



Planet Payment, Inc.

**Amended Financial Statements as of
December 31, 2009 and 2010 and for the
Years ended December 31, 2008, 2009 and 2010**

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Planet Payment, Inc.

Amended Consolidated Balance Sheets of Planet Payment, Inc. as of December 31, 2009 and 2010 and the related Consolidated Statements of Operations, Cash Flows, and Changes in Convertible Preferred Stock and Stockholders' Equity (Deficit) and Comprehensive Loss for each of the three years in the period ended December 31, 2010 (collectively the “Amended Financial Statements”):

Management’s Discussion and Analysis of Results of Operations (Amended)

Amended Financial Statements

Certifications

Management's discussion and analysis of financial condition and results of operations

You should read the following discussion and analysis in conjunction with the information set forth under our consolidated financial statements and related notes thereto. The statements in this discussion regarding our expectations of our future performance, liquidity and capital resources, and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under "Risk factors" in the Annual Reports for each year previously filed with OTCQX and elsewhere. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Key metrics and statistics

For the years ended December 31, 2008, 2009, and 2010 our net revenue were \$21.2 million, \$26.3 million, and \$30.6 million, respectively. In the same periods, our net loss were \$(11.2) million, \$(4.2) million, and \$(3.1) million, respectively, and our Adjusted EBITDA were \$(7.4) million, \$0.3 million, and \$1.8 million, respectively. Adjusted EBITDA is a financial measure not calculated in accordance with GAAP. For information on how we calculate Adjusted EBITDA and other non-GAAP measures, see below.

Our management relies on certain performance indicators to manage and assess our business. The key performance indicators set forth below help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts and assess operational efficiencies. We believe that improvements in these metrics will result in improvements in our financial performance over time. We monitor our non-GAAP financial measures and other business statistics as a measure of operating performance in addition to net (loss) income and the other measures included in our consolidated financial statements.

The following is a table consisting of non-GAAP financial measures and certain other business metrics and statistics that management monitors:

	Year ended December 31,		
	2008	2009	2010
KEY METRICS:			
Consolidated gross billings(1)	\$ 35,849,475	\$ 47,045,268	\$ 64,653,725
Adjusted EBITDA (non-GAAP)(2)	\$ (7,412,392)	\$ 278,992	\$ 1,815,478
Capitalized expenditures	\$ 1,852,125	\$ 2,069,497	\$ 2,350,507
Total active merchant locations(3)	7,946	10,078	16,697
Multi-currency processing services key metrics:			
Active merchant locations(3)	4,530	6,624	12,157
Settled transactions processed(4)	5,177,650	6,073,226	6,980,010
Gross foreign currency mark-up(5)	\$ 23,769,206	\$ 33,322,683	\$ 52,073,798
Settled dollar volume processed(6)	\$688,808,842	\$907,901,369	\$ 1,377,308,710
Average net mark-up percentage on settled dollar volume processed(7)	1.32%	1.39%	1.30%
Payment processing services key metrics:			
Active merchant locations(3)	3,416	3,469	4,603
Payment processing services revenue(8)	\$ 12,080,269	\$ 13,722,585	\$ 12,579,927

(1) Represents a) gross foreign currency mark-up ("Gross Mark-Up", see note 5) plus, b) payment processing services revenue (see note 8).

(2) We define Adjusted EBITDA as GAAP net (loss) income adjusted to exclude (1) interest expense, (2) interest income, (3) provision (benefit) for income taxes, (4) depreciation and amortization, (5) stock-based expense from options and warrants and (6) certain other items management believes affect the comparability of operating results. Please see "Adjusted EBITDA" below for more information and for a reconciliation of Adjusted EBITDA to net (loss) income, the most directly comparable financial measure calculated and presented in accordance with GAAP.

(3) We consider a merchant location to be active as of a date if the merchant completed at least one revenue-generating transaction at the location during the 90-day period ending on such date. The total number of active merchant locations exceeds the total number of merchants, as merchants may have multiple locations. For the years 2009 and 2010, there were 15 and 63 active merchant locations, respectively, that used both our multi-currency processing services and our payment processing services. These amounts are included in multi-currency and payment processing active merchant locations but are not included in total active merchant locations.

(4) Represents settled transactions processed using our multi-currency processing services.

(5) Gross foreign currency mark-up, represents the gross mark-up amount on settled dollar volume processed using our multi-currency processing services. Gross mark-up represents multi-currency processing services net revenue plus amounts paid to acquiring banks and their merchants associated with such multi-currency processing transactions. Management believes this metric is relevant because it provides the reader an indication of the gross mark-up derived from multi-currency transactions processed through our platform during a given period. Refer to our revenue recognition policy in Note 3 and segment disclosure in Note 18 of our consolidated financial statements for information on our net revenue from multi-currency processing services.

(6) Represents settled dollar volume processed using our multi-currency processing services.

(7) Represents the average net mark-up percentage earned on settled dollar volume processed using our multi-currency processing services. The average net mark-up percentage on settled dollar volume processed is calculated by taking the reported total multi-currency processing services net revenue (\$9.1 million, \$12.6 million, and \$18.0 million for the years ended December 31, 2008, 2009 and 2010, respectively) and dividing by settled dollar volume processed (See note 6).

(8) Represents revenue earned and reported on payment processing services.

Adjusted EBITDA

This discussion includes information about Adjusted EBITDA that is not prepared in accordance with GAAP. Adjusted EBITDA is not based on any standardized methodology prescribed by GAAP and is not necessarily comparable to similar measures presented by other companies. A reconciliation of this non-GAAP measure is included below.

Adjusted EBITDA is a non-GAAP financial measure that represents GAAP net (loss) income adjusted to exclude (1) interest expense, (2) interest income, (3) provision (benefit) for income taxes, (4) depreciation and amortization, (5) stock-based expense from options and warrants and (6) certain other items management believes affect the comparability of operating results.

Management believes that Adjusted EBITDA, when viewed with our results under GAAP and the accompanying reconciliations, provides useful information about our period-over-period growth and provides additional information that is useful for evaluating our operating performance. Adjusted EBITDA is presented because management believes it provides additional information with respect to the performance of our fundamental business activities and is also frequently used by securities analysts, investors and other interested parties in the evaluation of comparable companies. We also rely on Adjusted EBITDA as a primary measure to review and assess the operating performance of our company and our management team in connection with our executive compensation.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for, analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- non-cash compensation is and will remain a key element of our long-term incentive compensation for our employees, although we exclude it from Adjusted EBITDA when evaluating our ongoing performance for a particular period; and
- Adjusted EBITDA does not include the impact of certain charges or gains resulting from matters we consider not to be indicative of our ongoing operations.

Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only as a supplement to our GAAP results.

The following table sets forth the reconciliation of Adjusted EBITDA to net loss, our most directly comparable financial measure in accordance with GAAP:

	Year ended December 31,		
	2008	2009	2010
ADJUSTED EBITDA:			
Net loss	\$(11,156,666)	\$(4,183,200)	\$(3,064,787)
Interest expense	1,015,633	1,236,504	1,169,578
Interest income	(140,191)	(18,702)	(429)
Provision for income taxes	1,681	4,095	3,219
Depreciation and amortization	1,203,644	1,537,674	1,769,650
Stock-based expense	1,806,467	1,445,025	829,733
Gain from discontinued operations(1)	(272,847)	—	—
Write off of note receivable(1)	—	257,596	—
Goodwill impairment	129,887	—	—
Software licenses impairment(2)	—	—	1,108,514
Adjusted EBITDA (non-GAAP)	<u>\$ (7,412,392)</u>	<u>\$ 278,992</u>	<u>\$ 1,815,478</u>

(1) In November 2008, we sold our interest in a joint venture for consideration of a five-year note receivable in the amount of \$0.2 million with an annual interest rate of 7%. For the year ended December 31, 2008, we recorded \$0.3 million as income from discontinued operations related to this joint venture. For the year ended December 31, 2009, we determined that the note receivable and accrued interest of \$0.3 million was uncollectible and the entire amount was written off to selling, general and administrative expenses within continuing operations. The debtor subsequently filed for bankruptcy in 2010.

(2) In the fourth quarter of 2010, due to our unsuccessful efforts to sell software licenses previously purchased for resale, we determined that the underlying undiscounted cash flow projections did not support the recorded value of the asset and wrote off the entire asset balance of \$1.1 million to cost of revenue for the year ended December 31, 2010.

Results of operations

The following table sets forth our consolidated results of operations for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

Certain adjustments and reclassifications have been made to the financial statements for the three years ended December 31, 2010. Please refer to the immaterial restatements disclosure located in footnote 2 to the financial statements for further information.

	Year ended December 31,		
	2008	2009	2010
Revenue:			
Multi-currency processing services revenue	\$ 9,105,609	\$12,596,734	\$17,973,237
Payment processing services revenue	12,080,269	13,722,585	12,579,927
Net revenue	21,185,878	26,319,319	30,553,164
Operating expenses:			
Cost of revenue:			
Payment processing services fees	9,808,434	10,175,430	10,051,640
Processing and service costs	6,434,693	6,282,743	6,980,981
Software licenses impairment	—	—	1,108,514
Total cost of revenue	16,243,127	16,458,173	18,141,135
Selling, general and administrative expenses	15,365,254	12,822,449	14,304,448
Goodwill impairment	129,887	—	—
Total operating expenses	31,738,268	29,280,622	32,445,583
Loss from operations	(10,552,390)	(2,961,303)	(1,892,419)
Other (expense) income:			
Interest expense	(1,015,633)	(1,236,504)	(1,169,578)
Interest income	140,191	18,702	429
Total other expense, net	(875,442)	(1,217,802)	(1,169,149)
Loss from continuing operations before provision for income taxes	(11,427,832)	(4,179,105)	(3,061,568)
Provision for income taxes	(1,681)	(4,095)	(3,219)
Loss from continuing operations	(11,429,513)	(4,183,200)	(3,064,787)
Income from discontinued operations, net of taxes	272,847	—	—
Net loss	\$(11,156,666)	\$(4,183,200)	\$(3,064,787)

Comparison of the years ended December 31, 2010 and 2009

Revenue

	Year ended December 31,		Variance	
	2010	2009	Amount	Percent
Multi-currency processing services revenue	\$17,973,237	\$12,596,734	\$ 5,376,503	43%
Payment processing services revenue	12,579,927	13,722,585	(1,142,658)	(8)
Net revenue	\$30,553,164	\$26,319,319	\$ 4,233,845	16

Net revenue increased \$4.2 million, or 16%, to \$30.5 million for the year ended December 31, 2010 from \$26.3 million for the year ended December 31, 2009. The year over year increase in revenue was primarily due to the overall increase by 66%, or 6,619, in total active merchant locations processing transactions through our multi-currency and payment processing services. Additionally, we believe our business was positively impacted by the global shift toward electronic payment transactions, increased international travel and commerce, and increased e-commerce on a global scale.

Multi-currency processing services revenue

Multi-currency processing services revenue increased \$5.4 million, or 43%, to \$18.0 million for the year ended December 31, 2010 from \$12.6 million for the year ended December 31, 2009. The increase in multi-currency processing services revenue was driven by increases in the following key business metrics:

	Year ended December 31,		Variance	
	2010	2009	Amount	Percent
Active merchant locations (at period end)	12,157	6,624	5,533	84%
Settled transactions processed	6,980,010	6,073,226	906,784	15
Gross mark-up	\$ 52,073,798	\$ 33,322,683	\$ 18,751,115	56
Settled dollar volume processed	\$1,377,308,710	\$907,901,369	\$469,407,341	52
Average net mark-up % on settled dollar volume processed	1.30%	1.39%	(0.09)%	(6)

The 52% increase in settled dollar volume processed resulted in a \$6.5 million increase to revenue, offset by a 0.09% decrease in our average net mark-up percentage on settled dollar volume processed, which resulted in a \$1.1 million decrease to revenue. The primary reasons for the increase in settled dollar volume processed were an 84% increase in active merchant locations, which resulted from the addition of new active merchant locations in existing markets and our entering into seven new markets in 2010, and the continued improvement in the global economy. This resulted in a 15% increase in settled transactions processed through our multi-currency processing services. The decrease in average net mark-up percentage on settled dollar volume processed was primarily due to the different mark-ups applied to different customers and for a variety of services.

Payment processing services revenue

Payment processing services revenue is primarily based on transactions originating in North America. Payment processing services revenue decreased \$1.1 million, or 8%, to \$12.6 million for the year ended December 31, 2010 from \$13.7 million for the year ended December 31, 2009. The \$1.1 million decrease was primarily due to loss of certain merchant customers acquired as part of the asset acquisition of the iPAY business in 2008.

Cost of revenue

	Year ended December 31,		Variance	
	2010	2009	Amount	Percent
Payment processing services fees	\$10,051,640	\$10,175,430	\$ (123,790)	(1)%
Processing and service costs	6,980,981	6,282,743	698,238	11
Software licenses impairment	1,108,514	—	1,108,514	*
Total cost of revenue	<u>\$18,141,135</u>	<u>\$16,458,173</u>	<u>\$1,682,962</u>	10

* Percentage not meaningful.

Payment processing services fees

The decrease of \$0.1 million, or 1%, to \$10.1 million for the year ended December 31, 2010 from \$10.2 million for the year ended December 31, 2009 as a result of the pricing mix of services for 2010.

