



# **Planet Payment, Inc**

## **Annual Report**

**Pursuant to Section Two of OTC Market Group  
Guidelines for Providing Adequate Information**

**Twelve Months ended December 31, 2010**

### **Principal Offices**

670 Long Beach Boulevard  
Long Beach, NY 11561

Tel: +1 (516) 670-3200

Fax: +1 (516) 670-3520

[www.planetpayment.com](http://www.planetpayment.com)  
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# Planet Payment, Inc

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# PLANET PAYMENT, INC.

## ANNUAL REPORT FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010

### **Part A - General Company Information:**

#### **I: Issuer:**

Planet Payment, Inc. (“Issuer” or the “Company”)

#### **II: Principal Executive Offices:**

670 Long Beach Boulevard  
Long Beach, NY 11561

Tel: +1 (516) 670-3200  
Fax: +1 (516) 670-3520

#### **Investor Relations Contact**

Graham N. Arad, SVP & General Counsel  
[investors@planetpayment.com](mailto:investors@planetpayment.com)

[www.planetpayment.com](http://www.planetpayment.com)

**III:** The Issuer is a Delaware Corporation, incorporated on October 12, 1999

### **Part B - Share Structure:**

**IV:** a. Common Stock CUSIP U72603118, Ticker PLPM (“Common Stock”)  
b. Series A Convertible Preferred Stock (“Preferred Stock”) (not traded)

**V:** a. Common Stock \$0.01 par value  
b. Preferred Stock \$0.01 par value

Each Class of shares has the rights set forth in the Amended & Restated Certificate of Incorporation of the Issuer, summarized as follows:

**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 Issuer, after payment of all liabilities of the Issuer 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 Issuer. The Common stockholders are entitled to share in all

dividends and distributions, which may be declared by the Issuer, on a proportionate basis with all other classes and series of stock outstanding.

**Series A Convertible Preferred Stock** — The holders of the Preferred Stock are entitled upon a liquidation event, to receive back their original investment, in priority to any return of capital to all other stockholders, with no further participation. The Preferred Stock may be converted into Common Stock at any time at the election of the holders thereof and automatically by the Company in limited circumstances based on a conversion price of \$1.31 per share (subject to adjustment), as set forth below. The Preferred Stock is entitled to one vote per share on an as converted to Common Stock basis at all general meetings of the Issuer. The Preferred stockholders are entitled to share in all dividends and distributions, which may be declared by the Issuer, on a proportionate basis with all other classes and series of stock outstanding.

**VI:**

(i) As of December 31, 2010

(ii) Authorized Shares

a. Common Stock: 70,000,000 shares of \$0.01 par value each

b. Preferred Stock: 4,000,000 shares of \$0.01 par value each

(iii) Number of Shares Outstanding

a. Common Stock: 46,068,496

b. Preferred Stock: 2,243,750 (convertible into 6,851,144 shares of Common Stock)

(iv) Public Float: 34,112,548 Common Shares

(v) Beneficial Shareholders of Record: 277

**Part C - Business Information:**

**VII:** The Company's transfer agent is Computershare Investor Services, 250 Royall Street Canton, MA 02021.

**VIII, IX and X:** See Chairman's Statement and Management Discussion and Analysis under item XVI below for annual update on the Issuer's business, services offered and Issuer's facilities. See also Note 16 ("Concentration of Credit Risk") to the 2010 Financial Statements for information on dependence on major customers.

**XI:** Directors

Philip D. Beck

Graham N. Arad

Lady Barbara Judge

Jon Kaiden

Cameron McColl

Business address: c/o Planet Payment, Inc., 670 Long Beach Blvd., Long Beach, NY  
11561

Officers

Philip D. Beck, CEO

Graham N. Arad, SVP General Counsel & Corporate Secretary

Seth Asofsky, SVP USA

Robert Cox, CFO

Kieth Flaherty, SVP Operations & Project Management

Alan Lubitz, CTO

Business address: c/o Planet Payment, Inc., 670 Long Beach Blvd., Long Beach, NY  
11561

See Issuer's website at [www.planetpayment.com/investor-relations/director.aspx](http://www.planetpayment.com/investor-relations/director.aspx) and [http://www.planetpayment.com/about\\_us/senior\\_management/](http://www.planetpayment.com/about_us/senior_management/) for further information on the Issuer's directors and senior officers. None of the directors or officers has been subject to any convictions, orders or judgments as are referred to in item XI B. There are no family relationships as referenced in item XI C. There are no related party transactions except as disclosed in the 2010 Financial Statements.

