

PAYMENT DATA SYSTEMS INC
Form 10-Q
August 14, 2018

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from _____ to _____.

Commission File Number:000-30152

PAYMENT DATA SYSTEMS, 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)

(210) 249-4100

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or 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 (Do not check if a smaller reporting company) Smaller reporting company

Emerging Growth Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares of each of the issuer's classes of common stock, as of the latest practicable date:

On August 9, 2018, the number of outstanding shares of the issuer's common stock, par value \$0.001 per share, was 15,997,361.

PAYMENT DATA SYSTEMS, INC.
INDEX

| | Page |
|--|-----------|
| <u>PART I – FINANCIAL INFORMATION</u> | <u>1</u> |
| <u>Item 1. Financial Statements (Unaudited).</u> | <u>1</u> |
| <u>Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017</u> | <u>0</u> |
| <u>Condensed Consolidated Statements of Operations for the Three and Six Months ended June 30, 2018 and 2017</u> | <u>2</u> |
| <u>Condensed Consolidated Statements of Cash Flows for the Six Months ended June 30, 2018 and 2017</u> | <u>3</u> |
| <u>Notes to Condensed Consolidated Financial Statements</u> | <u>4</u> |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u> | <u>11</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u> | <u>15</u> |
| <u>Item 4. Controls and Procedures.</u> | <u>15</u> |
| <u>PART II – OTHER INFORMATION</u> | <u>15</u> |
| <u>Item 1. Legal Proceedings.</u> | <u>16</u> |
| <u>Item 1A. Risk Factors.</u> | <u>16</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u> | <u>17</u> |
| <u>Item 3. Defaults Upon Senior Securities.</u> | <u>17</u> |
| <u>Item 4. Mine Safety Disclosures (Not applicable).</u> | <u>17</u> |
| <u>Item 5. Other Information.</u> | <u>17</u> |
| <u>Item 6. Exhibits.</u> | <u>18</u> |

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

PAYMENT DATA SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

| | June 30, 2018 (Unaudited) | December 31, 2017 |
|--|------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$2,722,357 | \$4,800,554 |
| Accounts receivable, net | 939,394 | 969,674 |
| Settlement processing assets | 40,130,936 | 38,027,984 |
| Prepaid expenses and other | 242,606 | 176,945 |
| Notes receivable, net | 77,500 | 150,000 |
| Current assets before merchant reserves | 44,112,793 | 44,125,157 |
| Merchant reserves | 14,782,305 | 14,977,468 |
| Total current assets | 58,895,098 | 59,102,625 |
| Property and equipment, net | 2,121,062 | 2,105,186 |
| Other assets: | | |
| Intangibles, net | 4,176,426 | 4,676,427 |
| Deferred tax asset | 1,394,000 | 1,394,000 |
| Other assets | 302,287 | 157,565 |
| Total other assets | 5,872,713 | 6,227,992 |
| Total assets | \$66,888,873 | \$67,435,803 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$237,545 | \$300,736 |
| Accrued expenses | 901,872 | 1,006,262 |
| Settlement processing obligations | 40,130,936 | 38,027,984 |
| Deferred revenues | 50,000 | — |
| Current liabilities before merchant reserve obligations | 41,320,353 | 39,334,982 |
| Merchant reserve obligations | 14,782,305 | 14,977,468 |
| Total current liabilities | 56,102,658 | 54,312,450 |
| Non-current liabilities: | | |
| Deferred rent | 27,416 | — |
| Total liabilities | 56,130,074 | 54,312,450 |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized; -0- shares outstanding at June 30, 2018 (unaudited) and December 31, 2017, respectively | — | — |
| Common stock, \$0.001 par value, 200,000,000 shares authorized; 17,069,680 and 16,874,235 issued, and 15,997,361 and 16,201,634 outstanding at June 30, 2018 (unaudited) and December 31, 2017, respectively | 185,501 | 186,299 |
| Additional paid-in capital | 74,434,439 | 74,041,083 |

Treasury stock, at cost; 1,072,319 and 672,601 shares at June 30, 2018 (unaudited) and December 31, 2017, respectively (1,790,135) (831,059)

1

| | | |
|----------------------------|---------------|---------------|
| Deferred compensation | (6,724,336) | (7,012,544) |
| Accumulated deficit | (55,346,670) | (53,260,426) |
| Total stockholders' equity | 10,758,799 | 13,123,353 |

Total liabilities and stockholders' equity \$66,888,873 \$67,435,803

See the accompanying notes to the condensed interim consolidated financial statements.

1

PAYMENT DATA SYSTEMS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (UNAUDITED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|--------------|---------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | \$6,283,875 | \$2,550,441 | \$12,127,540 | \$5,361,185 |
| Cost of services | 4,964,260 | 1,854,406 | 9,537,018 | 3,722,351 |
| Gross profit | 1,319,615 | 696,035 | 2,590,522 | 1,638,834 |
| Selling, general and administrative: | | | | |
| Stock-based compensation | 298,477 | 217,759 | 672,855 | 425,679 |
| Other expenses | 1,595,276 | 799,740 | 3,093,927 | 1,628,012 |
| Depreciation and amortization | 457,276 | 227,273 | 915,939 | 455,818 |
| Total selling, general and administrative expenses | 2,351,029 | 1,244,772 | 4,682,721 | 2,509,509 |
| Operating (loss) | (1,031,414) | (548,737) | (2,092,199) | (870,675) |
| Other income and (expense): | | | | |
| Interest income | 15,396 | 38,730 | 26,917 | 72,546 |
| Other income (expense) | (420) | (2,653) | (1,962) | (1,114) |
| Other income and (expense), net | 14,976 | 36,077 | 24,955 | 71,432 |
| (Loss) before income taxes | (1,016,438) | (512,660) | (2,067,244) | (799,243) |
| Income taxes | 19,000 | 21,677 | 19,000 | 21,677 |
| Net (loss) | \$(1,035,438) | \$(534,337) | \$(2,086,244) | \$(820,920) |
| Basic (loss) per common share: | \$(0.09) | \$(0.06) | \$(0.17) | \$(0.10) |
| Diluted (loss) per common share: | \$(0.09) | \$(0.06) | \$(0.17) | \$(0.10) |
| Weighted average common shares outstanding | | | | |
| Basic | 12,075,580 | 8,471,494 | 12,124,538 | 8,478,339 |
| Diluted | 12,075,580 | 8,471,494 | 12,124,538 | 8,478,339 |

See the accompanying notes to the condensed interim consolidated financial statements.