Processing and service costs

Processing and service costs increased \$0.7 million, or 11%, to \$7.0 million for the year ended December 31, 2010 from \$6.3 million for the year ended December 31, 2009. The increase in processing and service costs was primarily the result of increased salary, compensation and related benefit costs of \$0.3 million primarily due to technology headcount additions to support the growth in our existing business, launches into new markets and increased bonus compensation, and an increase in depreciation and amortization expense of \$0.2 million primarily related to software development additions.

Software licenses impairment

In the fourth quarter of 2010, due to our unsuccessful efforts to sell software licenses previously purchased for resale, management determined that the underlying undiscounted cash flows projections did not support the recorded value of the asset and wrote-off the entire balance of \$1.1 million to cost of revenue for the year ended December 31, 2010.

Selling, general and administrative expenses

	Year ended December 31,		Variance	
	2010	2009	Amount	Percent
Selling, general and administrative expenses	\$14,304,448	\$12,822,449	\$1,481,999	12%

Selling, general and administrative expenses increased \$1.5 million, or 12%, to \$14.3 million for the year ended December 31, 2010 from \$12.8 million for the year ended December 31, 2009. The increase in selling, general and administrative expenses was primarily the result of increased salary compensation and related benefit costs of \$1.5 million, and travel costs, facility costs, insurance costs and other general and administrative costs of \$0.8 million. These increases are primarily due to the reinstatement of the 2008 corporate-wide salary decrease and general head count additions to support the growth in our existing business and the launches into new markets. These increases in selling, general and administrative expenses were partially offset by a \$0.5 million recovery of a previously written-off receivable during 2010 and \$0.3 million write off of a note receivable in 2009.

Other (expense) income, net

	Year ended December 31,		Variance	
	2010	2009	Amount	Percent
Interest expense	\$(1,169,578)	\$(1,236,504)	\$ 66,926	5%
Interest income	429	18,702	(18,273)	(98)
Total other expense, net.	<u>\$(1,169,149)</u>	<u>\$(1,217,802)</u>	<u>\$ 48,653</u>	<u>4</u>

Total other (expense) income, net, primarily consists of interest expense related to our term debt and convertible debt. In November 2010, the outstanding \$4.0 million balance on the

term debt was repaid in full and in April 2011, the convertible debt holders converted their entire \$9.0 million in principal under their notes into an aggregate of 4,049,776 shares of common stock. In addition, we issued 127,318 shares of common stock valued at \$0.3 million in lieu of cash payments for accrued interest and 297,682 shares of common stock valued at \$0.6 million as a prepayment fee negotiated at the time of conversion. The shares issued for the accrued interest and the prepayment fee were valued at the average closing price of our common stock on AIM under the symbol "PPTR" during the period immediately prior to the conversion.

Comparison of the years ended December 31, 2009 and 2008

Revenue

	Year ended December 31,		Variance	
	2009	2008	Amount	Percent
Multi-currency processing services revenue . .	\$12,596,734	\$ 9,105,609	\$3,491,125	38%
Payment processing services revenue	13,722,585	12,080,269	1,642,316	14
Net revenue	<u>\$26,319,319</u>	<u>\$21,185,878</u>	<u>\$5,133,441</u>	<u>24</u>

Net revenue increased \$5.1 million, or 24%, to \$26.3 million for the year ended December 31, 2009 from \$21.2 million for the year ended December 31, 2008. Net revenue increased year over year despite the global recession and was primarily due to the overall 27% or 2,132 increase in active multi-currency merchant locations processing transactions through our multi-currency services.

Multi-currency processing services revenue

Multi-currency processing services revenue increased \$3.5 million, or 38%, to \$12.6 million for the year ended December 31, 2009 from \$9.1 million for the year ended December 31, 2008. The increase in multi-currency processing services revenue was driven by the increase in the following key business metrics:

	Year ended December 31,		Variance	
	2009	2008	Amount	Percent
Active merchant locations (at period end)	6,624	4,530	2,094	46%
Settled transactions processed	6,073,226	5,177,650	895,576	17
Gross mark-up	\$ 33,322,683	\$ 23,769,206	\$ 9,553,477	40
Settled dollar volume processed	\$907,901,369	\$688,808,842	\$219,092,527	32
Average net mark-up % on gross settled volume processed	1.39%	1.32%	0.07%	5

The 32% increase in settled dollar volume processed resulted in a \$2.9 million increase to revenue, coupled with a 0.07% increase in our average net mark-up percentage on settled dollar volume processed which resulted in a \$0.6 million increase to revenue. The primary reason for the increase in settled dollar volume processed was a 46% increase in active merchant locations, resulting from the addition of new active merchant locations in existing markets and two new markets. This resulted in a 17% increase in settled transactions processed through our multi-currency processing services.

Payment processing services revenue

Payment processing services revenue increased \$1.6 million, or 14%, to \$13.7 million for the year ended December 31, 2009 from \$12.1 million for the year ended December 31, 2008. The \$1.6 million increase was primarily due to a full year of revenue in 2009 resulting from the acquisition of the assets of the iPAY business in April 2008.

Cost of revenue

	Year ended December 31,		Variance	
	2009	2008	Amount	Percent
Payment processing services fees	\$10,175,430	\$ 9,808,434	\$ 366,996	4%
Processing and service costs	6,282,743	6,434,693	(151,950)	(2)
Total cost of revenue	<u>\$16,458,173</u>	<u>\$16,243,127</u>	<u>\$ 215,046</u>	1

Payment processing services fees

The increase of \$0.4 million, or 4%, to \$10.2 million for the year ended December 31, 2009 from \$9.8 million for the year ended December 31, 2008 is a result of the pricing mix of services for 2009.

Processing and service costs

Processing and service costs decreased \$0.1 million, or 2%, to \$6.3 million for the year ended December 31, 2009 from \$6.4 million for the year ended December 31, 2008. The decrease in processing and service costs was primarily the result of decreased salary and compensation and related benefit costs of \$0.3 million resulting from corporate-wide salary and related benefits reduction and a decrease in technology expense of \$0.3 million due to cost containment efforts in response to the global recession. These decreases were partially offset by an increase in depreciation and amortization expense of \$0.3 million, primarily related to software development additions in the second half of 2008.

Selling, general and administrative expenses

	Year ended December 31,		Variance	
	2009	2008	Amount	Percent
Selling, general and administrative expenses	\$12,822,449	\$15,365,254	\$(2,542,805)	(17)%

Selling, general and administrative expenses decreased \$2.5 million, or 17%, to \$12.8 million for the year ended December 31, 2009 from \$15.3 million for the year ended December 31, 2008. The decrease in selling, general and administrative expenses was primarily the result of a salary and related benefit costs decrease of \$1.0 million, due to a corporate-wide salary and related benefits reduction and a \$1.7 million decrease resulting from cost containment efforts in response to the global recession and a decrease in bad debt expense, offset by a \$0.2 million increase in various minor expenses.

Other expense, net

	Year ended December 31,		Variance	
	2009	2008	Amount	Percent
Interest expense	\$(1,236,504)	\$(1,015,633)	\$(220,871)	22%
Interest income	18,702	140,191	(121,489)	(87)
Total other expense, net	\$(1,217,802)	\$ (875,442)	\$(342,360)	39

Total other expense, net, primarily relates to the interest associated with our term debt and convertible debt. In November 2010, the outstanding \$4.0 million balance on the term debt was repaid in full and in April 2011, the convertible debt holders converted their entire \$9.0 million in principal under their into an aggregate of 4,049,776 shares of common stock. In addition, we issued 127,318 shares of common stock valued at \$0.3 million in lieu of cash payments for accrued interest and 297,682 shares of common stock valued at \$0.6 million as a prepayment fee negotiated at the time of conversion. The shares issued for the accrued interest and the prepayment fee were valued at the average closing price of our common stock on AIM under the symbol "PPTR" during the period immediately prior to the conversion.

Income from discontinued operations

In January 2008, we terminated a joint venture relationship by mutual agreement. In November 2008, we sold our interest in the joint venture for consideration of a five-year note receivable in the amount of \$0.2 million with an annual interest rate of 7%. For the year ended December 31, 2009, we determined that the note receivable and interest of \$0.3 million was uncollectible and the entire amount was written off to selling, general and administrative expenses within continuing operations.

Cash flows

	Year ended December 31,		
	2010	2009	2008
Cash provided by (used in) operating activities	\$ 280,594	\$ (818,422)	\$(7,926,781)
Cash (used in) provided by investing activities	(2,350,507)	(2,564,764)	2,418,848
Cash provided by financing activities	3,527,589	6,879,238	2,897,522

Operating activities

Cash provided by operating activities during the year ended December 31, 2010 was \$0.3 million, comprising \$1.7 million cash generated by operations offset by a net increase in our operating assets and liabilities of \$1.4 million. This net increase in our operating assets and liabilities of \$1.4 million primarily consisted of: \$1.8 million increase in accounts receivable and other current assets, driven by an increase in activity in our multi-currency processing services business during the period, offset by (i) a net increase due to merchants of \$0.2 million due to growth in the ACH processing business and an increase in reserves held on behalf of merchants using our credit card acquiring services as security deposits and (ii) an increase in accounts payable and accrued expenses of \$0.2 million due to timing of payments. Cash generated by operations of \$1.7 million was driven by a net loss of \$3.1 million, offset by total non-cash charges of \$4.8 million. Significant non-cash adjustments to net loss primarily included: (i) depreciation and amortization expense of \$1.8 million, (ii) a software license impairment charge of \$1.1 million due to our unsuccessful efforts to sell licenses previously purchased for resale and the write off of the entire asset balance of \$1.1 million to operating expenses for the year ended December 31, 2010, (iii) non-cash interest expense on convertible and term debt of \$1.1 million and (iv) stock option and warrant expense of \$0.8 million.

Cash used in operating activities during the year ended December 31, 2009 was \$0.8 million, primarily comprising \$0.3 million cash generated by operations offset by a net increase in our operating assets and liabilities of \$1.1 million. This net increase in our operating assets and liabilities of \$1.1 million primarily consisted of: (i) a decrease in accounts payable and accrued expenses of \$1.1 million due to timing of payments, (ii) a \$0.5 million increase in settlement assets due to growth in our ACH processing business in 2009 and (iii) a \$0.2 million increase in accounts receivable and other current assets, driven by an increase in activity in our multi-currency processing services business during the period, offset by (i) an increase in due to merchants of \$0.6 million due to the increase in the business processed in 2009 and an increase in reserves held on behalf of merchants using our credit card acquiring services as security deposits and (ii) a \$0.2 million decrease in software licenses. Cash generated by operations of \$0.3 million was inclusive of a net loss of \$4.2 million, offset by total non-cash charges of \$4.4 million. Significant non-cash adjustments to net loss primarily included (i) depreciation and amortization expense of \$1.5 million, (ii) non-cash interest expense on convertible and term debt of \$1.1 million, (iii) stock option and warrant expense of \$1.4 million and (iv) an impairment of a note receivable of \$0.3 million.

Cash used in operating activities during the year ended December 31, 2008 was \$8.0 million, primarily comprising \$6.8 million cash used in operations and a net increase in our operating assets and liabilities of \$1.2 million. This net increase in our operating assets and liabilities of \$1.2 million primarily included (i) \$1.5 million increase in accounts receivable and other current assets, driven by an increase in activity in our multi-currency and payment processing services businesses during the period, (ii) an increase of \$1.3 million in settlement assets driven by the acquisition of iPay in 2008 and (iii) an increase in security deposits and other assets of \$0.2 million offset by (i) an increase of \$1.5 million in due to merchants driven by the acquisition of iPay in 2008 and (ii) an increase in accounts payable and accrued expenses of \$0.3 million due to timing of payments. Cash used in operations of \$6.8 million was inclusive of a net loss of \$11.2 million, offset by total non-cash charges of \$4.4 million. Significant non-cash adjustments to net loss primarily included (i) depreciation and amortization expense of \$1.2 million, (ii) non-cash interest expense on convertible and term debt of \$0.9 million, (iii) stock option and warrant expense of \$1.8 million and (iv) bad debt expense recorded of \$0.6 million related to trade receivables that were subject to litigation, offset by the recognition of a gain on sale of joint venture of \$0.3 million.

Investing activities

Cash used in investing activities for the year ended December 31, 2010 was \$2.4 million, which was primarily attributable to our investment in the business through capital expenditures for network infrastructure and investments in software development.

Cash used in investing activities for the year ended December 31, 2009 was \$2.6 million. Of the \$2.6 million, \$2.0 million was attributable to our investment in the business through capital expenditures for network infrastructure and investments in software development and \$0.5 million was attributable to cash contractually restricted under certain acquiring bank sponsor agreements.

Cash provided by investing activities for the year ended December 31, 2008 was \$2.4 million. The \$2.4 million was attributable to \$6.0 million in proceeds from the redemption of investments, partially offset by \$1.7 million attributable to our investment in the business through capital expenditures for network infrastructure and investments in software

development, \$1.2 million attributable to the payment for the acquisition of the iPAY business and \$0.5 million attributable to cash held under contract with certain customers.

Financing activities

Cash provided by financing activities for the year ended December 31, 2010 was \$3.5 million, primarily consisting of \$5.7 million in net proceeds from a private placement of 4.5 million shares of our common stock, partially offset by \$2.0 million used to pay off term debt.