**XII:** See Audited Consolidated Financial Statements of the Issuer as of and for the Years Ended December 31, 2010 and 2009 annexed hereto as Exhibit A and incorporated herein by reference ("2010 Financial Statements") and posted through the OTC Disclosure & News Service and on the Issuer's website at [www.planetpayment.com/investor-relations/downloads.aspx](http://www.planetpayment.com/investor-relations/downloads.aspx) which are incorporated herein by reference comprising:

- 1) Balance Sheet;
- 2) Statements of Operations
- 3) Statements of Cash Flows
- 4) Statements of Stockholders Equity
- 5) Notes to the Financial Statements
- 6) Audit Opinion Letter dated March 21, 2011 issued by Deloitte & Touche, LLP

**XIII:** Financial Statements for the two prior fiscal years have been posted on the OTC Disclosure & News Service and on the Issuer's website at [www.planetpayment.com/investor-relations/downloads.aspx](http://www.planetpayment.com/investor-relations/downloads.aspx) and are incorporated herein by reference.

**XIV:** See Issuer's website at [www.planetpayment.com/investor-relations/stock-quote.aspx](http://www.planetpayment.com/investor-relations/stock-quote.aspx) for details of major Beneficial Owners of the Issuer's stock.

**XV:** See OTC Disclosure & News Service and issuer website at [www.planetpayment.com/investor-relations/company.directory.aspx](http://www.planetpayment.com/investor-relations/company.directory.aspx).

**XVI:** See pages 5-13 below.

**XVII:** Details of all shares and securities or options to acquire shares issued by the Issuer during the two years ended December 31, 2010 are set forth in the 2010 Financial Statements. All issuances of shares by the Issuer between January 1, 2009 and February 28, 2011, including all

offerings of securities have been duly disclosed through the OTC Disclosure & News Service. Since January 1, 2011, the Company has issued the following shares of Common Stock:

<b>Date of Issuance</b>	<b>No. of Shares</b>	<b>Purchase price per share</b>	<b>Restricted/ Unrestricted</b>	<b>Reason for Issuance</b>
1-Feb-11	38,571	\$ 1.20	RES	Option Exercise
7-Feb-11	38,571	\$ 1.20	RES	Option Exercise
25-Feb-11	6,872	\$ 1.20	RES	Option Exercise
28-Feb-11	15,206	\$ 0.25	UNR	Warrant Exercise
28-Feb-11	10,000	\$ 2.00	RES	Services
7-Mar-11	<u>50,000</u>	\$ 0.60	RES	Option Exercise
<b>TOTAL</b>	<b>159,220</b>			

All shares issued as restricted stock are issued with a certificate containing a legend (1) stating that the shares have not been registered under the Securities Act of 1933; and (2) setting forth the restrictions on transferability and sale of the shares under the Securities Act of 1933

**XVIII:** Details of all material contracts entered into by the Issuer during the two years prior to the date hereof have been posted through the OTC Disclosure & News Service.

**XIX:** Attached to this report as Exhibit B is the Amended and Restated By-laws of the Issuer adopted at the Annual Meeting of Shareholders of the Company on June 4, 2010.

**XX:** There were no purchases of Equity Securities by the Issuer or Affiliated Purchasers as defined in item XX during 2010.

## **XVI: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the accompanying financial statements and related notes thereto. The following discussion may contain forward-looking statements that reflect future plans, estimates, beliefs, and expected performance. The forward-looking statements are dependents upon events, risks, and uncertainties that may be outside our control. Our actual results could differ materially from those discussed in these forward-looking statements. As such, the forward-looking events discussed may not occur. See discussion under the headings "*Forward Looking Statements*" and "*Risk Factors*" below.