PAYMENT DATA SYSTEMS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)

| | Six Months Ended June 30, | |
|--|---------------------------|---------------|
| | 2018 | 2017 |
| Operating activities: | | |
| Net (loss) | \$(2,086,244) | \$(820,920) |
| Adjustments to reconcile net (loss) to net cash (used) by operating activities: | | |
| Depreciation | 415,939 | 374,249 |
| Amortization | 500,001 | 81,569 |
| Provision for loss on note receivable | 72,500 | — |
| Stock based compensation | 672,855 | 425,679 |
| Issuance of stock to consultant for services | 7,911 | 15,400 |
| Changes in current assets and current liabilities: | | |
| Accounts receivable | 30,280 | 25,647 |
| Prepaid expenses and other | (65,661) | (86,710) |
| Other assets | (144,722) | (22,567) |
| Accounts payable and accrued expenses | (167,581) | 20,731 |
| Merchant reserves | (195,163) | (851,121) |
| Deferred revenue | 50,000 | — |
| Deferred rent | 27,416 | — |
| Net cash (used) by operating activities | (882,469) | (838,043) |
| Investing activities: | | |
| Purchases of property and equipment | (431,815) | (298,426) |
| Notes receivable | — | (500,000) |
| Net cash (used) by investing activities | (431,815) | (798,426) |
| Financing activities: | | |
| Purchases of treasury stock | (959,076) | (108,939) |
| Net cash (used) by financing activities | (959,076) | (108,939) |
| Change in cash, cash equivalents and merchant reserves | (2,273,360) | (1,745,408) |
| Cash, cash equivalents and merchant reserves, beginning of period | 19,778,022 | 19,924,379 |
| Cash, cash equivalents and merchant reserves, end of period | \$ 17,504,662 | \$ 18,178,971 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | — | — |
| Income taxes | 49,000 | 21,677 |
| See accompanying notes to the condensed interim consolidated financial statements. | | |

PAYMENT DATA SYSTEMS, INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of Payment Data Systems, Inc. and its subsidiaries (the “Company”) have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim condensed consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to present fairly the Company's financial position, results of operations and cash flows for such periods. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on March 30, 2018. Results of operations for interim periods are not necessarily indicative of results that may be expected for any other interim periods or the full fiscal year.

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, and is recognized as revenue during the period the transactions are processed or when the related services are performed. The Company reports revenues as 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. Sales taxes billed are reported directly as a liability to the taxing authority, and are not included in revenue.

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.

Merchant Reserves: The Company has merchant reserve requirements associated with 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 our 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 and merchant reserves is as follows for each period presented:

| | June 30, 2018 | June 30, 2017 |
|---|------------------|------------------|
| Beginning cash, cash equivalents and merchant reserves: | | |
| Cash and cash equivalents | \$4,800,554 | \$4,120,738 |
| Merchant reserves | 14,977,468 | 15,803,641 |
| Total | \$19,778,022 | \$19,924,379 |
| Ending cash, cash equivalents and merchant reserves: | | |
| Cash and cash equivalents | \$2,722,357 | \$3,226,451 |
| Merchant reserves | 14,782,305 | 14,952,520 |
| Total | \$17,504,662 | \$18,178,971 |

Allowance for Estimated Losses: The Company maintains an allowance for estimated doubtful accounts receivable resulting from the inability or failure of the Company's customers to make required payments. The Company determines the allowance for estimated doubtful accounts receivable losses 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 conditions of the Company's customers were to deteriorate, resulting in an impairment of their ability to make contractual payments, additional allowances might be required. Estimates for doubtful account losses are variable based on the volume of transactions processed and could increase or decrease accordingly. At June 30, 2018 and December 31, 2017, the Company's allowance for estimated doubtful accounts was \$59,348 and \$61,223, respectively.

Accounting for Internal Use Software: The Company capitalizes the costs associated with software being developed or obtained for internal use when both the preliminary project stage is completed and it is probable that computer software being developed will be completed and 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. In the six months ended June 30, 2018, the Company capitalized \$66,705 of such costs.

Valuation of Long-Lived and Intangible Assets: The Company assesses the impairment of long-lived and intangible assets at least annually, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important, which could trigger an impairment review, include the following: significant under performance relative to historical or projected future cash flows; significant changes in the manner of use of the assets or the strategy of the overall business; and significant negative industry trends. When management determines that the carrying value of long-lived and intangible assets may not be recoverable, impairment is measured as the excess of the assets' carrying value over the estimated fair value. No impairment losses were recorded in 2017 or during the six months ended June 30, 2018. Management is not aware of any impairment changes that may currently be required; however, the Company cannot predict the occurrence of events that might adversely affect the reported values in the future.

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 credit card, ACH or 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 the Company's 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's relationship with the Company's prepaid card holders. This reserve amount is subject to the risk that actual losses may be greater than the Company's estimates. The Company has not incurred any significant processing losses to date. Estimates for processing losses are variable based on the volume of transactions processed and could increase or decrease accordingly. At June 30, 2018 the Company's reserve for processing losses was \$172,252 and \$172,832 at December 31, 2017.