Cash provided by financing activities for the year ended December 31, 2009 was \$6.9 million, primarily attributable to net proceeds from a private placement of 9.7 million shares of our common stock and the issuance of convertible debt. The net proceeds from the private placement and issuance of convertible debt were used for working capital purposes.

Cash provided by financing activities for the year ended December 31, 2008 was \$2.9 million, primarily attributable to the issuance of a \$3.0 million convertible note. The \$3.0 million in proceeds were used for working capital purposes. On April 26, 2011, the convertible debt holders converted the note into shares of our common stock.

Planet Payment, Inc.

Consolidated financial statements as of December 31, 2009 and 2010 and for each of the three years ended December 31, 2010

Index to consolidated financial statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Planet Payment, Inc.

We have audited the accompanying consolidated balance sheets of Planet Payment, Inc. and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, cash flows, and changes in convertible preferred stock and stockholders' equity (deficit) and comprehensive loss for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Planet Payment, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

New York, New York

March 21, 2011 (October 24, 2011 as to the effects of the restatement and other changes discussed in Note 2 and as to the effects of the subsequent events discussed in Note 1)

Planet Payment, Inc. consolidated balance sheets

	December 31,	
	2009	2010
Current assets:		
Cash and cash equivalents	\$ 3,752,423	\$ 5,182,499
Restricted cash	2,263,498	2,060,357
Accounts receivable, net of allowances of \$1.9 million and \$1.4 million as of December 31, 2009 and 2010, respectively	1,868,713	3,326,111
Prepaid expenses and current other assets	271,850	638,953
Software licenses	1,028,305	—
Total current assets	9,184,789	11,207,920
Other assets:		
Restricted cash	500,000	750,000
Property and equipment, net	1,362,055	1,384,310
Software development costs, net	3,715,838	4,635,799
Intangible assets, net	1,083,074	945,681
Security deposits and other assets	297,528	245,281
Total other assets	6,958,495	7,961,071
Total assets	\$ 16,143,284	\$ 19,168,991
Liabilities and stockholders' (deficit) equity		
Current liabilities:		
Accounts payable	\$ 620,576	\$ 591,461
Accrued expenses	234,574	495,457
Due to merchants	2,093,149	2,294,252
Current portion of term debt and capital leases	4,840,044	917,834
Total current liabilities	7,788,343	4,299,004
Long-term liabilities:		
Long-term portion of capital leases	254,320	213,351
Convertible debt	8,979,926	8,979,926
Total long-term liabilities	9,234,246	9,193,277
Total liabilities	17,022,589	13,492,281
Commitments and contingencies (Note 9)		
Stockholders' (deficit) equity:		
Convertible preferred stock—4,000,000 shares authorized, \$0.01 par value: Series A—2,243,750 issued and outstanding as of December 31, 2009 and 2010; \$8,975,000 aggregate liquidation preference	22,438	22,438
Common stock—70,000,000 shares authorized (see note 11), \$0.01 par value, 39,170,213 and 46,068,496, issued and outstanding as of December 31, 2009 and 2010, respectively	391,701	460,684
Additional paid-in capital	73,969,455	83,459,133
Warrants	1,517,982	1,607,723
Accumulated other comprehensive loss	—	(27,600)
Accumulated deficit	(76,780,881)	(79,845,668)
Total stockholders' (deficit) equity	(879,305)	5,676,710
Total liabilities and stockholders' (deficit) equity	\$ 16,143,284	\$ 19,168,991

The accompanying notes are an integral part of these financial statements

Planet Payment, Inc. consolidated statements of operations

	Year ended December 31,		
	2008	2009	2010
Revenue:			
Net revenue	\$ 21,185,878	\$26,319,319	\$30,553,164
Operating expenses:			
Cost of revenue:			
Payment processing services fees	9,808,434	10,175,430	10,051,640
Processing and service costs	6,434,693	6,282,743	6,980,981
Software licenses impairment	—	—	1,108,514
Total cost of revenue	16,243,127	16,458,173	18,141,135
Selling, general and administrative expenses	15,365,254	12,822,449	14,304,448
Goodwill impairment	129,887	—	—
Total operating expenses	31,738,268	29,280,622	32,445,583
Loss from operations	(10,552,390)	(2,961,303)	(1,892,419)
Other (expense) income:			
Interest expense	(1,015,633)	(1,236,504)	(1,169,578)
Interest income	140,191	18,702	429
Total other expense, net	(875,442)	(1,217,802)	(1,169,149)
Loss from continuing operations before provision for income taxes	(11,427,832)	(4,179,105)	(3,061,568)
Provision for income taxes	(1,681)	(4,095)	(3,219)
Loss from continuing operations	(11,429,513)	(4,183,200)	(3,064,787)
Income from discontinued operations, net of taxes	272,847	—	—
Net loss	\$(11,156,666)	\$ (4,183,200)	\$ (3,064,787)
Basic net loss per share from continuing operations	\$ (0.43)	\$ (0.12)	\$ (0.08)
Basic net income per share from discontinued operations	\$ 0.01	\$ —	\$ —
Basic net loss per share applicable to common stockholders	\$ (0.42)	\$ (0.12)	\$ (0.08)
Diluted net loss per share applicable to common stockholders	\$ (0.42)	\$ (0.12)	\$ (0.08)
Weighted average common stock outstanding (basic)	26,720,171	33,725,727	40,431,073
Weighted average common stock outstanding (diluted)	26,720,171	33,725,727	40,431,073

The accompanying notes are an integral part of these financial statements

Planet Payment, Inc. consolidated statements of cash flows

	Year ended December 31,		
	2008	2009	2010
Cash flows from operating activities:			
Net loss	\$(11,156,666)	\$(4,183,200)	\$(3,064,787)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Stock option expense	1,487,493	1,213,659	739,992
Depreciation and amortization expense	1,203,644	1,537,674	1,769,650
Provision (recovery) for doubtful accounts	600,000	14,997	(36,703)
Impairment charges	129,887	—	1,108,514
Gain on sale of joint venture interest	(272,847)	—	—
Write off of note receivable	—	257,596	—
Non-cash interest expense on notes payable	—	34,174	—
Non-cash interest expense on convertible debt	608,563	808,193	808,193
Non-cash interest expense on term debt	338,887	337,926	295,743
Warrant expense	318,974	231,366	89,741
Changes in operating assets and liabilities, net of effect of acquisition:			
Increase in settlement assets	(1,310,368)	(453,130)	(46,859)
Increase in accounts receivables, prepaid expenses and other current assets	(1,450,394)	(229,105)	(1,787,798)
Decrease (increase) in software licenses	—	194,225	(80,209)
(Increase) decrease in security deposits and other assets	(197,370)	(110,570)	52,247
Increase (decrease) in accounts payable and accrued expenses	289,259	(1,073,787)	231,768
Increase in due to merchants	1,484,157	608,992	201,103
Other	—	(7,432)	(1)
Net cash (used in) provided by operating activities	(7,926,781)	(818,422)	280,594
Cash flows from investing activities:			
Increase in restricted cash	(504,733)	(495,267)	—
Proceeds from redemption of investments	6,000,000	—	—
Acquisition of business, net of cash acquired	(1,224,294)	—	—
Purchase of property and equipment	(237,362)	(143,370)	(300,540)
Capitalized software development	(1,496,738)	(1,804,822)	(1,970,349)
Purchase of intangible assets	(118,025)	(121,305)	(79,618)
Net cash provided by (used in) investing activities	2,418,848	(2,564,764)	(2,350,507)
Cash flows from financing activities:			
Proceeds from issuance of common stock	—	6,999,161	6,058,702
Proceeds from convertible debt	3,100,000	350,000	—
Principal payments on capital lease obligations	(37,335)	(101,789)	(187,144)
Payment of capital-raising expense	—	(368,134)	(343,969)
Repayment of long-term debt	(165,143)	—	(2,000,000)
Net cash provided by financing activities	2,897,522	6,879,238	3,527,589
Effect of exchange rate changes on cash and cash equivalents	32,519	9,523	(27,600)
Net (decrease) increase in cash and cash equivalents	(2,577,892)	3,505,575	1,430,076
Beginning of period	2,824,740	246,848	3,752,423
End of period	\$ 246,848	\$ 3,752,423	\$ 5,182,499
Supplemental disclosure:			
Cash paid for:			
Interest	\$ 68,183	\$ 56,211	\$ 65,642
Income taxes	—	2,917	142
Non-cash investing and financing activities:			
Convertible debt converted to common stock	\$ —	\$ 450,000	\$ —
Common stock issued to pay accrued interest	337,926	1,519,336	1,103,936
Common stock issued as payment of director's fees	—	34,125	—
Warrants issued as payment of accounts payable	318,974	231,366	89,741
Common stock issued for stock options exercised	—	—	19,661
Assets acquired under capital leases	222,990	252,136	223,965
Common stock issued for warrants exercised	—	—	2,000,000
Reduction of long-term debt through exercise of warrants	—	—	(2,000,000)

The accompanying notes are an integral part of these financial statements

Planet Payment, Inc. consolidated statements of changes in convertible preferred stock and stockholders' equity (deficit) and comprehensive loss

	Convertible preferred stock \$0.01 par value— 4,000,000 shares authorized Series A		Common stock \$0.01 par value— 70,000,000 shares authorized		Additional paid-in capital	Warrants	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity (deficit)	Comprehensive loss
	Shares issued	Shares par value	Issued	Par value						
Balance—December 31, 2007	2,243,750	\$22,438	26,375,518	\$263,755	\$62,020,354	\$1,371,123	\$ —	\$(61,441,015)	\$ 2,236,655	
Stock issued	—	—	108,498	1,085	336,841	—	—	—	337,926	
Options exercised	—	—	17,926	179	(179)	—	—	—	—	
Warrants exercised	—	—	429,065	4,291	399,190	(403,481)	—	—	—	
Warrant expense	—	—	—	—	—	318,974	—	—	318,974	
Stock option expense	—	—	—	—	1,487,493	—	—	—	1,487,493	
Cumulative translation adjustment(1)	—	—	—	—	—	—	—	—	—	—
Net Loss	—	—	—	—	—	—	—	(11,156,666)	(11,156,666)	\$(11,156,666)
Comprehensive loss										(11,156,666)
Balance—December 31, 2008	2,243,750	22,438	26,931,007	269,310	64,243,699	1,286,616	—	(72,597,681)	(6,775,618)	
Stock issued	—	—	12,239,206	122,391	8,512,097	—	—	—	8,634,488	
Options exercised	—	—	—	—	—	—	—	—	—	
Warrant expense	—	—	—	—	—	231,366	—	—	231,366	
Stock option expense	—	—	—	—	1,213,659	—	—	—	1,213,659	
Cumulative translation adjustment(1)	—	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	(4,183,200)	(4,183,200)	(4,183,200)
Comprehensive loss										(4,183,200)
Balance—December 31, 2009	2,243,750	22,438	39,170,213	391,701	73,969,455	1,517,982	—	(76,780,881)	(879,305)	
Stock issued	—	—	5,357,897	53,579	6,765,090	—	—	—	6,818,669	
Warrants exercised	—	—	1,526,718	15,267	1,984,733	—	—	—	2,000,000	
Options exercised	—	—	13,668	137	(137)	—	—	—	—	
Warrant expense	—	—	—	—	—	89,741	—	—	89,741	
Stock option expense	—	—	—	—	739,992	—	—	—	739,992	
Cumulative translation adjustment	—	—	—	—	—	—	(27,600)	—	(27,600)	(27,600)
Net loss	—	—	—	—	—	—	—	(3,064,787)	(3,064,787)	(3,064,787)
Comprehensive loss										\$ (3,092,387)
Balance—December 31, 2010	2,243,750	\$22,438	46,068,496	\$460,684	\$83,459,133	\$1,607,723	\$ (27,600)	\$ 79,845,668	\$ 5,676,710	

(1) Amount deemed inconsequential.

The accompanying notes are an integral part of these financial statements

Planet Payment, Inc.

Notes to consolidated financial statements

1. Business description and basis of presentation

Business description

Planet Payment, Inc. ("Planet Payment," the "Company," "we," or "our") is a provider of international payment processing and multi-currency processing services. The Company provides its services to over 22,000 active merchant locations in 16 countries and territories across the Asia Pacific region, North America, the Middle East, Africa and Europe, primarily through its acquiring bank and processor customers, as well as through its own direct sales force. The Company's point-of-sale and e-commerce services are integrated within the payment card transaction flow and enable its acquiring customers to process and reconcile payment transactions in multiple currencies, geographies and channels. The Company is a registered third party processor with the major card associations and operates in accordance with industry standards, including the Payment Card Industry, or PCI, Security Council's Data Security Standards.

Company structure

Planet Payment was incorporated in the State of Delaware on October 12, 1999 as Planet Group Inc. and changed its name to Planet Payment, Inc. on June 18, 2007.

Since March 20, 2006, shares of the Company's common stock have traded on the Alternative Investment Market of the London Stock Exchange, or AIM, under the symbols "PPT" and "PPTR." Since November 19, 2008, shares of the Company's common stock have traded on the OTCQX market tier operated by OTC Markets Group, Inc., or the OTCQX, in the United States under the symbol "PLPM."