The financial information with respect to the twelve month periods ended December 31, 2010 and 2009 has been audited. The financial information with respect to the three month periods ended December 31, 2010 and 2009 that is discussed below is unaudited. In the opinion of management, this information contains all adjustments, consisting of normal recurring accruals, necessary for the fair presentation of the results for such periods. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full fiscal year. The Company provides certain non-GAAP financial measures in this statement, in order to provide investors with additional perspective of underlying business trends and results. These non-GAAP key business indicators, which include Adjusted EBITDA,

cash operating expense and cash compensation, transaction volumes and merchant locations should not be considered replacements for and should be read in conjunction with the GAAP financial measures.

## **CHAIRMAN & CEO REPORT**

I am pleased to announce our results for the year ended December 31, 2010. 2010 was a notable year for Planet Payment, as we reached an inflection point and generated positive operational cash flow.

Our revenue growth reflects the increase in transaction processing volumes primarily driven by the addition of active merchant locations as well as the general improving global economic conditions. In 2010, we continued to execute upon our strategy of selective geographic expansion, launching our services in seven new markets, namely United Arab Emirates, South Africa, Singapore, Philippines, Brunei, the Maldives and Sri Lanka. With this expansion of our global footprint, the Company's customer base now includes more than 45 acquiring banks and processors spanning 16 countries in North America, the Middle East and Asia-Pacific, including our existing markets of China, Hong Kong, Macau, Taiwan and Malaysia.

Planet Payment's stable operating expenses, strong revenue growth and scalable platform provide significant operating leverage. Cash operating expenses for the three years from 2008 through 2010 increased only 5%. As a result, we achieved Adjusted EBITDA of \$1.8 million for the year on revenue of \$64.7 million (an increase of 37% over 2009 revenue) and gross profit of \$20.5 million (an increase of 26% over 2009). Our results over the period from 2006 to 2010 represent a compound annual revenue growth rate of 135%.

We continued to focus on building a strong pipeline of new prospects for our multicurrency processing services in both existing and new regions, including the Middle East, South Africa and Latin America. Our ability to deliver a range of processing services into new territories on a single platform creates significant operational leverage. Planet Payment can operate its global business using a single network of systems that supports the particular local requirements of our customers. Our skilled group of business analysts, developers, project managers, quality assurance engineers and operations personnel, allows us to develop, operate and maintain our systems centrally. In addition to increased efficiency and the ability to launch in new markets quickly, our approach allows increases in gross profit to flow substantially through to the bottom line once base operating costs are covered.

When credit card acceptance initially came to market merchants were presented with a helpful payment mechanism to enable them to sell more goods and services as card holders were able to buy on credit. Over the past two decades, card acceptance has become ubiquitous while fees have escalated. Merchants have come to see card acceptance as a cost centre. Planet Payment's suite of products helps merchants sell more goods and services and fulfills the credit card's original promise – that card payment systems should provide helpful functionality and increase efficiencies at a reasonable cost, so that the merchant community may see card acceptance as an aid to profit enhancement, not as a cost centre to be avoided.

Our services help acquirers open new sales channels, merchants sell more goods and services and cardholders enjoy informed choice and transparency at the point-of-sale ("POS"). While merchants in industry verticals such as hospitality, retail and restaurants have been enjoying the benefits of our Pay in Your Currency service for several years, I am pleased to report that we have entered into a new contract with one of our long-standing customers, Fifth Third Processing Solutions, to power its ATM Network in the United States with our Pay in Your Currency solution. Now cardholders withdrawing cash from over 11,000 ATMs powered by Fifth Third Processing Solutions across the United States will have the option

to see the final amount of a cash withdrawal in their home currency at the time of the transaction. We consider this to be a significant expansion of our existing multicurrency product set complementing our e-commerce and point of sale capabilities.

We believe that Planet Payment is starting to benefit from a “network effect” as we add more countries and more acquiring institutions using more products on our platform. The addition of new regions, acquirers and products creates more choices for our customers and their merchants and ultimately should make it easier for merchants to work with our acquiring customers. Further, merchants can leverage our single platform and enhanced product set to improve operational efficiency, allowing them to use their preferred point of sale systems in multiple jurisdictions, using a common interface to Planet Payment, with access to consolidated transaction data at the merchant’s convenience through our robust online reporting modules.