Recently Adopted Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board (FASB) issued accounting standards update, ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" and a subsequent amendment to the standard in March 2016, ASU 2016-08 "Revenue from Contracts with Customers, Principal versus Agent Consideration (Reporting Revenue Gross versus Net)." The original standard provides guidance on recognizing revenue, including a five-step model to determine when revenue recognition is appropriate. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment to the standard clarifies implementation guidance on principal versus agent considerations. Adoption of the new standards is effective for reporting periods beginning after December 15, 2017, with early adoption not permitted. The Company has evaluated the potential impact that the adoption of this standard will have on its financial position, results of operations, and related disclosures, and has adopted the provisions of this new standard beginning January 1, 2018. The Company functions as the merchant of record and has primary responsibility for providing end-to-end payment processing services for its clients. The Company's clients contract with the Company for all credit card processing services including transaction authorization, settlement, dispute resolution, security and risk management solutions, reporting and other value-added services. As such, the Company is the primary obligor in these transactions and is solely responsible for all processing costs, including interchange fees. Further, the Company sets prices as it deems reasonable for each merchant. The gross fees the Company collects are intended to cover the interchange, assessments and other processing fees and include the Company's margin on transactions processed. For these reasons, the Company is the principal obligor in the contractual relationship with its customers and therefore, the Company records its revenues, including interchange and assessments on a gross basis. The Company's existing revenue recognition process will remain intact and the Company will continue to record revenues at the gross amount billed due to the Company's primary responsibility for providing end-to-end payment processing services for its clients.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) Restricted Cash ("ASU 2016-18"), which requires that the reconciliation of the beginning of period and end of period amounts shown in the statement of cash flows include restricted cash and restricted cash equivalents. If restricted cash is presented separately from cash and cash equivalents on the balance sheet, companies will be required to reconcile the amounts presented on the statement of cash flows to the amounts on the balance sheet. This guidance is required to be applied retrospectively and is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. As required, the Company applied the provisions of ASU 2016-18 as of January 1, 2018. As a result, the change in restricted cash has been included in the change in cash, cash equivalents and merchant reserves and the prior period reported information has been recast to reflect the new presentation.

New Accounting Pronouncements:

In February 2016, the FASB issued, "Leases (Topic 842)," which is intended to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee will be required to recognize on the balance sheet an asset (right to use) and a liability (lease obligation) for leases with terms of more than 12 months. Accounting by lessors will remain largely unchanged from current U.S. generally accepted accounting principles. The new standard is effective for this Company for the fiscal year beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. Management does not expect that adopting this standard will have a significant impact on its financial statements and related disclosures.

In June 2018, the FASB issued Accounting Standards Update "ASU No. 2018-07 - Compensation - Stock Compensation". The ASU expands the scope of current guidance to include all share-based payment arrangements related to the acquisition of goods or services from both non-employees and employees. The guidance in the ASU is

effective for the Company in all fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of this standard on its consolidated financial statements, if any.

Note 2. Acquisition of Singular Payments, LLC

On September 1, 2017, the Company entered into a membership interest purchase agreement with Singular Payments, LLC (“Singular Payments”), a Florida limited liability company in the business of credit card processing, pursuant to which the Company agreed to purchase all of the membership interest in Singular Payments, LLC. The aggregate purchase price was \$5,000,000 and consisted of a cash payment of \$1,500,000 at closing, minus the balance on the outstanding note receivable of \$600,000 and subject to adjustment based on net working capital, and \$3,500,000 in shares of common stock, or 1,515,152 shares of the Company's common stock, \$0.001 par value per share, valued at \$2.31 per share. Such shares are unregistered and subject to a lock-up agreement of 24 months.

The final number of shares issued, and the related value per each such share, was determined using the volume-weighted average daily closing price for the shares of common stock for the 5 business days immediately preceding September 1, 2017, or \$2.31.

The purchase price was allocated to the net assets acquired based upon their estimated fair values as follows:

| | Estimated Fair Value | Estimated Useful Life |
|---------------|-------------------------|-----------------------|
| Customer list | \$5,000,000 | 5 years |
| Total | \$5,000,000 | |

The unaudited proforma results including the effects of the Singular Payments acquisition as if it had been consummated on January 1, 2016 were included in a Form 8-K/A filed November 17, 2017 and summarized in the Form 10-K filed March 30, 2018.

Note 3. Notes Receivable

Under a loan and security agreement dated February 2, 2016, the Company's wholly-owned subsidiary FiCentive, Inc. loaned a principal amount of \$200,000 to C2Go, Inc. with an interest rate of 10% per annum for a term of 18 months. The loan was secured by a first lien on all assets of C2Go. C2Go defaulted under the note by failing to repay the loan plus interest on August 2, 2017. A lawsuit filed by FiCentive is pending in Bexar County, San Antonio, Texas. On December 7, 2017, the Company entered into a note purchase and settlement agreement with C2Go and Mercury Investment Partners LLC. Pursuant to the note purchase and settlement agreement Mercury Investment Partners agreed to purchase the note and the rights secured by the security agreement with all rights and obligations and pay to FiCentive a sum of \$200,000 in three installments. The first installment of \$50,000 was paid on December 7, 2017. The second installment of \$50,000 was due on April 30, 2018, and the remaining amount of \$100,000 is due on October 31, 2018. In return, FiCentive agreed to waive all interest due and payable under the terms of the C2Go loan. Mercury Investment Partners has not paid the amount due on April 30, 2018. FiCentive has issued a letter of default. FiCentive agreed to extend the due date of the \$50,000 payment due April 30, 2018 to May 16, 2018. \$5,000 of the \$50,000 due May 16, 2018 was received after June 30, 2018. There are no assurances the Company will be able to recover the remaining \$145,000 principal due and there are no assurances the Company will be able to recover any value from its lien on all the assets of C2Go, Inc. if payment in full of the obligation is not made. Due to the uncertainty of the situation and “more likely than not” recognition threshold as of June 30, 2018, the Company recorded a loss reserve on the note receivable of \$72,500.

On March 7, 2017, the Company agreed to provide \$500,000 to Singular Payments, LLC, a Florida limited liability company, under a secured line of credit promissory note. Interest on the note did not accrue until the earlier of August 31, 2017, the date of closing and funding the Company's proposed acquisition of Singular Payments or the termination of a non-binding letter of intent regarding the proposed acquisition; or until such mutually agreed upon extended date.

The loan was increased to \$600,000 on August 2, 2017. The Singular Payments, LLC acquisition closed on September 1, 2017. The note receivable was applied to the cash purchase price as part of the Purchase Agreement.

7

Note 4. Accrued Expenses

Accrued expenses consisted of the following balances:

| | June 30, 2018 | December 31, 2017 |
|-----------------------------|------------------|----------------------|
| Accrued commissions | \$62,469 | \$ 331,214 |
| Reserve for merchant losses | 172,252 | 172,832 |
| Other accrued expenses | 583,910 | 387,882 |
| Accrued taxes | 17,805 | 45,129 |
| Accrued salaries | 65,436 | 69,205 |
| Total accrued expenses | \$901,872 | \$ 1,006,262 |

Note 5. Net (Loss) Per Share

Basic (loss) per share (EPS) were computed by dividing net (loss) 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 awards and 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) for the three and six months ended June 30, 2018 and June 30, 2017.