Effective September 30, 2011, as a result of the Company not issuing its financial statements for the six months ended June 30, 2011 the Company requested that AIM temporarily suspend trading in its shares until such financial statements are issued. As of October 1, 2011, the OTC Markets Group temporarily removed the Company from the OTCQX, but the Company's shares continued to trade on the OTC Markets Pink Link system. However, the Company expects to resume trading on AIM and the OTCQX tier upon the filing of the financial statements for the six months ended June 30, 2011.

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The accompanying consolidated financial statements include the accounts of Planet Payment, Inc. and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

The Company evaluated subsequent events through October 24, 2011, the date on which the December 31, 2009 and 2010 financial statements were available to be issued. There were no events or transactions other than those events disclosed in Notes 1, 7, 8, 11 and 15 occurring

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

1. Business description and basis of presentation (Continued)

during this subsequent reporting period that require recognition or disclosure in the financial statements.

2. Immaterial restatement

Subsequent to the issuance of the Company's 2010 financial statements, the Company's management determined that it had an error in its presentation of multi-currency processing services revenue. Multi-currency processing services revenue was previously presented gross of amounts related to certain third party revenue share arrangements. The Company reconsidered the requirements of EITF 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*, included in the Revenue Recognition Topic Accounting Standards Codification ("ASC") topic 605 as it related to its multi-currency processing services revenue stream and concluded that based on the terms of its contractual arrangements that ASC 605-45 was not applicable to its facts and circumstances, that the Company was earning a processing fee for its service, and only the multi-currency processing services fee earned by the Company should be presented within the income statement without including the third party revenue sharing fees in either revenue or expense. In addition, as more fully described in the table below, the Company's management determined that it had certain other errors related to the presentation of goodwill impairment, discontinued operations, software license intangible asset, and restricted cash. Furthermore, the Company's management determined that it had not properly recorded certain capital leases and certain amounts due to merchants. Finally, the Company's management determined that there were errors in the amounts included within the disclosures for future minimum rental payments under noncancelable operating leases, future minimum rental payments under capital leases, future minimum payments under acquiring bank sponsorship agreements disclosures, the disclosure in the tax footnote for net operating losses, disclosure for unamortized stock-based expense, the disclosure for intrinsic value of options. The Company has corrected the amounts within each disclosure.

While we do not believe these errors to be material to our financial statements for any reported period, the Company's management concluded that the consolidated financial statements as of December 31, 2009 and 2010 and for the years ended December 31, 2008, 2009 and 2010 should be restated.

Furthermore, as more fully described in the following two paragraphs, in preparation of becoming an SEC registrant, the Company made certain changes to the previously issued Consolidated Statement of Operations and Balance Sheet to conform to the SEC format for public filers. The "As Previously Reported" lines within the table below conform to the SEC format for public filers and therefore reflect the condensation of the previously reported line item.

On the Consolidated Statement of Operations, the Company condensed the previously reported three revenue lines into a single "Net revenue" (net of provisions for sales credits) line,

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

2. Immaterial restatement (Continued)

condensed the previously reported three costs of sales lines into a single "Payment processing services fees" cost of revenue line which excludes the aforementioned third party revenue share arrangements fees, and condensed the previously reported eight operating expense line items into the "Selling, general and administrative expense" line and reclassified certain amounts to the "Processing and service cost" cost of revenue line, which was an added cost of revenue line item.

On the Consolidated Balance Sheet, the Company condensed the previously reported "Restricted cash" and "Settlement assets" lines into a single "Restricted cash" line within total current assets and reclassified certain amounts that were previously incorrectly included within total current assets to "Restricted cash" within total other assets, broke out the previously reported "Intangible assets, net" line into "Intangible assets, net" and "Software development costs, net" (the "Software development costs, net" consisted of amounts that were previously disclosed as "capitalized projects" and "software" in Footnote 4 of the previously issued financial statements) and broke out the previously reported "Accounts payable and accrued expenses" line into "Accounts payable" and "Accrued expenses".

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

2. Immaterial restatement (Continued)

The following table sets forth the effects of the correcting adjustments (hereafter in this Note referred to as "adjustments") on affected line items based on the new SEC Format within our previously reported Consolidated Statements of Operations for the years ended December 31, 2008, 2009 and 2010.

	Year Ended December 31,					
	2008		2009		2010	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
Net revenue	\$ 36,188,610	\$ 21,185,878(1)(6)	\$ 47,254,706	\$ 26,319,319(1)(6)	\$ 64,653,725	\$ 30,553,164(1)
Cost of revenue:						
Processing services fees	24,712,399	9,808,434(1)(6)	30,962,835	10,175,430(1)(6)	44,152,201	10,051,640(1)
Processing and service costs	—	6,434,693(2)	—	6,282,743(2)	—	6,980,981(2)
Software licenses impairment	—	—	—	—	—	1,108,514(5)
Total cost of revenue	24,712,399	16,243,127	30,962,835	16,458,173	44,152,201	18,141,135
Selling, general and administrative expenses	21,752,048	15,365,254(2)(6)	18,886,377	12,822,449(2)(4)(6)	21,575,212	14,304,448(2)(6)
Goodwill impairment	—	129,887(3)	—	—	—	—
Total operating expenses	46,464,447	31,738,268	49,849,212	29,280,622	65,727,413	32,445,583
Loss from operations	(10,275,837)	(10,552,390)	(2,594,506)	(2,961,303)	(1,073,688)	(1,892,419)
Other (expense) income:						
Interest expense	(988,510)	(1,015,633)(6)	(1,189,843)	(1,236,504)(6)	(1,134,786)	(1,169,578)(6)
Interest income	140,191	140,191	18,702	18,702	429	429
Goodwill/Software licenses impairment	(129,887)	—(3)	—	—	(1,108,514)	—(5)
Total other expense, net	(978,206)	(875,442)	(1,171,141)	(1,217,802)	(2,242,871)	(1,169,149)
Loss from continuing operations, before provision for income taxes	(11,254,043)	(11,427,832)	(3,765,647)	(4,179,105)	(3,316,559)	(3,061,568)
Provision for income taxes	(1,681)	(1,681)	(4,095)	(4,095)	(3,219)	(3,219)
Loss from continuing operations	(11,255,724)	(11,429,513)	(3,769,742)	(4,183,200)	(3,319,778)	(3,064,787)
Income (loss) from discontinued operations, net of taxes	272,847	272,847	(257,596)	—(4)	—	—
Net loss	<u>\$(10,982,877)</u>	<u>\$(11,156,666)</u>	<u>\$(4,027,338)</u>	<u>\$(4,183,200)</u>	<u>\$(3,319,778)</u>	<u>\$(3,064,787)</u>
Basic net loss per share from continuing operations	\$ (0.42)	\$ (0.43)	\$ (0.11)	\$ (0.12)	\$ (0.08)	\$ (0.08)
Basic net income (loss) per share from discontinued operations	\$ 0.01	\$ 0.01	\$ (0.01)	\$ —	\$ —	\$ —
Basic and diluted net loss per share applicable to common stockholders	\$ (0.41)	\$ (0.42)	\$ (0.12)	\$ (0.12)	\$ (0.08)	\$ (0.08)

(1) Multi-currency processing services revenue was previously presented gross of amounts related to certain third party revenue share arrangements. The Company reconsidered the requirements of ASC 605-45 as it related to its multi-currency processing services revenue stream and concluded that based on the terms of its contractual arrangements ASC 605-45 was not applicable to its facts and circumstances, that the Company was earning a processing fee for its service, and that its multi-currency processing services revenue should be presented net of amounts related to certain third party revenue share arrangements. All periods presented have been corrected to show the transaction fee that the Company earns for its processing services. The effect of the correction resulted in a reduction of previously reported revenues and corresponding reductions in cost of revenue in those periods. For 2008, 2009 and 2010, the reduction in revenue and the corresponding reduction in cost of revenue is \$14.7 million, \$20.7 million and \$34.1 million, respectively. Refer to the Company's summary of significant accounting policies for further information regarding the Company's accounting policy on revenue recognition.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

2. Immaterial restatement (Continued)

(2) In preparation of becoming an SEC registrant, the Company condensed the previously reported eight operating expense line items into the Selling, General, & Administrative ("SG&A") line and reclassified certain amounts to the Processing and service costs line. The Company reclassified \$6.4 million, \$6.3 million, and \$7.0 million, for the years ended December 31, 2008, 2009, and 2010, respectively, from SG&A to Processing and service costs for costs related to running the Company's technology platform infrastructure, including: compensation and related benefits related to the infrastructure personnel, internet connectivity, hosting and data storage expenses, amortization expense on acquired intangibles and capitalized software development costs and a portion of overhead. The amounts that remained in SG&A related to compensation and related benefit costs for our sales, marketing, customer service and administrative functions, facility costs, public company costs, administrative professional services fees and a portion of overhead.

(3) A correction to reclassify the \$0.1 million goodwill impairment charge from a component of Other (expense) income to its own line item as a component of Total operating expenses.

(4) A correction to reclassify the \$0.3 million write-off of a note receivable from a component of Income (loss) from discontinued operations to SG&A under continuing operations. This correction resulted in the correction of the basic net loss per share from continuing and discontinued operations presented in the table above.

(5) A correction to reclassify the \$1.1 million software licenses impairment charge from a component of Other (expense) income to its own line item as component of Total cost of revenue.

(6) For the year ended December 31, 2010, the Company recorded a \$0.3 million out-of-period adjustment to increase the due to merchant liability and increase SG&A. A correction was made to adjust the 2010 out-of-period amount by reducing \$0.3 million in 2010 and to record the correct due to merchant liability in the proper periods. The correction resulted in an increase to the liability of \$0.2 million, a reduction to Net revenue of \$0.3 million, a reduction to Processing services fees of \$0.2 million, and an increase to SG&A of \$0.1 million for 2008. The correction resulted in an increase to the liability of \$0.2 million, a reduction to Net revenue of \$0.2 million, and a reduction to Processing services fees of \$0.1 million for 2009. In addition, the Company recorded various other inconsequential adjustments for each respective period affecting Interest expense and SG&A line items by less than \$0.1 million.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

2. Immaterial restatement (Continued)

The following table sets forth the effects of the adjustments on affected line items, based on the new SEC format, within our previously reported Consolidated Balance Sheets as of December 31, 2009 and 2010.

	As of December 31,			
	2009		2010	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
Assets line items affected:				
Restricted cash (current)	\$ 2,763,498	\$ 2,263,498(7)	\$ 2,810,357	\$ 2,060,357(7)
Total current assets	9,684,789	9,184,789	11,957,920	11,207,920
Restricted cash (non-current)	—	500,000(7)	—	750,000(7)
Property and equipment, net	992,633	1,362,055(8)(13)	1,127,768	1,384,310(8)(13)
Software development costs, net	3,790,189	3,715,838(13)	4,769,157	4,635,799(9)(13)
Intangible assets, net	1,083,074	1,083,074	945,681	945,681
Total other assets	6,163,424	6,958,495	7,087,887	7,961,071
Total assets	15,848,213	16,143,284	19,045,807	19,168,991
Liability line items affected:				
Due to merchants	\$ 1,763,498	\$ 2,093,149(11)	\$ 2,294,252	\$ 2,294,252
Current portion of term debt and capital leases	4,742,817	4,840,044(10)	808,288	917,834(10)
Total current liabilities	7,361,465	7,788,343	4,189,458	4,299,004
Long-term portion of term debt and capital leases	56,467	254,320(12)	125,053	213,351(14)
Total long-term liabilities	9,036,402	9,234,246	9,104,979	9,193,277
Total liabilities	16,397,867	17,022,589	13,294,437	13,492,281
Accumulated deficit	(76,451,230)	(76,780,881)	(79,771,008)	(79,845,668)
Total stockholders' (deficit) equity	(549,654)	(879,305)	5,751,370	5,676,710

(7) Represents a correction to reclassify \$0.5 million and \$0.8 million, as of December 31, 2009 and 2010, respectively, of restricted cash from a component of current assets to a component of total other assets. Reclassification had no impact on other financial statements.

(8) Represents a correction to property and equipment related to previously unrecorded capital leases of \$0.3 million and \$0.2 million, as of December 31, 2009 and 2010, respectively, with a corresponding amount recorded to current and long-term portions of capital leases liabilities.

(9) Represents the adjustment of incorrectly capitalizing software development costs of \$0.1 million.

(10) Represents a correction of \$0.1 million liability related to the current portion of capital leases noted in note (8) above.

(11) Represents a correction of \$0.3 million related to a previous unrecorded due to merchants liability.

(12) Represents a correction of \$0.2 million liability related to the long-term portion of capital leases noted in note (8) above.

(13) Represents a correction to reclassify \$0.1 million as of December 31, 2009 and 2010, respectively, from software development cost, net to property and equipment, net.

(14) Represents a correction of \$0.1 million liability related to the long-term portion of capital leases noted in note (8) above.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

2. Immaterial restatement (Continued)

The following table sets forth the effects of the adjustments on affected line items, based on the new SEC format, within our previously reported Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2009 and 2010.