We believe the regulatory framework governing electronic payments is somewhat neutral as it relates to Planet Payment and our products in the various markets. In the United States the regulatory landscape has continued to evolve during recent months. The Durbin Amendment to the Dodd-Frank Act on financial services regulation was enacted by the U.S. Congress in July 2010, and the actual rules are in the process of being drafted. Based on the information presently available to us, this is not expected to have a direct material impact on Planet Payment’s business or revenues. The Durbin Amendment, amongst other things, enables the U.S. government to regulate the amount that can be charged to merchants for acceptance of U.S. debit card transactions.

In 2010 the major Card Associations issued several policy and rule changes which we believe will benefit Planet Payment and its customers. Both Card Associations confirmed the availability of our products, including Pay in Your Currency, in our existing markets in North America and Asia Pacific. Additionally, the service may now be offered for both Visa and MasterCard transactions in Latin America and CEMEA (Central Europe, Middle East & Africa), further increasing the potential opportunity for Planet Payment and its customers in these regions.

## REVIEW OF 2010 ACTIVITIES

During 2010, we continued to extend our international reach with the launch of multicurrency processing services in seven new markets while continuing to build a strong pipeline of prospects in new and existing markets. In Canada, the Company also launched a full domestic processing solution, in support of one of the first Canadian multi-card acquirers.

During the third and fourth quarters of 2010, the Company began activating the merchant pipeline from newly signed acquirers in the United Arab Emirates, Philippines, Singapore, Brunei, Sri Lanka, the Maldives and South Africa, adding over 1,600 new merchant locations in these countries alone.

Across Asia-Pacific, our customers continued to attract new merchants to their portfolios, activating over 2,800 new multicurrency and domestic processing merchant locations, thereby substantially increasing the revenue from the region over 2009.

By the end of 2010, our base of active merchants grew more than 66% or nearly 6,700 to approximately 16,760 active locations. Approximately 35% of the multicurrency processing transaction volume processed in December 2010 was attributed to new merchants activated in 2010, with 13% of the December 2010 volume attributable to merchants activated in the fourth quarter 2010. The Company’s same store sales volume remained strong for the year with average growth of over 30% for the year.

In 2011 we expect to continue to add processors, acquiring banks and active merchants to our platform. With each new customer win, we can increase our transaction volume and our revenue. By adding incremental volume to our single, scalable, currency neutral platform we can increase our operational leverage.

## ENHANCEMENTS TO OUR PROCESSING PLATFORM AND CAPABILITIES

In 2011, we are continuing to use our technology resources to develop enhanced platform capabilities and solutions including multicurrency processing for ATMs, debit card processing, additional EMV support in certain regions as well as additional features to further internationalize the iPAY gateway. These enhancements are intended to enable us to offer our customers additional value-added solutions that allow them and their merchants to grow their businesses.

During 2010, we continued to enhance our proprietary systems in order to offer our acquiring partners and their merchants increased opportunities to capture additional revenue with new products and services. The Company invested over 45% of total cash operating costs in developing new technology infrastructure and services. In addition, approximately 60% of our personnel are involved on a daily basis in maintaining and improving our platform and managing our processing operations.

Each enhancement that we make, whether it is our ability to qualify local interchange, or support particular encryption techniques and product functionality across our customer base, facilitates our ability to go to market quickly for new customers in a cost efficient and expeditious manner.

The Company also expanded its processing to over 45 authorization currencies to support our existing customers and is testing additional currencies to support the delivery of new services to new markets. This expansion allows us to offer our acquiring customers and their merchants a more comprehensive product and is intended to increase returns on investment by including a broader pool of potential customers.

We have continued to ensure our processing platform remains robust, reliable, scalable and secure. To that end, the Company upgraded components of our authorization systems which resulted in increased reliability, cost improvements and greater efficiencies. We also invested in state-of-the-art hardware upgrades to our merchant accounting system, which offer enhanced performance and increased scalability for our expanding customer portfolio.