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2018 | |
|--|--|-------------|--------------------------------------|-----------|
| Numerator: | | | | |
| Numerator for basic and diluted (loss) per share, net income (loss) available to common shareholders | \$(1,035,438) | \$(534,337) | (2,086,244) | (820,920) |
| Denominator: | | | | |
| Denominator for basic (loss) per share, weighted average shares outstanding | 12,075,580 | 8,471,494 | 12,124,538 | 8,478,339 |
| Effect of dilutive securities | — | — | — | — |
| Denominator for diluted earnings per share, adjust weighted average shares and assumed conversion | 12,075,580 | 8,471,494 | 12,124,538 | 8,478,339 |
| Basic (loss) per common share | \$(0.09) | \$(0.06) | (0.17) | \$(0.10) |
| Diluted (loss) per common share and common share equivalent | \$(0.09) | \$(0.06) | (0.17) | \$(0.10) |

The awards and options to purchase shares of common stock that were outstanding at June 30, 2018 and June 30, 2017 that were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive, are as follows:

| | Six Months Ended June 30, | |
|----------------------------------|------------------------------|-----------|
| | 2018 | 2017 |
| Anti-dilutive awards and options | 3,846,141 | 3,352,831 |

Note 6. Income Taxes

Deferred tax assets and liabilities are recorded based on the difference between financial reporting and tax basis of assets and liabilities and are measured by 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.

The Company has recognized a deferred tax asset of approximately \$1.4 million and has recorded a valuation allowance of approximately \$8.2 million to reduce the other deferred tax assets. The Company reviews the assessment of the deferred tax asset and valuation allowance on an annual basis or more often when events indicate a change to the valuation allowance may be warranted.

At December 31, 2017, the Company had available net operating loss carryforwards of approximately \$41.3 million, which expire beginning in the year 2021. Approximately \$0.1 million of the total net operating loss carryforward is subject to an IRS Section 382 limitation from 1999.

Management is not aware of any tax positions that would have a significant impact on the Company’s financial position.

Note 7. Related Party Transactions

Louis Hoch

During the six months ended June 30, 2018 and the year ended December 31, 2017, the Company purchased a total of \$826 and \$1,826, respectively, of corporate imprinted sportswear and caps from Angry Pug Sportswear. Louis Hoch, the Company’s President and Chief Executive Officer, is a 50% owner of Angry Pug Sportswear.

Miguel Chapa

During the six months ended June 30, 2018 and the year ended December 31, 2017, the Company received \$10,181 and \$29,555, respectively, in revenue from Lush Rooftop. Miguel Chapa, a member of the Company’s Board of Directors, is an owner of Lush Rooftop. Louis Hoch, the Company’s President and Chief Executive Officer, is also a minority owner in Lush Rooftop.

Directors and Officers

On January 8, 2018 and January 9, 2018, the Company repurchased 397,845 shares for \$956,128 in a private transaction at the closing price on January 8, 2018 and January 9, 2018 from officers, employees and director's to cover the respective employees', officers' and directors' share of taxes for shares that vested on that day, as approved by the Audit Committee and the Board of Directors on the same day, with the respective officers and directors recusing themselves. In particular, the Company repurchased the following shares from Named Executive Officers and directors:

- Michael Long (Chairman of the Board): 158,476 shares valued at \$2.40 per share or total of \$380,342;
- Louis Hoch (President and Chief Executive Officer): 158,476 shares valued at \$2.40 per share or total of \$380,342;
- and
- Tom Jewell (Chief Financial Officer): 13,060 shares valued at \$2.50 per share or total of \$32,650.

Note 8. Legal Proceedings

Under a loan and security agreement dated February 2, 2016, the Company's wholly-owned subsidiary FiCentive, Inc. loaned a principal amount of \$200,000 to C2Go, Inc. with an interest rate of 10% per annum for a term of 18 months. The loan was secured by a first lien on all assets of C2Go. C2Go defaulted under the note by failing to repay the loan plus interest on August 2, 2017. A lawsuit filed by FiCentive is pending in Bexar County, San Antonio, Texas. On December 7, 2017, the Company entered into a note purchase and settlement agreement with C2Go and Mercury Investment Partners LLC. Pursuant to the note purchase and settlement agreement Mercury Investment Partners agreed to purchase the note and the rights secured by the security agreement with all rights and obligations and pay to FiCentive a sum of \$200,000 in three installments. The first installment of \$50,000 was paid on December 7, 2017. The second installment of \$50,000 was due on April 30, 2018, and the remaining amount of \$100,000 is due on October 31, 2018. In return, FiCentive agreed to waive all interest due and payable under the terms of the C2Go loan. Mercury Investment Partners has not paid the amount due April 30, 2018. FiCentive has issued a letter of default. FiCentive agreed to extend the due date of the \$50,000 payment due April 30, 2018 to May 16, 2018. \$5,000 of the \$50,000 due was received subsequent to the end of the quarter. There are no assurances that the Company will be able to recover the remaining \$145,000 principal and there are no assurances there will be any assets for the Company to recover from its lien on all the assets of C2Go, Inc. if payment in full of the obligation is not made. Due to the uncertainty of the situation and "more likely than not" recognition threshold as of June 30, 2018, the Company has recorded a \$72,500 loss reserve on the note receivable.

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

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING STATEMENTS DISCLAIMER

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. If used in this report, the words "anticipate," "believe," "estimate," "intend," and 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 our annual report on Form 10-K and other reports we file with the Securities and Exchange Commission. Although we believe the expectations reflected in the forward-looking statements are reasonable, they relate only to events as of the date on which the statements are made. We do not intend to update any of the forward-looking statements after the date of this report to conform these statements to actual results or to changes in our expectations, except as required by law.

This discussion and analysis should be read in conjunction with the unaudited interim condensed consolidated financial statements and the notes thereto included in this report, and our annual report on Form 10-K for the fiscal year ended December 31, 2017, filed on March 30, 2018, including the audited consolidated financial statements and the notes contained therein.