	Year Ended December 31,					
	2008		2009		2010	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
Cash flow statement line items affected:						
Net loss	\$(10,982,877)	\$(11,156,666)	\$(4,027,338)	\$(4,183,200)	\$(3,319,778)	\$(3,064,787)
Depreciation and amortization expense	1,166,309	1,203,644(15)	1,456,042	1,537,674(15)	1,672,423	1,769,650(15)
Write-off of note receivable			212,629	257,596(17)		
Non-cash interest expense on term debt					324,444	295,743(20)
Warrant expense	—	318,974(16)	—	231,366(16)		
Increase (decrease) in accounts payable and accrued expenses	608,233	289,259(16)	(797,452)	(1,073,787)(16)(17)		
Increase in due to merchants	1,310,368	1,484,157(18)	453,130	608,992(18)	530,755	201,103(18)
Net cash (used in) provided by operating activities	(7,964,116)	(7,926,781)	(900,050)	(818,422)	287,842	280,594
Purchase of property and equipment			(184,544)	(143,370)(26)	(525,619)	(300,540)(25)
Capitalized software development	(1,062,180)	(1,496,738)(22)	(1,386,777)	(1,804,822)(22)	(1,650,268)	(1,970,349)(19)(22)
Purchase of intangible assets	(552,582)	(118,025)(22)	(617,628)	(121,305)(22)(26)	(474,360)	(79,618)(22)
Net cash provided by (used in) investing activities	2,418,849	2,418,848	(2,684,216)	(2,564,764)	(2,650,247)	(2,350,507)
Proceeds from issuance of common stock					6,030,002	6,058,702(20)
Principal payments on capital lease obligations	—	(37,335)(15)	(20,157)	(101,789)(15)	(89,917)	(187,144)(15)
Net cash provided by financing activities	2,934,857	2,897,522	7,080,317	6,879,238	3,820,081	3,527,589
Supplemental disclosure line items affected:						
Cash paid for interest	41,059	68,183(21)	9,549	56,211(21)	30,850	65,642(21)
Common stock issued to pay accrued interest					1,132,638	1,103,936(20)
Assets acquired under capital leases	—	222,990(24)	—	252,136(23)(24)(26)	—	223,965(23)(25)

(15) Represents a correction to reclassify \$37,000, \$0.1 million, and \$0.1 million for the years ended December 31, 2008, 2009, and 2010, respectively from Principal payments on capital leases obligations to Depreciation and amortization expense in relation to the items within note (8) above.

(16) A correction to reclassify \$0.3 million and \$0.2 million for the years ended December 31, 2008 and 2009, respectively, of warrant expense from a component of Changes in operating assets and liabilities to a component of Adjustments to reconcile net loss to net cash (used in) provided by operating activities.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

2. Immaterial restatement (Continued)

(17) Represents a correction to reclassify \$45,000 for the year ended December 31, 2009 of a write-off of a note receivable from a component of Changes in operating assets and liabilities to a component of Adjustments to reconcile net loss to net cash (used in) provided by operating activities.

(18) Represents the correction of previously unrecorded amounts of due to merchants for the years ended December 31, 2008, 2009 and 2010 of \$0.2 million, \$0.1 million and \$(0.3) million, respectively.

(19) Represents a correction of the capitalized software development cost associated with note (9) above.

(20) Represents a correction to reclassify approximately \$28,000 from non-cash interest expense on term debt to Proceeds from issuance Common Stock. Item also impacts non-cash disclosure of Common stock issued to pay accrued interest by a reduction of approximately \$28,000.

(21) Represents a correction of interest related to capital leases noted in note (8) above.

(22) Represents the reclassification of software intangible asset of \$0.4 million, \$0.4 million and \$0.4 million for the years ended December 31, 2008, 2009, and 2010, respectively, to capitalized software development related to the change in presentation described above in the consolidated balance sheet related to intangible asset, net to conform to the SEC format.

(23) Represents a correction that was made to remove the balances previously recorded as "Proceeds from loan payable" under cash flows from changes in Financing Activities of \$0.1 million, and \$0.2 million for the year ended December 31, 2009, and 2010, respectively, and amounts are now disclosed as supplemental non-cash information as it related to assets acquired under capital leases. Subsequently there is no "Proceeds from loan payable" line within the Cash Flow Statement.

(24) Represents the correction of unrecorded capital lease assets acquired of \$0.2 million and \$0.1 million for the year ended December 31, 2008, and 2009, respectively.

(25) Represent a correction to reclassify capital lease assets acquired of \$0.2 million from purchase of property and equipment to a non-cash investing activity.

(26) Represents the correction to reclassify capital lease assets acquired of \$0.1 million from investing activities to a non-cash investing activity.

3. Summary of significant accounting policies

Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

On an on-going basis, the Company evaluates its estimates, including those related to the accounts receivable allowance, recoverability of long-lived assets, and other assets and liabilities; the useful lives of intangible assets, property and equipment, capitalized software development costs; assumptions used to calculate stock-based expense including volatility, expected life and forfeiture rate; and income taxes (including recoverability of deferred taxes), among others. The Company bases its estimates on historical experience and on other various assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

3. Summary of significant accounting policies (Continued)

Reclassifications

As described in Note 2, certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation.

Revenue recognition

The Company derives revenue principally through fees earned under fixed contractual arrangements with customers who use our international payment and multi-currency processing services. The Company has two revenue streams:

Multi-currency processing services revenue

Multi-currency processing services revenue is the foreign currency transaction fee earned on processing and converting of a credit or debit card transaction from one currency into another currency. Multi-currency transaction processing services revenue is recognized upon settlement of the transaction.

Payment processing services revenue

The Company follows the requirements of EITF 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*, included in the Revenue Recognition Topic of Accounting Standards Codification ("ASC") topic 605, in determining its payment processing services revenue reporting. Generally, where the Company has merchant portability, credit risk and ultimate responsibility for the merchant, revenue is reported at the time of settlement on a gross basis equal to the full amount of the discount charged to the merchant. This amount may include interchange paid to card issuing banks and assessments paid to payment card associations.

Payment processing services revenue is transaction based and priced either as a fixed fee per transaction or calculated based on a percentage of the transaction value. The fees are charged for processing services provided in facilitating the sale of goods and services by means of credit and debit cards and other electronic payments and do not include the gross sales price paid by the ultimate buyer. Payment processing services revenue is recognized upon settlement of the transaction.

Our revenue is presented net of a provision for sales credits, which is estimated based on historical results, and established in the period in which services are provided, as of the periods presented there were none.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments purchased with original maturity of three months or less.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

3. Summary of significant accounting policies (Continued)

Restricted cash

Restricted cash is held either by processing partners, where the Company holds a share of underwriting risk and for other potential liabilities under processing agreements or by the Company on behalf of an automated clearing house, or ACH transaction processing customers. The restricted cash balance related to the ACH customer represents a contractual requirement with a sponsor bank to hold three times the daily average of the last thirty days of transactions. The long-term portion of restricted cash is contractually required to be held by some of the Company's processing partners and will remain restricted as long as the associated contracts are effective. As such, the Company classifies these portions as long-term.

Translation of non-U.S. currencies

The translation of assets and liabilities denominated in foreign currency into U.S. Dollars is made at the prevailing rate of exchange at the balance sheet date. Revenue and expenses are translated at the average exchange rates during the period. Translation adjustments are reflected in accumulated other comprehensive (loss) income on our consolidated balance sheets, while gains and losses resulting from foreign currency transactions are included in our consolidated statements of operations. Amounts resulting from foreign currency transactions included in our statement of operations were not material for the years ended December 31, 2008, 2009 and 2010.

Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make payments due to the Company. The amount of the allowance is based on historical experience and our analysis of the accounts receivable balance outstanding. While credit losses have historically been within the Company's expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates that it has in the past. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, additional allowances may be required which would result in an additional expense in the period that this determination was made. As of December 31, 2009 and 2010, the Company has included an allowance for doubtful accounts of approximately \$1.9 million and \$1.4 million, respectively.

Software licenses impairment

In the fourth quarter of 2010, due to the Company's unsuccessful efforts to sell software licenses previously purchased for resale, management determined that the underlying undiscounted cash flow projections did not support the recorded value of the asset and wrote-off the entire asset balance of \$1.1 million to cost of revenue for the year ended December 31, 2010.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

3. Summary of significant accounting policies (Continued)

Property, equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation, which is provided for by charges to income over the estimated useful lives of the assets using the straight-line method. Maintenance and repairs, which do not improve or extend the useful life of the respective asset, are charged to operating expenses as incurred. Upon sale or other disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

Software development costs and amortization

The Company capitalizes costs of materials, consultants and payroll and payroll-related costs incurred by employees involved in developing internal use computer software. Costs incurred during the preliminary project and post-implementation stages are charged to processing and service costs, which are included in cost of revenue as incurred. Software development costs are amortized to processing and service costs, which are included in cost of revenue on a straight-line basis over estimated useful lives of approximately five years. The Company performs periodic reviews to ensure that unamortized software costs remain recoverable from future cash flows. Capitalized software development costs, net, were \$3.7 million and \$4.6 million as of December 31, 2009 and 2010, respectively. Amortization expense totaled \$0.7 million, \$0.9 million and \$1.1 million for the years ended December 31, 2008, 2009 and 2010, respectively.

Goodwill, intangibles and long-lived assets

The Company records as goodwill the excess of purchase price over the fair value of the tangible and identifiable intangible assets acquired. Goodwill is tested annually for impairment as well as whenever events or circumstances change that would make it more likely than not that an impairment may have occurred. Goodwill is tested for impairment using a two-step approach. The first step tests for potential goodwill impairment by comparing the fair value of identified reporting units to its carrying value. If the fair value of the reporting units are less than its carrying value the second step is to record an impairment loss to the extent that the implied fair value of the goodwill of each reporting unit is less than its carrying value. As of December 31, 2009 and 2010, the Company had zero goodwill recorded. For the year ended December 31, 2008, the Company recorded a goodwill impairment charge of \$0.1 million related to a 2005 acquisition.

The Company evaluates long-lived assets, including property and equipment and finite-lived intangible assets for potential impairment on an individual asset basis or at the lowest level asset grouping for which cash flows can be separately identified. Long-lived asset impairments are assessed whenever changes in circumstances could indicate that the carrying amounts of those productive assets exceed their projected undiscounted cash flows. When it is determined that impairment exists, the related asset group is written down to its estimated fair market value. The determination of future cash flows and the estimated fair value of long-lived assets,

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

3. Summary of significant accounting policies (Continued)

involve significant estimates on the part of management. In order to estimate the fair value of a long-lived asset, the Company may engage a third party to assist with the valuation.

The Company's process for assessing potential triggering events may include, but is not limited to, analysis of the following:

- any sustained decline in the Company's stock price below book value;
- results of the Company's goodwill impairment test (if applicable);
- sales and operating trends affecting products and groupings;
- the impact on current and future operating results related to industry statistics;
- any losses of key acquired customer relationships; and
- changes to or obsolescence of acquired technology, data, and trademarks.

The Company also evaluates the remaining useful life of its long-lived assets on a periodic basis to determine whether events or circumstances warrant a revision to the remaining estimated amortization period.

Due to merchants

Due to merchants represents funds collected on behalf of all the Company's acquired merchants using the iPAY gateway ACH product or funds collected on behalf of directly acquired merchants as security deposits. The ACH funds are generally held for an average of three days before payment to the merchant.

Income taxes

The Company accounts for income taxes on the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequence attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in results of operations in the period during which the tax change occurs. The Company's operations are conducted in various geographies with different tax rates. As the Company's operations evolve this may impact the Company's future effective tax rate.

The Company assesses whether it is necessary to establish a valuation allowance to reduce the deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company's process includes evaluating both positive (for example, sources of taxable income) and negative (for example, historical losses) evidence and determining whether it is more likely than not that the deferred tax assets will not be realized.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

3. Summary of significant accounting policies (Continued)

ASC topic 740-10, *Accounting for Income Taxes*, prescribes a comprehensive model for how companies should recognize, measure, present, and disclose uncertain tax positions taken or expected to be taken on a tax return. The company shall initially and subsequently measure such tax positions as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. The Company has reviewed and evaluated the relevant technical merits of each of its tax positions, for all periods presented, and determined that there are no uncertain tax positions that would have a material impact on the financial statements of the Company.

Concentration of credit risk

The Company's assets that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents, restricted cash and receivables from clients. The Company places its cash, cash equivalents, and restricted cash with financial banking institutions that are insured by the Federal Depository Insurance Corporation ("FDIC") up to \$250,000. The Company also maintains cash balances at foreign banking institutions, which are not insured by the FDIC. As of December 31, 2009 and 2010, the Company's uninsured cash balances totaled \$3.0 million and \$3.8 million, respectively. The Company maintains an allowance for uncollectible accounts receivable based on expected collectability and perform ongoing credit evaluations of customers' financial condition. The Company's accounts receivable concentrations of 10% and greater are as follows:

	As of December 31,	
	2009	2010
Customer A	32%	33%
Customer B(*)	20	22
Customer C	10	

(*) Customer B is a sponsoring bank for certain merchants within the Company's payment processing services. Customer B serves as an aggregator of merchant transactions and therefore there is a concentration risk relating to receivables. However, revenues are generated from individual merchants that individually do not exceed 10% of revenue.