The provision of best-in-class secure processing solutions to our acquiring customers, their merchants and cardholders continues to be a key priority for the Company. We therefore deployed several new service offerings during the period.

We enriched our e-commerce processing services by:

- developing iPAY Tokens™. Originally launched in 2009, this service protects sensitive customer payment account data by encrypting it and assigning a unique token that is stored securely by Planet Payment. Merchants can process payments by passing us the token, rather than handling and storing sensitive customer data.
- signing agreements to integrate to the iPAY gateway a suite of enhanced e-commerce merchant, fraud mitigation and prevention services.

We also added EMV support for online PIN entry for the POS in Middle East and Africa, building on the Company's existing support of EMV for the Asia Pacific, Canada and Europe regions.

During 2010 the Company again successfully completed its annual independent examination under Statement of Auditing Standards No. 70, Service Organizations (“SAS70”) Type II and obtained recertification of compliance with the PCI-DSS security requirements.

In 2010, Planet Payment was awarded additional patents in the United States and India that protect, among other innovations, our methods to obtain the cardholder's currency selection, including our Cardholder Choice receipt model which has been extensively deployed. Our patents have been issued in Singapore, New Zealand, Sri Lanka and the Philippines and applications are pending for these and other inventions in a number of other jurisdictions. We view the Company's growing catalogue of patents as a validation of the Company's innovative approach to multicurrency payments and believe these patents may serve to strengthen the Company's market position in several key jurisdictions.

## **FINANCIAL OVERVIEW** *All figures are in US dollars.*

### **Results of Operations**

#### **Twelve Months Ended December 31, 2010 compared to Twelve Months Ended December 31, 2009**

*Revenue:* Total revenue in 2010 increased 37% to \$64.7m (2009: \$47.3m) led by the rollout of our services in the new markets of Singapore, Sri Lanka, the Maldives, Brunei, the Philippines, the United Arab Emirates and South Africa, as well as new merchant deployments with our customers in China, Hong Kong, Macau, Taiwan, India and North America. Multicurrency processing revenue increased 56% to \$52.1m (2009: \$33.3m) and represented 81% of total revenue (2009: 71%). Processing revenue decreased 9.4% to \$12.5m, representing 19% of total revenue (2009: 29%).

*Transaction Volume:* The Company's total settled transaction volume increased 33% to \$2.9b (2009: \$2.2b). Settled transaction volume from multicurrency processing services increased 53% to \$1.4b (2009: \$909m). Settled volume from other processing services increased 18% to \$1.5b (2009: \$1.2b).

*Gross Profit:* Gross profit rose 26% to \$20.5m (2009: \$16.3m). Multicurrency gross profit increased \$5.4m or 43% to \$18m (2009: \$12.6m). Processing revenue gross profit decreased \$1.1m or 31% to \$2.5m (2009: \$3.6m), due to certain customers achieving processing volume tiers and certain 2009 implementation, development and processing fees which had no associated direct costs of sales. The Company's overall gross profit margin decreased to 32% (2009: 34%) for the above reasons and due to changes in business and customer mix.

*Operating Expenses:* Operating expenses increased 14%, or \$2.7m, to \$21.6m (2009: \$18.8m), including increases of \$1.8m in compensation and benefits (due primarily to the reinstatement of salaries, which had been reduced through most of 2009), \$0.5m in travel and related expenses substantially in support of launches in new markets, \$0.1m in facilities expenses, \$0.7m in other expense and \$0.2m in depreciation and amortization offset by a decrease of \$0.1m in professional fees, and \$0.5m recoveries of doubtful accounts. The Company's operating costs as a percentage of revenue decreased from 40% to 33% in 2010.

Cash operating expenses (which exclude \$2.8m, comprising the following non-cash expenses: depreciation and amortization, stock-related compensation expense arising from Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718, Shared Based Payment (“ASC 718”) and other non-cash expense) increased 18% or \$2.9m to \$18.7m (2009: \$15.8m) including increases of \$2.2m in compensation and benefits (due primarily to the salary reinstatement noted above); and an increase of \$0.5m in travel and related expenses in support of launches in new markets.