Overview

We provide integrated electronic payment processing services to merchants and businesses, including all types of Automated Clearing House, or ACH, processing, credit, PINless debit, prepaid card and debit card-based processing services. We also operate an online payment processing service, under the domain name www.billx.com system, which allows consumers to process online payments to pay any other individual, including family and friends. Through Akimbo, under the domain name www.akimbocard.com, we offer MasterCard prepaid cards to consumers for use as a tool to stay on budget, manage allowances and share money with family and friends. We have further developed our Akimbo platform to include Akimbo Now for businesses, Akimbo Gift for consumers and support for Apple Pay®, Android Pay™ and Samsung Pay™.

On September 1, 2017, we closed the acquisition of Singular Payments, LLC. Singular Payments is a Fintech payments provider that relies upon innovative technology to process payments for merchants in healthcare and other niche markets nationwide. Singular is primarily focused on custom software integrations of their flat rate payment processing offerings and their proprietary, simple to use electronic bill payment presentment and payment platform which allows merchants to streamline the costly and labor-intensive process of invoicing and collections.

During the second quarter of 2018, the volume of credit card transactions processed increased by 415% compared to the second quarter of 2017. The amount of credit card dollars processed during the second quarter of 2018 increased by 291% compared to the same time period in 2017. Credit card transactions processed during the second quarter of 2018 increased by 1% compared to the first quarter of 2018. Credit card dollars processed during the second quarter of 2018 increased by 7% compared to the first quarter of 2018. The growth in both the number of transactions processed and the dollar amounts processed is primarily due to the acquisition of the legacy business of Singular Payments on September 1, 2017.

ACH (eCheck) transaction volumes during the second quarter of 2018 increased by 17% compared to the second quarter of 2017. eCheck volumes during the second quarter of 2018 were up 1% compared to the first quarter of 2018, representing the fourth consecutive quarter of growth. Returned check transactions processed during the second quarter of 2018 increased 30% compared to the second quarter of 2017 and increased by 6% compared to the first quarter of 2018.

Total dollars processed for the second quarter of 2018 exceeded \$821 million as compared to \$783 million in the first quarter of 2018.

We reported a net loss of \$1.0 million and \$2.1 million for the three and six months ended June 30, 2018 compared to a net loss of \$0.5 million and \$0.8 million for the three and six months ended June 30, 2017.

For the third quarter of 2018, we anticipate continued revenue increases in our ACH and returned check revenues versus the comparable period in the prior year. We also expect to report revenue increases versus the comparable prior

year period due to the legacy business acquired as a part of the Singular Payments acquisition coupled with sequential growth versus the third quarter of 2017. We expect to see increases in the number of enrolled merchant customers, for whom we provide processing for credit and debit card transactions, and we expect to add new clients from our sales pipeline, which we believe will create increased transaction volumes. Our prepaid credit card transactions should continue to gain traction.

We may incur future operating losses. To regain and sustain profitability, we must, among other things, incrementally grow and maintain our customer base, cross sell our ACH, credit card and prepaid product offerings to existing and new customers, implement successful marketing strategies, maintain and upgrade our technology and transaction-processing systems, provide superior customer service, respond to competitive developments, attract, retain and motivate personnel, and respond to unforeseen industry developments and other factors.

We believe that our success will depend in large part on our ability to (a) grow revenues, (b) effectively 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) properly assimilate current and future acquisitions of companies and customer portfolios. The acquisition of Singular Payments and their sales force complements our existing resources. The acquisition leverages our existing customer and service offerings providing a near-term impact on revenues and profits. We are focused on adding new software integrators and cross-selling 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 capabilities without significantly increasing our operating costs.

Critical Accounting Policies

Our management's discussion and analysis of financial condition and results of operations is based upon our interim condensed 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, revenues 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, and 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 the accounting policies described in Note 1 to the Notes to the Interim Condensed Consolidated Financial Statements 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 Interim Condensed Consolidated Financial Statements, Note 1, Basis of Presentation.

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 and the program management and processing of prepaid debit cards. We also operate an online payment processing service for consumers under the domain name www.billx.com and sell this service as a private-label application to resellers.

Revenues for the quarter ended June 30, 2018 increased 146% to \$6.3 million, as compared to \$2.6 million for the quarter ended June 30, 2017. Revenues for the six months ended June 30, 2018 increased 126% to \$12.1 million, as compared to \$5.4 million for the six months ended June 30, 2017. The increase for the quarter and six months ended June 30, 2018 versus the same period in 2017 was due to 13.5% and 4.7% organic growth (excluding Singular results) for the three and six months ended June 30, 2018 plus the acquisition of the legacy business of Singular Payments, LLC on September 1, 2017.

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 are able to 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 increased 168% to \$5.0 million for the quarter ended June 30, 2018, as compared to \$1.9 million for the same period in the prior year. Cost of services increased 156% to \$9.5 million for the six months ended June 30, 2018, as compared to \$3.7 million for the same period in the prior year. The increase for the quarter and six months ended June 30, 2018, as compared to the same period in the prior year, was primarily due to the increase in the volume of credit card processing transactions associated with the business acquired from the Singular Payments acquisition plus organic growth in the other lines of business.

Gross Profit

Gross profit is the net profit existing after the cost of services. Gross profits increased 90% to \$1.3 million for the quarter ended June 30, 2018, as compared to \$0.7 million for the same period in the prior year. Gross profits increased 58% to \$2.6 million for the six months ended June 30, 2018, as compared to \$1.6 million for the same period in the

prior year. The increase for the quarter and six months ended June 30, 2018, as compared to the same period in the prior year, was due to organic growth plus the gross profits associated with the credit card portfolio acquired through the Singular Payments acquisition.

Stock-based Compensation

Stock-based compensation expenses were \$0.3 million and \$0.2 million for the quarters ended June 30, 2018 and 2017, respectively. Stock-based compensation expenses were \$0.7 million and \$0.4 million for the six months ended June 30, 2018 and 2017, respectively. The increase in stock-based compensation expense was due to the incremental expenses recorded for financial statement purposes associated with the stock grants issued in November 2017.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses increased by 99% to \$1.6 million for the quarter ended June 30, 2018, as compared to \$0.8 million for the same period in the prior year. Other selling, general and administrative expenses increased by 90% to \$3.1 million for the six months ended June 30, 2018, as compared to \$1.6 million for the same period in the prior comparative period. The increase in other selling, general and administrative expenses for the three months ended June 30, 2018, as compared to the same period in the prior year, was primarily attributable to employee salaries and other employee related expenses primarily associated with the Singular Payments acquisition.