The Company's revenue concentrations of 10% and greater are as follows:

	Year ended December 31,		
	2008	2009	2010
Customer A	14%	24%	30%
Customer D	11		

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

3. Summary of significant accounting policies (Continued)

Net loss per share

The Company computes net loss per share in accordance with Financial Accounting Standards Board ("FASB") ASC 260, *Earnings per Share* ("ASC topic 260"). Under ASC topic 260, securities that contain rights to receive non-forfeitable dividends (whether paid or unpaid) are participating securities and should be included in the two-class method of computing earnings per share. The Company's preferred stockholders are entitled to participate in dividends and earnings when, and if, dividends are declared on the common stock. As such, the Company calculates net (loss) income per share using the two-class method. The two-class method is an earnings formula that treats a participating security as having rights to dividends that otherwise would have been available to common and preferred stockholders based on their respective rights to receive dividends. Losses are not allocated to the preferred stockholders for computing net loss per share under the two-class method because the preferred stockholders do not have contractual obligations to share in the losses of the Company.

Basic earnings per share is calculated by dividing net loss, adjusted for amounts allocated to participating securities under the two-class method, if applicable, by the weighted average number of common stock outstanding during the period.

Diluted earnings per share is calculated by dividing net loss by the weighted average number of shares of the Company's common stock outstanding, assuming dilution, during the period. The diluted earnings per share calculation assumes (i) all stock options and warrants which are in the money are exercised at the beginning of the period and (ii) each issue or series of issues of potential common stock are considered in sequence from the most dilutive to the least dilutive. That is, dilutive potential common stock with the lowest "earnings add-back per incremental share" shall be included in dilutive earnings per share before those with higher earnings add back per incremental share. For this purpose potential dilutive common stock include the stock options, warrants, shares of preferred stock and convertible debt.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

3. Summary of significant accounting policies (Continued)

The following table sets forth the computation of basic and diluted net loss per share:

	Year ended December 31,		
	2008	2009	2010
Numerator:			
Loss from continuing operations, net of taxes	\$(11,429,513)	\$ (4,183,200)	\$ (3,064,787)
Income from discontinued operations, net of taxes	272,847	—	—
Net loss	\$(11,156,666)	\$ (4,183,200)	\$ (3,064,787)
Denominator:			
Weighted average common stock outstanding (basic and diluted)	26,720,171	33,725,727	40,431,073
Basic net loss per share from continuing operations	\$ (0.43)	\$ (0.12)	\$ (0.08)
Basic net income per share from discontinued operations	\$ 0.01	\$ —	\$ —
Basic and diluted net loss per share applicable to common stockholders	\$ (0.42)	\$ (0.12)	\$ (0.08)

The following table sets forth the weighted securities outstanding that have been excluded from the diluted net loss per share calculation because the effect would have been antidilutive:

	Year ended December 31,		
	2008	2009	2010
Stock options	5,826,661	6,605,583	7,264,204
Warrants	5,423,118	4,279,472	3,661,083
Convertible debt	3,513,608	4,867,730	4,049,776
Convertible preferred stock	6,851,144	6,851,144	6,851,144
Total antidilutive securities	21,614,531	22,603,929	21,826,207

Stock-based expense and assumptions

Stock-based expense is measured at the grant date based on fair value and recognized as an expense over the requisite service period, net of an estimated forfeiture rate.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

3. Summary of significant accounting policies (Continued)

The following summarizes stock-based expense recognized by income statement classification:

	Year ended December 31,		
	2008	2009	2010
Processing and service costs	\$ 421,405	\$ 437,919	\$211,582
Selling, general and administrative expenses	1,385,062	1,007,106	618,151
Total stock-based expense	\$1,806,467	\$1,445,025	\$829,733

The following summarizes stock-based expense recognized by type:

	Year ended December 31,		
	2008	2009	2010
Stock options	\$1,487,493	\$1,213,659	\$739,992
Warrants(1)	318,974	231,366	89,741
Total stock-based expense	\$1,806,467	\$1,445,025	\$829,733

(1) For the periods indicated in the table above, the Company issued warrants as a partial payment for legal services rendered.

A summary of the unamortized stock-based expense and associated weighted average remaining amortization periods for stock options and warrants is presented below:

	As of December 31, 2010	
	Unamortized stock-based expense	Weighted average remaining amortization period (in years)
Stock options	\$ 708,091	2.16
Warrants	\$ —	—

Stock-based expense assumptions and vesting requirements

Determining the appropriate fair value model and calculating the fair value of options and warrants require the input of highly subjective assumptions, including the expected life, expected stock price volatility, and the number of expected options and warrants that will be forfeited prior to the completion of the vesting requirements. The Company uses the Black-Scholes Option Pricing Model to value its options and warrants.

The Company accounts for warrants issued to non-employees as expense at their fair value over the service period. Warrants issued to non-employees vest immediately upon issuance and are not required to be revalued.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

3. Summary of significant accounting policies (Continued)

Expected life

Due to the limited history of the Company's common stock being publicly traded on AIM, the expected life for the Company's options granted was determined based on the "simplified" method under the provisions of ASC 718-10, *Compensation—Stock Compensation*. The expected life of warrants granted was determined based on the warrants contractual life.

Expected stock price volatility

Due to the Company's limited public company history, the expected volatility for the Company's options and warrants was determined based upon the expected volatility of similar entities whose shares are publicly traded and have trading history commensurate with expected life.

Risk-free interest rate and dividend yield

The risk-free interest rates used for the Company's options and warrants granted were the U.S. Treasury zero-coupon rates for bonds matching its expected life of an option or warrant on the date of grant.

The expected dividend yield is not applicable to any options or warrants granted as the Company has not paid any dividends and intend to retain any future earnings for use in its business.

Vesting requirements

Options granted to employees generally vest $\frac{1}{3}^{\text{rd}}$ of the amount of shares subject to each option on each 12-month anniversary from the vesting commencement date over a three year period and expire ten years from the grant date.

A director's annual grant vests and becomes exercisable as to $\frac{1}{12}^{\text{th}}$ of the shares each month from the vesting commencement date. A director's initial grant vests and becomes exercisable as to $\frac{1}{3}^{\text{rd}}$ of the shares on the 12-month anniversary from the vesting commencement date and then $\frac{1}{36}^{\text{th}}$ of the shares each month thereafter, such that the grant vests in full after three years. All directors' options expire ten years from the grant date.

The Company's 2000 Stock Incentive Plan allows for acceleration of the vesting of outstanding options granted upon the occurrence of certain events related to change of control, merger, and the sale of substantially all of our assets or liquidation of the company, at the discretion of the Company's Board of Directors. The Company's 2006 Equity Incentive Plan provides that if outstanding options are not assumed or replaced by a successor corporation, options shall immediately vest as to 100% of the shares at such time and on such conditions as the Company's Board of Directors shall determine.

Warrants are generally issued for services performed by third parties or investments and are generally fully vested at grant and generally expire over a period of five years.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

3. Summary of significant accounting policies (Continued)

Black-Scholes assumptions used for options and warrants

The fair market value of each option and warrant granted for all periods presented has been estimated on the grant date using the Black-Scholes Option Pricing Model with the following assumptions:

	Year ended December 31,		
	2008	2009	2010
Expected life (in years)	5.0 - 6.0	5.0 - 6.0	5.0 - 6.0
Expected volatility (percentage)	36.61 - 39.21	35.43 - 36.80	28.20 - 36.23
Risk-free interest rate (percentage)	1.89 - 3.77	2.31 - 2.57	1.59 - 3.04
Expected dividend yield	—	—	—

The Company's Board of Directors has historically set the exercise price of stock options based on a price per share not less than the fair value of the Company's common stock on the date of grant. Since our shares of common stock began trading on AIM in 2006, the Company's Board of Directors has determined that the fair value of the shares of common stock on the date of grant is the closing price of the Company's common stock under the AIM symbol PPTR. The underlying security for all issued and outstanding options and warrants is the Company's common stock trading under PPTR.

For further information, please refer to Notes 15 and 16.

Fair value measurements

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs used to measure fair value are prioritized into a three-level fair value hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair values are as follows:

- Level 1 – Fair value measurements of the asset or liability using observable inputs such as quoted prices in active markets for identical assets and liabilities;
- Level 2 – Fair value measurements of the asset or liability using inputs other than quoted prices that are observable for the applicable asset or liability, either directly or indirectly, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and
- Level 3 – Fair value measurements of the asset or liability using unobservable inputs that reflect the Company's own assumptions regarding the applicable asset or liability.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

3. Summary of significant accounting policies (Continued)

The Company's cash and cash equivalents balances are residing in cash operating accounts and are not invested in money market funds or an equivalent. The Company's remaining asset and liability accounts are reflected in the consolidated financial statement at cost which approximates fair value because of the short-term nature of these items.

Recent accounting pronouncements

In December 2010, the FASB issued guidance to amend the disclosure requirements of supplementary pro forma information for business combinations. The guidance addresses the diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance has not impacted the Company's consolidated financial statements.

In June 2011, the FASB issued an accounting pronouncement that provides new guidance on the presentation of comprehensive income (FASB ASC Topic 220) in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. Under the single-statement approach, entities must include the components of net income, a total for net income, the components of other comprehensive income and a total for comprehensive income. Under the two-statement approach, entities must report an income statement and, immediately following, a statement of other comprehensive income. Under either method, entities must display adjustments for items reclassified from other comprehensive income to net income in both net income and other comprehensive income. The provisions for this pronouncement are effective for the fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company will adopt this pronouncement January 1, 2012.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

4. Property and equipment

Property and equipment are recorded at cost and consist of the following:

	Estimated useful life (years)	As of December 31,	
		2009	2010
Equipment	5	\$ 592,627	\$ 700,087
Computer hardware	5	1,738,904	2,128,112
Furniture and fixtures	5 - 7	174,138	178,080
Leasehold improvements	5 - 7	331,228	355,123
		2,836,897	3,361,402
Less: Accumulated depreciation and amortization		(1,474,842)	(1,977,092)
Property and equipment, net		\$ 1,362,055	\$ 1,384,310

Property and equipment depreciation and amortization expense is as follows:

	Year ended December 31,		
	2008	2009	2010
Depreciation and amortization expense	\$386,986	\$421,916	\$502,250

5. Intangible assets

Intangible assets are recorded at estimated fair value and are amortized ratably over their estimated useful lives to processing and service costs, which are included in cost of revenue.

At December 31, the gross book value, accumulated amortization and amortization periods of intangible assets were as follows:

	As of December 31, 2009			As of December 31, 2010			Amortization period (years)
	Gross book value	Accumulated amortization	Net book value	Gross book value	Accumulated amortization	Net book value	
Trademarks and patents	\$ 581,760	\$ (105,834)	\$ 475,926	\$ 661,379	\$ (149,375)	\$512,004	15
Customer contracts	867,354	(260,206)	607,148	867,354	(433,677)	433,677	5
Intangible assets, net	\$1,449,114	\$ (366,040)	\$1,083,074	\$1,528,733	\$ (583,052)	\$945,681	

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

5. Intangible assets (Continued)

Amortization expense related to intangible assets is as follows:

	Year ended December 31,		
	2008	2009	2010
Amortization expense	\$114,249	\$213,908	\$217,011

Intangible amortization expense that will be charged to income for the subsequent five years and thereafter is estimated on the December 31, 2010 book value, as follows:

2011	\$221,296
2012	221,296
2013	134,560
2014	43,458
2015	42,025
Thereafter	283,046
Total	<u>\$945,681</u>

6. iPAY asset acquisition

In April 2008, the Company acquired certain assets pursuant to bankruptcy proceedings relating to the former iPAY e-Commerce processing business for a cash purchase price of \$1.2 million (including direct acquisition costs of \$0.1 million). The acquired iPAY Gateway enables acceptance of many major payment types and methods for e-commerce, mail order and telephone order merchants.

The total purchase price was allocated to the assets acquired according to their estimated fair values at the date of acquisition as follows:

	Allocated fair value	Estimated useful life (years)
Property and equipment	\$ 249,065	5
Technology	98,875	5
Customer contracts	876,354	5
Total purchase price	<u>\$1,224,294</u>	

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

7. Long and short-term debt

Long and short-term debt consisted of the following:

	December 31,	
	2009	2010
Inter-Atlantic Fund L.P. note payable due November 30, 2010. Interest is 8% and was payable annually in cash or common stock at the Company's election. The Company issued a warrant exercisable for 3,053,435 shares of common stock. On November 30, 2010, 1,526,718 warrants were exercised and the note was repaid in full	\$ 4,000,000	\$ —
Note payable due to First Horizon Merchant Services, Inc. ("FHMS") and First Tennessee Bank National Association ("FTB") payable on demand(1)	660,000	660,000
Note payable due to FHMS and FTB payable on demand(1)	40,000	40,000
Capital leases to various lessors secured by financed equipment and software with interest rates ranging from 9.29% to 20.04%. Principal and interest are payable monthly through January 2014	394,364	431,185
Total long and short-term debt and capital leases	5,094,364	1,131,185
Less current portion of debt and capital leases	(4,840,044)	(917,834)
Long-term portion of capital leases	\$ 254,320	\$ 213,351

(1) In 2003, the Company entered into an agreement with FHMS and FTB and recorded a liability. Due to a breach of the contractual terms by FHMS and FTB, the Company did not believe it was liable to repay these amounts. As of March 31, 2011, the statute of limitations had expired on \$0.66 million of the \$0.7 million balance. For the six months ended June 30, 2011, the Company recorded other income due to the derecognition of the note payable in the amount of \$0.66 million. The statute of limitations relating to the remaining amount of \$40,000 expired during the third quarter of 2011.

