**($0.19)**
Diluted EPS (loss)	**$0.41**	**$0.08**	**($0.15)**	**($0.31)**	**($0.19)**
Basic shares outstanding	6,472,071	7,389,177	7,838,197	9,008,331	11,137,500
Diluted shares outstanding	9,256,393	11,988,180	7,838,197	9,008,331	11,137,500
EBITDA	2,285,960	1,443,246	(458,973)	(1,606,685)	(447,030)
EBITDA -adj for stk comp	2,577,940	2,554,440	594,597	(626,685)	812,970
Margin Analysis					
Gross margin	31.2%	34.5%	31.3%	31.0%	27.0%
Stock comp	2.2%	7.7%	8.7%	6.7%	4.9%
Other expenses	11.9%	16.7%	26.4%	35.3%	23.8%
D&A	0.4%	5.3%	10.9%	12.3%	9.7%
Operating margin	16.8%	6.6%	-11.3%	-19.4%	-8.9%
EBITDA margin	17.1%	10.0%	-3.8%	-10.9%	-1.7%
Pre-tax margin	17.6%	7.6%	-9.6%	-18.7%	-8.3%
Net income margin	28.7%	7.1%	-9.9%	-18.9%	-8.4%
Tax rate	-62.9%	6.9%	-2.8%	-1.3%	-1.5%

Source: Company Reports; Stonegate Capital Partners

SIGNIFICANT EVENTS

December 26, 2017
Company announces closing of direct offering of 1,176,000 shares to institutional investors for net proceeds of ~$2.75M

September 19, 2017
PYDS announces the availability of same day ACH Debits

September 1, 2017
Company closed on acquisition of Singular Payments, LLC

August 14, 2017
Payment Data Systems announced financial results for the second quarter and six months ended June 30, 2017

August 07, 2017
PYDS agreed on August 2 to increase its line of credit promissory note to Singular Payments, LLC by $100,000

August 07, 2017
Payment Data Systems extended the expiration of its deal to acquire Singular Payments, LLC

June 06, 2017
PYDS and Singular Payments, LLC, mutually agreed to extend the interest start day under a $500,000 secured line of credit promissory note

May 05, 2017
Bradley Rollins was appointed to the Board of Directors

March 31, 2017
Payment Data Systems announced financial results for the fourth quarter and year ended December 2016

March 7, 2017
Payment Data Systems agreed to provide up to $500,000 to Singular Payments, LLC, under a secured line of credit promissory note

March 7, 2017
Payment Data Systems entered into a letter of intent to acquire Singular Payments, LLC

January 6, 2017
Tom Jewell was appointed as CFO and SVP, replacing Habib Yunus, who resigned on December 30, 2016. Mr. Jewell also resigned from the Board

November 14, 2016
Payment Data Systems announced financial results for the third quarter ended September 30, 2016

August 3, 2016
Louis Hoch assumed the role of CEO, replacing Michael Long, who will remain as the Chairman of the Board

CORPORATE GOVERNANCE

Michael Long, Co-founder, Chairman – Mr. Long has more than 40 years of senior executive management and systems development experience in several publicly traded companies, as well as operating his own systems consulting business. Before assuming the CEO position at Payment Data Systems (formerly Billserv, Inc., in 1998) Mr. Long was vice president of information technology at Billing Concepts, which at that time, was the largest third-party billing clearinghouse for the telecommunications industry. Mr. Long's career experience also includes insurance industry business development for Accenture (Andersen Consulting). As a business owner/consultant, he conducted studies for several hardware and software companies, which resulted in strategic decisions that led to improved market share and high growth. Mr. Long also serves as an outside director to FaceKey Corporation, a San Antonio based biometric security firm that focuses on developing leading-edge fingerprint and facial recognition systems for high security area needs.

Louis Hoch, Co-founder, Vice-Chairman, CEO, COO - Mr. Hoch has more than 25 years of management experience, 20 of which were spent at a senior executive level of public companies. Mr. Hoch is an expert in payment processing and service bureau operations. In addition to his duties as the CEO of FiCentive, Mr. Hoch remains responsible for all operations and strategy for Payment Data Systems, Inc., in his roles as Vice-Chairman, Co-founder, COO and CEO. Mr. Hoch previously co-founded Billserv, Inc., the industry leader in electronic bill presentment and payment, where he was the company's President and COO. Billserv reached a peak market cap of over 500 million while on NASDAQ national market exchange. Billserv is now owned by American Express. Mr. Hoch has held various key management positions with US Long Distance (NASDAQ: USLD), Billing Concepts (NASDAQ: BILL) and Andersen Consulting (NYSE: ACN). Mr. Hoch holds a BBA in computer information systems and a MBA in international business management, both from Our Lady of the Lake University. Mr. Hoch is currently a director on the advisory board for Our Lady of the Lake University Business School. He is also a past executive lecturer in the school's weekend MBA program. He is a past board member of San Antonio Children's Museum.