Depreciation and Amortization

Depreciation and amortization totaled \$0.5 million for the quarter ended June 30, 2018, compared to depreciation and amortization of \$0.2 million for the same period in 2017. Depreciation and amortization totaled \$0.9 million for the six months ended June 30, 2018, compared to depreciation and amortization of \$0.5 million for the same period in 2017. Increased amortization expense was as a result of the Singular Payments acquisition in September, 2017.

Other Income (Expense)

Other income (expense) was \$15 thousand for the quarter ended June 30, 2018 compared to income of \$36 thousand for the quarter ended June 30, 2017, respectively. Other income (expense) was \$25 thousand for six months ended June 30, 2018 compared to income of \$71 thousand for the six months ended June 30, 2017, respectively.

Net Loss

We reported a net loss of \$1.0 million for the quarter ended June 30, 2018, as compared to a net loss of \$0.5 million for the same period in the prior year and a net loss of \$2.1 million for the six months ended June 30, 2018, as compared to a net loss of \$0.8 million for the same period in the prior year. The key drivers in the decrease in profitability include continuing resource investments in developing our technology and sales efforts designed to grow and expand our capabilities across our ACH, PayFac and Prepaid businesses.

Liquidity and Capital Resources

At June 30, 2018, we had \$2.7 million of cash and cash equivalents, as compared to \$4.8 million of cash and cash equivalents at December 31, 2017. The decrease in cash for the six months ended June 30, 2018 was primarily due to \$0.9 million of net funds used by operations for the period and \$1.0 million of treasury stock purchases to cover employee taxes associated with the January 9, 2018 stock vesting and \$0.4 million of capital expenditures. We are focused on efforts to drive gross profits and optimize expenditures to achieve positive cash flow from operating activities.

We reported a net loss of \$1.0 million for the quarter ended June 30, 2018 and a net loss of \$0.8 million for the quarter ended June 30, 2017 and a net loss of \$2.1 million for the quarter ended June 30, 2018 and a net loss of \$0.8 million for the quarter ended June 30, 2017. At June 30, 2018, we have an accumulated deficit of \$55.3 million. Additionally, we had working capital of \$2.8 million and \$4.8 million at June 30, 2018 and December 31, 2017, respectively.

Net cash used by operating activities including merchant reserve funds was \$0.9 million and \$0.8 million for the six months ended June 30, 2018 and June 30, 2017, respectively. The increase in net cash used by operating activities for the six months ended June 30, 2018 as compared to the same period in the prior year was attributable to a higher operating loss as we continue to invest in resources and infrastructure to scale our business. We are focused on efforts to achieve positive cash flows from operations.

Net cash used by investing activities was \$0.4 million for the six months June 30, 2018, as compared to net cash used by investing activities of \$0.8 million for the same period in the prior year. The investing activities related to normal asset purchases plus expenditures associated with the establishment of two new offices as a result of lease expirations. Prior year investing activities included purchases and a note receivable associated with the acquisition of Singular Payments on September 1, 2017.

Under a loan and security agreement dated February 2, 2016, our wholly-owned subsidiary FiCentive, Inc. loaned a principal amount of \$200,000 to C2Go, Inc. with an interest rate of 10% per annum for a term of 18 months. The loan was secured by a first lien on all assets of C2Go. C2Go defaulted under the note by failing to repay the loan plus interest on August 2, 2017. A lawsuit filed by FiCentive is pending in Bexar County, San Antonio, Texas. On December 7, 2017, we entered into a note purchase and settlement agreement with C2Go and Mercury Investment Partners LLC. Pursuant to the note purchase and settlement agreement Mercury Investment Partners agreed to purchase the note and the rights secured by the security agreement with all rights and obligations and pay to FiCentive a sum of \$200,000 in three installments. The first installment of \$50,000 was paid on December 7, 2017. The second installment of \$50,000 was due on April 30, 2018, and the remaining amount of \$100,000 is due on October 31, 2018. In return, FiCentive agreed to waive all interest due and payable under the terms of the C2Go loan. Mercury Investment Partners has not paid the \$50,000 due April 30, 2018. FiCentive has issued a letter of default. FiCentive agreed to extend the due date of the payment due April 30, 2018 to May 16, 2018. \$5,000 of the \$50,000 due was received subsequent to the end of the period. There are no assurances that we will be able to recover the remaining \$145,000 principal and there are no assurances we will be able to recover any value from our lien on all the assets of C2Go, Inc. if payment in full of the obligation is not made. Due to the uncertainty of the situation and “more likely than not” recognition threshold as of June 30, 2018, we have recorded a \$72,500 loss reserve on the note receivable.

Off-Balance Sheet Arrangements

We currently 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 3. 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 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive and Chief Financial Officers, 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 (the “Exchange Act”)) as of the end of the period covered by this quarterly report on Form 10-Q. Based on that evaluation, our Chief Executive and Chief Financial Officers concluded that our disclosure controls and procedures as of June 30, 2018 were 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 and Chief Financial Officers, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our evaluation of disclosure controls and procedures included an evaluation of certain 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.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Under a loan and security agreement dated February 2, 2016, our wholly-owned subsidiary FiCentive, Inc. loaned a principal amount of \$200,000 to C2Go, Inc. with an interest rate of 10% per annum for a term of 18 months. The loan was secured by a first lien on all assets of C2Go. C2Go defaulted under the note by failing to repay the loan plus interest on August 2, 2017. A lawsuit filed by FiCentive is pending in Bexar County, San Antonio, Texas. On December 7, 2017, we entered into a note purchase and settlement agreement with C2Go and Mercury Investment Partners LLC. Pursuant to the note purchase and settlement agreement Mercury Investment Partners agreed to purchase the note and the rights secured by the security agreement with all rights and obligations and pay to FiCentive a sum of \$200,000 in three installments. The first installment of \$50,000 was paid on December 7, 2017. The second installment of \$50,000 was due on April 30, 2018, and the remaining amount of \$100,000 is due on October 31, 2018. In return, FiCentive agreed to waive all interest due and payable under the terms of the C2Go loan. Mercury Investment Partners has not paid the amount due April 30, 2018. FiCentive has issued a letter of default. In principle, FiCentive has agreed to extend the due date of the \$50,000 payment due April 30, 2018 to May 16, 2018. \$5,000 of the \$50,000 due was received after June 30, 2018. There are no assurances that we will be able to recover the remaining \$145,000 principal and there are no assurances we will be able to recover any value from our lien on all the assets of C2Go, Inc. if payment in full of the obligation is not made. Due to the uncertainty of the situation and “more likely than not” recognition threshold as of June 30, 2018, we have recorded a \$72,500 loss reserve on the note receivable.