Interest expense by term debt component is as follows:

	Year ended December 31,		
	2008	2009	2010
Inter-Atlantic Fund L.P. note payable (non-cash)	\$338,887	\$337,926	\$295,743
Capital leases	27,123	53,285	65,257
Total term debt interest expense	\$366,010	\$391,211	\$361,000

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

8. Convertible debt

Long and short-term convertible debt as of December 31, 2009 and 2010:

Issue date	Maturity date	Principal	Accrued capitalized interest	Total convertible debt	Interest rate	Conversion price
February 2007	February 2012	\$5,000,000	\$ 811,056	\$5,811,056	9%	\$2.20
April 2008	April 2012	3,000,000	168,870	3,168,870	9%	2.25
Total convertible debt		<u>\$8,000,000</u>	<u>\$ 979,926</u>	<u>\$8,979,926</u>		

In February 2007, in connection with a \$7.6 million private placement, the Company issued a \$5.0 million five-year term note convertible into 2,272,727 shares of common stock at a conversion price of \$2.20 per share and issued \$2.6 million or 1,141,491 new shares of common stock at a price of \$2.28 per share. The \$5.0 million note carried an annual interest rate of 9% (payable semi-annually commencing June 30, 2007) and was convertible at any time at the option of the note holders or automatically upon the achievement by the Company of certain events, namely a qualified U.S. initial public offering or the achievement of certain liquidity and market value of shares of the Company's common stock. At the Company's election, interest payments were payable in the form of cash or common stock. Interest payments of \$0.8 million through December 31, 2008 were not paid and added to the principal amount. Interest payments after December 31, 2008 were paid out in the form of common stock.

In April 2008, the Company issued a \$3.0 million four-year term note convertible into 1,333,333 shares of common stock at a conversion price of \$2.25 per share. The \$3.0 million note carried an annual interest rate of 9% (payable semi-annually commencing June 30, 2008) and was convertible at any time at the option of the note holders or automatically upon the achievement by the Company of certain events, namely a qualified U.S. initial public offering or the achievement of certain liquidity and market value of shares of the Company's common stock. At the Company's election interest payments were payable in the form of cash or common stock. Interest payments of \$0.2 million through December 31, 2008 were not paid and added to the principal amount. Interest payments after December 31, 2008 were paid out in the form of common stock.

In April 2011, the convertible debt holders converted their entire \$9.0 million under convertible notes issued in 2007 and 2008 into an aggregate of 4,049,776 shares of common stock. In addition, we issued 127,318 shares of common stock valued at \$0.3 million in lieu of cash payments for accrued interest and 297,682 shares of common stock valued at \$0.6 million as a prepayment fee negotiated at the time of conversion. The shares issued for the accrued interest and the prepayment fee were valued at the average closing price of the Company's common stock on AIM under the symbol "PPTR" during the period immediately prior to the conversion.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

8. Convertible debt (Continued)

Total interest expense related to convertible debt is as follows:

	Year ended December 31,		
	2008	2009	2010
Convertible debt interest expense (non-cash)	\$608,563	\$808,193	\$808,193

9. Commitments and contingencies

Operating leases

The Company leases office space and various office equipment under cancelable and noncancelable operating leases which expire on various dates through 2016. In general, leases relating to real estate include rent escalation clauses relating to increases in operating costs. Some leases also include renewal options of up to three years.

Operating lease expense is as follows:

	Year ended December 31,		
	2008	2009	2010
Operating lease expense	\$1,134,572	\$1,260,087	\$1,243,621

Future minimum rental payments under noncancelable operating leases are as follows:

Years ending December 31,	
2011	\$1,479,857
2012	846,800
2013	826,475
2014	527,491
2015	520,822
Thereafter	536,447
Total minimum lease payments	<u>\$4,737,892</u>

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

9. Commitments and contingencies (Continued)

Capital leases

The following is an analysis of the leased property under capital leases by major property class:

	December 31,	
	2009	2010
Computer hardware	\$533,487	\$ 757,452
Less: Accumulated depreciation	(133,863)	(276,387)
Total capital leases, net	<u>\$399,624</u>	<u>\$ 481,065</u>

Future minimum rental payments under capital leases are as follows:

Years ending December 31,		
2011		\$265,718
2012		163,560
2013		62,392
2014		9,296
2015		—
Thereafter		—
Total minimum lease payments		500,966
Less: Amounts representing taxes, included in total minimum lease payments(*)		—
Net minimum lease payments		500,966
Less: Amounts representing interest payments		(69,781)
Present value of net minimum lease payments		<u>\$431,185</u>

* Tax amounts related to capital lease payments are inconsequential.

Acquiring bank sponsorship agreements

The Company has entered into three acquiring bank sponsoring agreements expiring at various dates through 2015. The future minimum payments under those agreements are as follows:

Years ending December 31,		
2011		\$ 206,918
2012		127,500
2013		250,000
2014		300,000
2015		300,000
Thereafter		25,000
Total payments		<u>\$1,209,418</u>

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

9. Commitments and contingencies (Continued)

Employment agreements

Pursuant to employment agreements with certain employees, the Company had a commitment to pay severance of approximately \$1.3 million as of December 31, 2010, in the event of termination without cause, as defined in the agreements. Additionally, in the event of termination upon a change of control, as defined in the agreements, the Company had a commitment to pay severance of \$1.6 million as of December 31, 2010.

Contingent liabilities

In instances where the Company is acting as the merchant acquiror, the Company bears a risk that a merchant may engage in fraud by submitting for payment certain credit card transactions that may have been manipulated, are fictitious, or otherwise not bona fide. Similarly, the Company bears the risk that a merchant becomes insolvent, owing money to cardholders. To the extent that such fraud or insolvency occurs in circumstances where the Company is liable to make good any resultant losses, this could affect the Company's operating results and cash flows. The Company has required certain merchants to post cash reserves with the acquirer against such liabilities and has itself paid the acquirer a security deposit in connection there with, as shown on the consolidated balance sheets. Under FASB ASC 460, *Guarantees*, the Company evaluates its ultimate risk and records an estimate of potential loss for chargeback's related to merchant fraud based upon an assessment of actual historical fraud rates compared to recent bank card processing volume levels. No contingent liability has been recorded as of December 31, 2009 and 2010, as the risk of material loss is considered remote. The Company monitors this contingent liability on a quarterly basis and will provide for a reserve if deemed necessary.

Outstanding litigation

From time to time, the Company may be subject to legal proceedings and claims in the ordinary course of business. The Company currently has no material legal proceedings pending against it. The Company has commenced proceedings in the United States against various parties seeking to recover receivables and other sums owed arising from breaches of contract and related wrongful acts and omissions. One such case was settled in 2010 resulting in proceeds of \$0.5 million (before expenses). The net proceeds were recorded as an offset to operating expenses for the year ended December 31, 2010.

10. Convertible preferred stock

The preferred stock consists of 2,243,750 shares designated (and issued) as Series A Preferred Stock, and 1,756,250 shares which are undesignated (and unissued). Each issued share of Series A Preferred Stock is convertible into approximately 3.05 shares of common stock, for a total of 6,851,144 shares of common stock. Series A Preferred Stock may be converted into shares of common stock at any time at the election of the holder. In addition, all issued Series A Preferred Stock automatically convert into shares of common stock upon the consent

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

10. Convertible preferred stock (Continued)

of the holders of at least two-thirds of the voting power of the issued Series A Preferred Stock, or immediately prior to the closing of an initial public offering of common stock registered with the U.S. Securities and Exchange Commission in which the valuation of the Company is at least \$50.0 million and the net proceeds of the offering are at least \$25.0 million.

Upon the admission to the Company's common stock to AIM in March 2006, substantially all of the rights, preferences and privileges of the Series A preferred stockholders, except for the liquidation preference, terminated. The only difference in rights between the Series A Preferred Stock and the common stock is the payment of a liquidation preference on the Series A Preferred Stock in the event of an acquisition, liquidation or winding up of the Company. "Acquisition" is defined for purposes of payment of the liquidation preference as a consolidation or merger (or similar transaction) of the Company with or into any other corporation or the sale of all of the capital stock of the Company, in each case where the shareholders immediately prior to such transaction fail to retain a majority voting power of the Company's stock following such transaction, or a sale, lease, exclusive license or other disposition of all or substantially all of the Company's assets. Upon such a liquidation event, each share of Series A Preferred Stock entitles its holder to receive an amount equal to the original purchase price for the Series A Preferred Stock prior to payment on the common stock. The aggregate liquidation preference for the Series A Preferred Stock is approximately \$9.0 million. In the event of an acquisition of the Company, the holders of Series A Preferred Stock would be entitled to receive the first approximately \$9.0 million of the purchase price. After payment of this liquidation preference, the remaining proceeds would be distributed pro rata among the holders of common stock. The Series A Preferred Stock otherwise has identical rights to common stock on an as converted basis, including with respect to voting and dividends.

11. Common stock

The common stockholders are entitled to a distribution of all remaining assets (which may be more or less than the original investment), on a proportionate basis, in the event of the dissolution or winding up of the Company, after payment of all liabilities of the Company and the liquidation preference of all series of preferred stock then outstanding. The common stock has no conversion or redemption rights. The common stock is entitled to one vote per share at all general meetings of the Company. The common stockholders are entitled to share in all dividends and distributions, which may be declared by the Company, on a proportionate basis with all other classes and series of stock outstanding.

During the year ended December 31, 2008, the Company issued 446,991 shares of common stock as a result of exercised options and warrants and 108,498 new shares of common stock, in payment of interest upon the convertible debt.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

11. Common stock (Continued)

During the year ended December 31, 2009 the Company issued 12,239,206 shares of common stock as follows:

Common stock issued in March 16, 2009 private placement(1)	6,659,000
Common stock issued in November 4, 2009 private placement(2)	3,076,000
Common stock issued in payment of principal and accrued interest on convertible debt(3)	1,926,149
Common stock issued in payment of interest on term debt(4)	521,745
Common stock issued as payment of director fees for services(5)	56,312
Total common stock issued	<u>12,239,206</u>

(1) On March 16, 2009, the Company completed a private placement of 6,659,000 new shares of common stock at a price of \$0.45 per share raising approximately \$3.0 million (before expenses). The shares of common stock were issued to institutional and other investors. The net proceeds of this private placement provided additional working capital.

(2) On November 4, 2009, the Company completed a private placement of 3,076,000 new shares of common stock at a price of \$1.30 per share raising approximately \$4.0 million (before expenses). The shares of common stock were issued to institutional and other investors. The net proceeds of this private placement provided additional working capital.

(3) During the year ended December 31, 2009, the Company issued 1,926,149 new shares of common stock, in payment of \$1.3 million of principal and accrued interest on convertible debt.

(4) During the year ended December 31, 2009, the Company issued 521,745 new shares of common stock, in payment of \$0.7 million of accrued interest on term debt.

(5) In May 2009, the Company issued a director 56,312 new shares of common stock in lieu of approximately \$35,000 payments of directors fees.

During the year ended December 31, 2010 the Company issued 6,898,283 shares of common stock as follows:

Common stock issued in October 22, 2010 private placement(6)	4,500,000
Common stock issued in upon exercise of options and warrants(7)	1,540,386
Common stock issued in payment of accrued interest on convertible debt(8)	602,272
Common stock issued in payment of interest on term debt(9)	255,625
Total common stock issued	<u>6,898,283</u>

(6) On October 22, 2010 the Company completed a private placement of 4,500,000 new shares of common stock at a price of \$1.34 per share raising approximately \$6.03 million (before expenses). The shares of common stock were issued to institutional investors. The net proceeds of the private placement provided additional working capital and were used to pay off term debt.

(7) The Company issued 1,526,718 new shares of common stock upon the exercise of warrants for \$2.0 million and repaid in cash the \$2.0 million balance of principal on the term debt, which was discharged as of November 30, 2010. Refer to Note 6 for further information.

(8) During the year ended December 31, 2010, the Company issued 602,272 new shares of common stock, in payment of \$0.8 million of accrued interest on convertible debt.

(9) During the year ended December 31, 2010, the Company issued 255,625 new shares of common stock, in payment of \$0.3 million of accrued interest on term debt.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

11. Common stock (Continued)

In April 2011, the convertible debt holders converted the outstanding principal amount of \$9.0 million under convertible notes issued in 2007 and 2008 into an aggregate of 4,049,776 shares of common stock. In addition, the Company issued 127,318 shares of common stock valued at \$0.3 million in lieu of cash payments for accrued interest and 297,682 shares of common stock valued at \$0.6 million as a prepayment fee negotiated at the time of conversion. The shares issued for the accrued interest and the prepayment fee were valued at the average closing price of the Company's common stock on AIM under the symbol "PPTR" during the period immediately prior to the conversion.

On June 3, 2011, the Company's stockholders approved a proposal to amend and restate the Company's certificate of incorporation. The sole change in the amended and restated certificate was an increase in the authorized stock from 70,000,000 to 80,000,000 shares of common stock, \$0.01 par value.

12. Related party transactions

The Company incurred the following operating expenses to companies that are principally owned by executives, directors or stockholders of the Company:

	Year ended December 31,		
	2008	2009	2010
Rent	\$416,047	\$463,936	\$493,037
Consulting and professional fees	161,207	—	21,291

13. Discontinued operations

In October 2006, the Company entered into a contractual joint venture with JourneyPay Ltd. The Company agreed to contribute various services, absorb all losses and fund the joint venture's operations. The Company consolidated the joint ventures results as it had determined that the joint venture was a variable interest entity ("VIE") and the Company was the primary beneficiary. This determination was made under ASC 810-10. In making this determination, the Company evaluated its influence to direct the activities and the economic performance of the joint venture, in addition to the Company's obligation to absorb all losses and fund the joint venture's operations.