Vaden Landers, EVP and Chief Revenue Officer - Mr. Landers has over 25 years of experience in the payments industry. Most recently, he served as the Chairman and Managing Partner of Singular Payments, LLC since late 2010, leading Singular Payments in the processing of over 2.5 million transactions worth over $440 million in transaction dollars. He also currently serves as Strategic Advisor for MAPP Advisors. Additionally, Mr. Landers has held executive and board positions in multiple companies, including as director for SparkBase from 2012 to 2015, as Chief Executive Officer for ProfitPoint, Inc. from 2003 to 2010, as Chief Marketing Officer for iPayment, Inc. from 2002 to 2004, as President for Global Payments from 2000 to 2002 and as President and Chief Executive Officer for Bancard

Tom Jewell, SVP, CFO – Mr. Jewell has over 35 years of business leadership experience focused on management, auditing, accounting, internal controls and finance. Mr. Jewell was named CFO 1/6/2017. Previously, he was founder and owner of LTJ Financial Consulting, a provider of CFO and controller advisory services for middle market companies in need of accounting process improvements and scale advantages. His clients have included start-up businesses seeking funding and companies in the retail, staffing, construction and software industries. Mr. Jewell has also counseled the FDIC on banking institution closures during the banking crisis. Prior to launching his consulting firm in 2009, Mr. Jewell served as CFO for a multi-state photography studio chain from 2007 to 2009. Prior to 2007, Mr. Jewell provided financial leadership to divisional units of RadioShack, Verizon and Kentucky Fried Chicken, and he began his career at Touche Ross (Deloitte) in 1978. Mr. Jewell is a Certified Public Accountant and is a member of the Dallas and Fort Worth chapters of Financial Executives International (FEI). Mr. Jewell has an MBA from Bellarmine University and a BBA from Marshall University.

Board of Directors:

Michael Long – *Chairman of the Board*

Louis Hoch – *Director*

Miguel Chapa – *Director*

Steve Huffman, CPA– *Director*

Bradley Rollins –*Director*

IMPORTANT DISCLOSURES AND DISCLAIMERS

The following disclosures are related to Stonegate Capital Partners "SCP" research reports.

ANALYST DISCLOSURES
I, Laura S. Engel, CPA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING, REFERRALS, AND FEES FOR SERVICE
SCP does not provide nor has it received compensation for investment banking services on the securities covered in this report. SCP does not expect to receive compensation for investment banking services on the securities covered in this report. SCP has a non-exclusive Advisory Services agreement to provide research coverage, retail and institutional awareness, and overall Investor Relations support for which it is compensated $5,000 per month for the first three months and thereafter at $3,000 per month. Stonegate Capital Markets "SCM" (Member FINRA) is an affiliate of SCP and may seek to receive future compensation for investment banking or other business relationships with the covered companies mentioned in this report. In certain instances, SCP has contracted with SCM to produce research reports for its client companies. SCP pays SCM a monthly retainer for said services.

POLICY DISCLOSURES
SCP analysts are restricted from holding or trading securities in the issuers which they cover. SCP and SCM do not make a market in any security nor do they act as dealers in securities. Each SCP analyst has full discretion on the content and valuation discussion based on his or her own due diligence. Analysts are paid in part based on the overall profitability of SCP. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by SCP for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article. No employee of SCP serves on the Company's Board of Directors. Research analyst and/or a member of the analyst's household do not own shares of this security. Research analyst and/or a member of the analyst's household do not serve as an officer, director, or advisory board member of the Company. This security is eligible for sale in one or more states. This security is subject to the Securities and Exchange Commission's Penny Stock Rules, which may set forth sales practice requirements for certain low-priced securities. SCP or its affiliates do not beneficially own 1% or more of an equity security of the Company. SCP does not have other actual, material conflicts of interest in the securities of the Company.

ADDITIONAL INFORMATION
Please note that this report was originally prepared and issued by SCP for distribution to its market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of SCP should seek the advice of their independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. The information contained herein is based on sources which we believe to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. Because the objectives of individual clients may vary, this report is not to be construed as an offer or the solicitation of an offer to sell or buy the securities herein mentioned. This report is the independent work of SCP and is not to be construed as having been issued by, or in any way endorsed or guaranteed by, any issuing companies of the securities mentioned herein. The firm and/or its employees and/or its individual shareholders and/or members of their families and/or its managed funds may have positions or warrants in the securities mentioned and, before or after your receipt of this report, may make or recommend purchases and/or sales for their own accounts or for the accounts of other customers of the firm from time to time in the open market or otherwise. While we endeavor to update the information contained herein on a reasonable basis, there may be regulatory, compliance, or other reasons that prevent us from doing so. The opinions or information expressed are believed to be accurate as of the date of this report; no subsequent publication or distribution of this report shall mean or imply that any such opinions or information remains current at any time after the date of this report. All opinions are subject to change without notice, and we do not undertake to advise you of any such changes. Reproduction or redistribution of this report without the expressed written consent of SCP is prohibited. Additional information on any securities mentioned is available on request.

RATING & RECOMMENDATION
SCP does not rate the securities covered in its research. SCP does not have, nor has previously had, a rating for any securities of the Company. SCP does not have a price target for any securities of the Company.

CONTACT INFORMATION

Payment Data Systems, Inc.
Tom Jewell, CFO
12500 San Pedro, Suite 120
San Antonio, TX 78216
Phone: 210-249-4100
www.paymentdata.com

Investor Relations
Stonegate Capital Partners
8201 Preston Rd. Suite 325
Dallas, Texas
Phone: 214-987-4121
www.stonegateinc.com