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

Item 1A. RISK FACTORS.

There have been no material changes from risk factors previously disclosed in our annual report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission on March 30, 2018.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Recent Sales of Unregistered Securities

There were no issuances of unregistered equity securities during the quarter ended June 30, 2018.

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 funds available at December 31, 2017 were \$455,030 and after the increase were \$2,455,030. At June 30, 2018, \$1,496,438 are available under the repurchase plan. The program began on November 16, 2016 and will be available until all funds are exhausted, or September 29, 2019, unless terminated earlier by us. The program may be used for purchases of stock from employees and directors; and for open-market purchases through a broker. During the three months ended June 30, 2018, we made the following stock repurchases:

| 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 |
|--------------------------|--|---|---|--|
| April 1 - April 30, 2018 | 1,187 | \$ 1.67 | 722,101 | \$ 1,496,927 |
| June 1 - June 30, 2018 | 742 | \$ 1.66 | 722,843 | \$ 1,496,438 |
| Total | 1,929 | | | |

On January 8, 2018 and January 9, 2018, we repurchased 397,845 shares for \$956,128 in a private transaction at the closing price on January 8 and January 9, 2018 from employees to cover the respective employee's share of taxes for shares that vested on that day, as approved by our Audit Committee and Board of Directors on the same day, with the respective directors recusing themselves. The share buyback included share purchases for Michael Long, Chairman of the Board, (\$380,342), Louis Hoch, President and Chief Executive Officer, (\$380,342), and Tom Jewell, Chief Financial Officer, (\$32,650), as approved by the Audit Committee of the Board of Directors and the Board of Directors as of January 9, 2018.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

Item 5. OTHER INFORMATION.

None.

17

Item 6. 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 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 Amended and Restated By-laws (included as exhibit 3.2 to the Form 10-KSB filed March 31, 2006, and incorporated herein by reference).
- 4.1 1999 Employee Stock Purchase Plan (included as exhibit 4.3 to the Form S-8, File No. 333-30958, filed February 23, 2000, and incorporated herein by reference).
- 10.1 Lease Agreement between the Company and Frost National Bank, Trustee for a Designated Trust, dated August 22, 2003 (included as exhibit 10.3 to the Form 10-Q filed November 14, 2003, and incorporated herein by reference).
- 10.2 Employment Agreement between the Company and Michael R. Long, dated February 27, 2007 (included as exhibit 10.1 to the Form 8-K filed March 2, 2007, and incorporated herein by reference).
- 10.3 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).
- 10.4 First Amendment to Employment Agreement between the Company and Michael R. Long, dated November 12, 2009 (included as exhibit 10.15 to the Form 10-Q filed November 16, 2009, and incorporated herein by reference).
- 10.5 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).
- 10.6 Second Amendment to Employment Agreement between the Company and Michael R. Long, dated April 12, 2010 (included as exhibit 10.16 to the Form 10-K filed April 15, 2010, and incorporated herein by reference).
- 10.7 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).
- 10.8 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).
- 10.9

Third Amendment to Employment Agreement between the Company and Michael R. Long, dated January 14, 2011 (included as exhibit 10.19 to the Form 10-K filed April 3, 2012, and incorporated herein by reference).

10.10 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).

10.11 Fourth Amendment to Employment Agreement between the Company and Michael R. Long, dated July 2, 2012 (included as exhibit 10.18 to the Form 10-Q filed August 20, 2012, and incorporated herein by reference).

10.12 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).

- 10.13 First Amendment to Lease Agreement dated August 22, 2003 between the Company and Frost National Bank, Trustee for a Designated Trust, dated February 6, 2006 (included as exhibit 10.17 to the Form 10-K filed April 1, 2013 and incorporated herein by reference).
- 10.14 Second Amendment to Lease Agreement dated August 22, 2003 between the Company and Frost National Bank, Trustee for a Designated Trust, dated October 7, 2009 (included as exhibit 10.18 to the Form 10-K filed April 1, 2013 and incorporated herein by reference).
- 10.15 Third Amendment to Lease Agreement dated August 22, 2003 between the Company and Frost National Bank, Trustee for a Designated Trust, dated October 12, 2013 (included as exhibit 10.19 to the Form 10-K filed April 1, 2013 and incorporated herein by reference).
- 10.16 Asset Purchase Agreement, dated December 22, 2014, by and between Akimbo Financial, Inc. and Payment Data Systems, Inc. (included as exhibit 10.1 to the Form 8-K filed December 24, 2014, and incorporated herein by reference).
- 10.17 Transition Services Agreement, dated December 22, 2014, by and between Akimbo Financial, Inc. and Payment Data Systems, Inc. (included as exhibit 10.2 to the Form 8-K filed December 24, 2014, and incorporated herein by reference).
- 10.18 Fourth Amendment to Lease Agreement, dated August 22, 2003, by and between Payment Data Systems, Inc. and Domicilio OC, LLC as successor-in-interest to Frost National Bank, dated February 12, 2015 (included as exhibit 10.24 to the Form 10-K filed March 30, 2015, and incorporated herein by reference).
- 10.19 Lease Agreement, dated February 12, 2015, by and between FiCentive, Inc. and Domicilio OC, LLC (included as exhibit 10.25 to the Form 10-K filed March 30, 2015, and incorporated herein by reference).
- 10.20 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).
- 10.21 Independent Director Agreement, dated April 24, 2015, by and between Payment Data Systems, Inc. and Miguel A. Chapa (included as exhibit 10.29 to the Form 10-Q filed August 14, 2015, and incorporated herein by reference).
- 10.22 Loan and Security Agreement, dated February 2, 2016, by and between C2Go, Inc., as Debtor and FiCentive, Inc., as Lender (included as exhibit 10.1 to the Form 8-K filed February 8, 2016, and incorporated herein by reference).
- 10.23 Prepaid Card Marketing and Processing Agreement, dated February 2, 2016, by and between FiCentive, Inc. and C2Go, Inc. (included as exhibit 10.2 to the Form 8-K filed February 8, 2016, and incorporated herein by reference).
- 10.24 Fifth Amendment to Employment Agreement between the Company and Michael R. Long, dated August 3, 2016 (included as exhibit 10.1 to the Form 8-K filed August 9, 2016, and incorporated herein by reference).
- 10.25 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).
- 10.26

Sixth Amendment to Employment Agreement between the Company and Michael R. Long, dated September 8, 2016 (included as exhibit 10.1 to the Form 8-K filed September 14, 2016, and incorporated herein by reference).