In January 2008, the Company terminated its joint venture relationship with JourneyPay Ltd. In November 2008, the Company sold its interest in the joint venture for consideration of a five-year note receivable in the amount of \$0.2 million with an annual interest rate of 7%. For the year ended December 31, 2008, the Company recorded \$0.3 million as income from discontinued operations related to this joint venture. For the year ended December 31, 2009 the Company determined that the note receivable and accrued interest of \$0.3 million was

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

13. Discontinued operations (Continued)

uncollectible and the entire amount was written-off to selling, general and administrative expenses within continuing operations. The debtor subsequently filed for bankruptcy in 2010.

14. Income taxes

The components of the Company's loss before provision for income taxes by jurisdiction are as follows:

	Year ended December 31,		
	2008	2009	2010
United States	\$(13,099,224)	\$(3,955,474)	\$(2,695,711)
Outside United States	1,944,239	(223,631)	(365,857)
Loss before provision for income taxes, net	<u>\$(11,154,985)(1)</u>	<u>\$(4,179,105)</u>	<u>\$(3,061,568)</u>

(1) Amount is net of \$0.3 million of income from discontinued operations.

The components of the provision for income taxes are as follows:

	Year ended December 31,		
	2008	2009	2010
Current tax:			
United States—Federal	\$ —	\$ —	\$ —
United States—State and local	1,681	4,095	3,219
Outside United States	—	—	—
Total current tax	<u>1,681</u>	<u>4,095</u>	<u>3,219</u>
Deferred tax:			
United States—Federal	—	—	—
United States—State and local	—	—	—
Outside United States	—	—	—
Total deferred tax	<u>—</u>	<u>—</u>	<u>—</u>
Provision for income taxes, net	<u>\$1,681</u>	<u>\$4,095</u>	<u>\$3,219</u>

The Company has incurred net operating losses since inception and has not recorded any Federal tax expense. The Company has recorded the applicable state income taxes due.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

14. Income taxes (Continued)

The table below shows a reconciliation from the U.S. Federal statutory income rate of 34.0% to the effective income tax rate:

	Year ended December 31,		
	2008	2009	2010
Federal statutory rate	34.0%	34.0%	34.0%
State taxes (less than 0.1%)	—	—	—
Permanent differences	1.0	2.0	2.0
Valuation allowance	(35.0)	(36.0)	(36.0)
Effective tax rate	0.0%	0.0%	0.0%

The components of deferred tax assets and liabilities are as follows:

	As of December 31,	
	2009	2010
Deferred tax assets:		
Net operating loss carry-forwards	\$ 21,722,655	\$ 22,675,260
Stock options	1,484,009	1,735,678
Provision for doubtful accounts	637,976	455,642
Total deferred tax assets	23,844,640	24,866,580
Deferred tax liabilities:		
Depreciation and amortization	(384,892)	(738,790)
Total deferred tax liabilities	(384,892)	(738,790)
Deferred tax valuation allowance	(23,459,748)	(24,127,790)
Total deferred tax asset, net	\$ —	\$ —

Due to the Company's history of net operating losses, it has concluded that it is not more likely than not the Company would be able to utilize its deferred tax assets, and therefore a full valuation allowance has been provided.

As of December 31, 2010, the Company's foreign subsidiaries have a net operating loss in respect of which a full valuation allowance has been provided.

As of December 31, 2010, the Company has available net operating loss carry-forwards of \$66.7 million, expiring in various years from 2020 through 2029.

Due to the Company's history of net operating losses, all years are open for examination by federal and state taxing authorities. The Company is also subject to income tax examinations by foreign tax authorities for all open tax years. There are no tax audits currently ongoing.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

15. Stock incentive plan

2000 Stock Incentive Plan

Options granted under the 2000 Stock Incentive Plan were all non-qualified stock options. As of December 31, 2010, 185,000 options are outstanding and zero options are available for future grant under the 2000 Stock Incentive Plan.

2006 Equity Incentive Plan

The Board of Directors and stockholders approved an equity incentive plan ("2006 Equity Incentive Plan" or "Plan") in January 2006. The Remuneration Committee of the Board of Directors (the "Committee") administers the Plan. Currently, the Company grants stock options under the 2006 Equity Incentive Plan to employees.

Under the terms of the 2000 Stock Incentive Plan and the 2006 Equity Incentive Plan, participants may be granted restricted shares or options to purchase the Company's common stock at the fair market value on the date of grant. As of December 31, 2010, 8.1 million shares were reserved for issuance under the Plan. As of December 31, 2010, no restricted shares have been issued and no options have been issued below fair value. As of December 31, 2010, 1.0 million shares of common stock are available for future issuance under the Plan.

On June 3, 2011, the Company's stockholders approved a proposal to amend its 2006 Equity Incentive Plan to increase the aggregate number of shares authorized for issuance under the Plan by 3.0 million shares. After giving effect to these additional shares, an aggregate of 11.1 million shares of common stock have been reserved for issuance pursuant to the Plan and 3.2 million shares were available for future issuance.

2011 Long Term Incentive Restricted Stock Purchase Agreement

On July 26, 2011, the Company made a restricted stock grant of 915,000 shares of the Company's common stock to Philip Beck, its Chairman of the Board, Chief Executive Officer and President, pursuant to a Long Term Incentive Restricted Stock Purchase Agreement. Under the terms of this agreement, the restricted stock will be held in escrow and will only vest upon achievement of certain long-term performance goals during the period between the time of grant and the end of 2017. If the performance goals are not met, then some or all of the restricted stock will be forfeited and will be repurchased by the Company for \$1.00. The long-term performance goals include achievement by the company of Adjusted EBITDA in a fiscal year (as will be defined in the Company's earnings releases for the relevant periods) of between \$0.36 and \$0.71 per share, the achievement of a common stock price of at least \$12.00 per share, or, in the event of a sale or merger of the Company, the consideration paid is at least \$1 billion and there is a valuation or price equating to at least \$15.00 per share. Under this agreement, different amounts of the restricted stock may be vested upon achievement of the different performance goals respectively, with an emphasis on the Adjusted EBITDA per share goal. The Company is currently evaluating the accounting and the impact on future operating results.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

15. Stock incentive plan (Continued)

A summary of stock option activity for both plans during the year ended December 31, 2010 is as follows:

	Number of options	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
Outstanding as of				
December 31, 2009	<u>6,793,299</u>	\$ 2.36		
Options granted	1,306,678	1.95		
Options exercised	(13,668)	0.77		
Options cancelled	(626,594)	2.86		
Options forfeited	<u>(157,832)</u>	2.08		
Outstanding as of				
December 31, 2010	<u>7,301,883</u>	2.25	6.67	\$ 275,523
Options exercisable as of				
December 31, 2010	<u>5,942,540</u>	2.33	6.28	254,258
Vested and expected to vest as of December 31, 2010	<u>7,301,883</u>	2.25	6.67	275,523

The following table provides additional information pertaining to the Company's stock options:

	Year ended December 31,		
	2008	2009	2010
Weighted-average grant date fair value for options granted during the period	\$ 0.58	\$ 0.56	\$ 0.74
Total fair value of options vested during the period	1,362,398	1,443,280	537,199
Total intrinsic value of options exercised during the period	—	—	12,583

The exercise prices range from \$0.60 to \$4.40 for stock options outstanding and exercisable as of December 31, 2010.

The aggregate intrinsic value of stock options outstanding, vested and unvested expected to vest, and exercisable, represent the total pre-tax intrinsic value, based on the closing price of \$0.72, \$1.67 and \$1.35 of PPTR as reported on AIM on December 31, 2008, 2009, and 2010, respectively.

16. Warrants

Warrants granted are generally issued for services performed by third parties or investments.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

17. Retirement plan

At December 31, 2010, the Company maintains a defined contribution plan in which all U.S. employees are eligible to participate.

All U.S. employees are eligible to participate in a 401(k) plan which covers U.S. employees meeting certain age requirements in accordance with section 401(k) of the Internal Revenue Code. Under the provisions of the 401(k) plan, the Company has the ability to make matching contributions equal to a percentage of the employee's voluntary contribution, as well as a non-elective contribution. From the inception of the 401(k) plan the Company has not made a contribution of any type.

18. Segment information

General information

The segment and geographic information provided in the table below is being reported consistent with the Company's method of internal reporting. Operating segments are defined as components of an enterprise for which separate financial information is available and which is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker, or CODM, reviews net revenue and gross profit by service by geographical region. The Company operates in two reportable segments multi-currency processing services and payment processing services.

Information about revenue, profit and assets

The CODM evaluates performance and allocates resources based on net revenue and gross profit of each segment. For purposes of analyzing segments, gross profit of the multi-currency processing services segment is equal to net revenue, while the gross profit for the payment processing services segment includes net revenue of the segment less the cost of revenue component "processing services fees", which may include interchange and card network fees and assessment. Net revenue and gross profit by geographical region is based upon where the transaction originated. Lastly, the Company does not evaluate performance or allocate resources using segment asset data. Long-lived assets are primarily located in North America and as of December 31, 2009 and 2010 long-lived asset amounts are \$6.2 million and \$7.0 million, respectively.

The Company conducts its business primarily in three geographical regions: Asia Pacific ("APAC"), North America, and Central Europe, Middle East and Africa ("CEMEA"). The following table provides revenue concentration by geographic region. Analysis of revenue by segment

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

18. Segment information (Continued)

and geographical region and reconciliations to consolidated revenue and gross profit are as follows:

	Year ended December 31,		
	2008	2009	2010
Net Revenue:			
APAC	\$ 6,619,856	\$10,496,935	\$15,198,058
North America	2,485,753	2,065,284	2,647,547
CEMEA	—	34,515	127,632
Total multi-currency processing services revenue	9,105,609	12,596,734	17,973,237
Payment processing services revenue	12,080,269	13,722,585	12,579,927
Net revenue	<u>\$21,185,878</u>	<u>\$26,319,319</u>	<u>\$30,553,164</u>
Gross Profit:			
APAC	\$ 6,619,856	\$10,496,935	\$15,198,058
North America	2,485,753	2,065,284	2,647,547
CEMEA	—	34,515	127,632
Total multi-currency processing services gross profit	9,105,609	12,596,734	17,973,237
Payment processing services gross profit	2,271,835	3,547,155	2,528,287
Total gross profit	<u>\$11,377,444</u>	<u>\$16,143,889</u>	<u>\$20,501,524</u>

Payment processing services revenue and gross profit is the result of transactions that primarily originated in North America and no individual merchant of the payment processing segment was greater than 10% of segment revenue.

Planet Payment, Inc.

Notes to consolidated financial statements (Continued)

18. Segment information (Continued)

Concentration of revenue by customer by geographical region:

	Year ended December 31,		
	2008	2009	2010
Multi-currency processing services revenue:			
APAC:			
Customer A	46%	60%	61%
Customer D	34	11	
Customer F	13	10	
Customer G			13
North America:			
Customer H	57	57	24
Customer I		17	25
Customer J		16	34
Customer K	12		
Customer L	12		
CEMEA:			
Customer E			82

PLANET PAYMENT, INC.

AMENDED FINANCIAL STATEMENTS

**AS OF DECEMBER 31, 2010 and 2009 and
FOR EACH OF THE THREE YEARS IN THE PERIOD
ENDED DECEMBER 31, 2010**

CERTIFICATIONS

I, Philip D Beck, certify that:

1. I have reviewed the attached Amended Consolidated Balance Sheets of Planet Payment, Inc. as of December 31, 2010 and 2009 and the related Consolidated Statements of Operations, Cash Flows, and Changes in Convertible Preferred Stock and Stockholders' Equity (Deficit) and Comprehensive Loss for each of the three years in the period ended December 31, 2010 (collectively the "Amended Financial Statements");
2. Based on my knowledge, the Amended Financial Statements do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by the Amended Financial Statements; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in the Amended Financial Statements, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of the dates, and for, the periods presented in Amended Financial Statements.

Date: October 25, 2011



Philip D. Beck, CEO


I, Robert Cox, certify that:

1. I have reviewed the attached Amended Financial Statements;

2. Based on my knowledge, the Amended Financial Statements do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the Amended Financial Statements, and other financial information included or incorporated by reference in the Amended Financial Statements, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of the dates, and for, the periods presented in the Amended Financial Statements.

Date: October 25, 2011



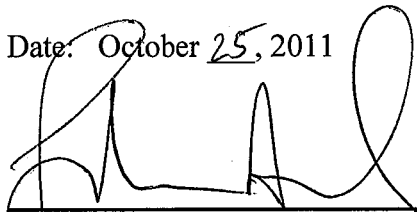
Robert Cox, CFO

1. I have reviewed the attached Amended Financial Statements;

2. Based on my knowledge, the Amended Financial Statements do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the Amended Financial Statements, and other financial information included or incorporated by reference in the Amended Financial Statements, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of the dates, and for, the periods presented in the Amended Financial Statements.

Date: October 25, 2011



Graham N. Arad, SVP & General Counsel