10.27 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).

10.28 Employment agreement between Tom Jewell and Payment Data Systems, Inc., dated January 6, 2017 (included as exhibit 10.1 to the Form 8-K filed January 6, 2017, and incorporated herein by reference).

10.29 Line of Credit Promissory Note, dated March 7, 2017, by and between Singular Payments, LLC, as Borrower and Payment Data Systems, Inc., as Lender (included as exhibit 10.1 to the Form 8-K filed March 13, 2017, and incorporated herein by reference).

- 10.30 Security Agreement, dated March 7, 2017, by and between Singular Payments, LLC, as Debtor and Payment Data Systems, Inc., as Secured Party (included as exhibit 10.2 to the Form 8-K filed March 13, 2017, and incorporated herein by reference).
- 10.31 Membership Interest Pledge Agreement, dated March 7, 2017, by and between Vaden Landers as Pledgor and Payment Data Systems, Inc. (included as exhibit 10.3 to the Form 8-K filed March 13, 2017, and incorporated herein by reference).
- 10.32 Guaranty Agreement, dated March 7, 2017, by and between Vaden Landers as Guarantor and Payment Data Systems, Inc. (included as exhibit 10.4 to the Form 8-K filed March 13, 2017, and incorporated herein by reference).
- 10.33 Independent Director Agreement, dated November 11, 2016, by and between Payment Data Systems, Inc. and Steve Huffman (included as exhibit 10.41 to the Form 10-K, filed April 6, 2017, and incorporated herein by reference).
- 10.34 Independent Director Agreement, dated May 5, 2017, by and between Payment Data Systems, Inc. and Brad Rollins (included as exhibit 10.1 to the Form 8-K, filed May 11, 2017, and incorporated herein by reference).
- 10.35 Amendment No. 1 to Line of Credit Promissory Note, dated June 6, 2017, by and between Payment Data Systems, Inc. and Singular Payments, LLC (included as exhibit 10.1 to the Form 8-K, filed June 8, 2017, and incorporated herein by reference).
- 10.36 First Amended and Restated Line of Credit Promissory Note, dated August 2, 2017, by and between Payment Data Systems, Inc. and Singular Payments, LLC (included as exhibit 10.1 to the Form 8-K, filed August 7, 2017, and incorporated herein by reference).
- 10.37 Membership Interest Purchase Agreement, dated September 1, 2017, by and among Payment Data Systems, Inc., Singular Payments, LLC and Vaden Landers (included as exhibit 10.1 to the Form 8-K, filed September 8, 2017, and incorporated herein by reference).
- 10.38 Employment Agreement, dated September 1, 2017, by and between Payment Data Systems, Inc. and Vaden Landers (included as exhibit 10.2 to the Form 8-K, filed September 8, 2017, and incorporated herein by reference).
- 10.39 First Amendment to Employment Agreement, dated November 27, 2017, by and between Payment Data Systems, Inc. and Tom Jewell (included as exhibit 10.1 to the Form 8-K, filed November 28, 2017, and incorporated herein by reference).
- 10.40 Placement Agency Agreement, dated December 21, 2017, by and between Payment Data Systems, Inc. and Maxim Group, LLC (included as exhibit 10.1 to the Form 8-K, filed December 22, 2017, and incorporated herein by reference).
- 10.41 Share Purchase Agreement, dated December 21, 2017, by and among Payment Data Systems, Inc., CVI Investments, Inc., Hudson Bay Maser Fund Ltd., Special Situations Fund III QP, L.P., Special Situations Private Equity Fund, L.P. and Special Situations Cayman Fund, L.P. (included as exhibit 10.2 to the Form 8-K, filed December 22, 2017, and incorporated herein by reference).

Edgar Filing: PAYMENT DATA SYSTEMS INC - Form 10-Q

- 10.42 Settlement Agreement, dated December 7, 2017, by and among C2Go, Inc., FiCentive, Inc. and Mercury Investment Partners LLC (included as exhibit 10.42 to the Form 10-K, filed March 30, 2018, and incorporated herein by reference).
- 10.43 Lease Agreement dated February 9, 2018 between Payment Data Systems, Inc. and Blauers Paesanos Parkway LP (included as exhibit 10.43 to the Form 10-K, filed March 30, 2018, and incorporated herein by reference).
- 10.44 Lease Agreement between Payment Data Systems, Inc. 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).
- 14.1 Code of Ethics (included as exhibit 14.1 to the Form 10-K filed March 30, 2004, and incorporated herein by reference).

20

- 16.1 Letter from Ernst and Young LLP to the Securities and Exchange Commission dated February 10, 2004 (included as exhibit 16 to the Form 8-K filed February 11, 2004, and incorporated herein by reference).
- 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 XBRL Instance Document (filed herewith).
- 101.SCH XBRL Taxonomy Extension Schema Document (filed herewith).
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (filed herewith).
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document (filed herewith).
- 101.PRE XBRL Taxonomy Presentation Linkbase Document (filed herewith).
- † Confidential treatment has been granted for portions of this agreement.

SIGNATURES

Pursuant to the requirements 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.

PAYMENT DATA
SYSTEMS, INC

Date: August 14, 2018 By: /s/ Louis A.
Hoch
Louis A.
Hoch
Chief
Executive
Officer
(Principal
Executive
Officer)

Date: August 14, 2018 By: /s/ Tom
Jewell
Tom Jewell
Chief
Financial
Officer
(Principal
Accounting
Officer)