Cash compensation expense (excluding \$0.7m of stock-related compensation expense arising from ASC 718) increased 23% or \$2.2m to \$11.5m (2009: \$9.3m) (due primarily to the salary reinstatement as noted above) and represented 61% of total cash operating expenses. Headcount increased to 153 in December 2010 from 142 in December 2009.

*Adjusted EBITDA:* The Company achieved adjusted EBITDA for the year of \$1.8m, a substantial improvement from \$0.5m in 2009. See Table 1 in Exhibit 1 for a reconciliation of net loss to adjusted EBITDA.

*Other Income/Expense:* Other Income/Expense increased by \$1.0m to \$2.2m for the year (2009: \$1.2m). Interest expense decreased to \$1.1m (2009: \$1.2m) due to the repayment of \$4.0m of long term debt on November 30, 2010. This was offset by a \$1.1m charge recognized due to the impairment of software inventory held for resale. This charge represents the write off of the asset value of certain software licenses, which the Company purchased for resale a number of years ago, which is not part of our core business. The Company has thereby eliminated inventory from its balance sheet as of December 31, 2010.

*Net Loss:* The Company's growing revenues and gross profit led to an 18% improvement in net loss to \$3.3m (2009 loss: \$4m). Prior to consideration of a \$1.1m charge taken for impairment of inventory in Q4 of 2010 (as explained above), net loss for the year was \$2.2m, a 45% improvement when compared to 2009.

## **Results of Operations**

### **Three Months Ended December 31, 2010 compared to Three Months Ended December 31, 2009**

*Revenue:* Total revenue in the fourth quarter 2010 grew 50% over fourth quarter 2009 to \$21.4m (Q4 2009: 14.2m). Over the same period, multicurrency processing revenue increased 67% to \$18m (Q4 2009: \$10.8m), while processing revenue declined 2% to \$3.4m (Q4 2009: \$3.5m).

The Company's total revenue also grew sequentially over the third quarter 2010, with total revenue in the fourth quarter 2010 increasing by 38% (Q3 2010: \$15.5m). This growth was led by 44% growth in multicurrency processing.

*Transaction Volume:* The Company processed total settled transaction volume of over \$935m, an increase of 48% (Q4 2009: \$631m). Multicurrency processing services transaction volume for the fourth quarter 2010 increased 54% to \$461m (Q4 2009: \$300m). Of the December 2010 multicurrency volume, 35% was attributed to merchants activated during 2010, approximately 74% of which were added in the third and fourth quarter of 2010. Processing volume increased by 43% to \$474m (Q4 2009: \$331m).

*Gross Profit:* Gross profit rose 44% to \$6.8m over fourth quarter 2009 (Q4 2009: \$4.7m). Gross margin percentage was 32%, as compared to Q4 2009: 33%.

*Operating Expenses:* Operating expenses increased 19% or \$1m, to \$6.0m, (Q4:2009: \$5.0m), including an increase of \$0.3m in compensation and benefits (due primarily to the salary reinstatement noted above), \$0.3m in other expenses and \$0.2m in depreciation and amortization expense. The Company's operating costs as a percentage of revenue continued to decline to 28% from 35% in Q4:2009.

Cash operating expenses (excluding \$1.0m, comprising the following non-cash expenses: depreciation and amortization, stock-related compensation expense arising from ASC 718 and other non-cash expense)

increased 19% or \$0.8m to \$5.0m (Q3:2009: \$4.2m), including an increase of \$0.3m in salaries and benefits (due primarily to the salary reinstatement noted above) and \$0.3m in other expenses.

Cash compensation expenses (excluding \$0.2m of stock-related compensation expense arising from ASC 718) totalled \$3.8m, an increase of 22% or \$0.9m over fourth quarter 2009 (Q4 2009: \$2.4m) (due primarily to the salary reinstatement noted above) and represented 72% of total cash operating expenses for the quarter (Q4:2009: \$2.7m, represented 63% of total cash operating expenses).

*Adjusted EBITDA:* Achieved third consecutive positive EBITDA quarter, with adjusted EBITDA improving to \$1.8m, a \$1.3m improvement over fourth quarter 2009 (Q4 2009: \$0.5m). Sequentially, EBITDA improved 375% over third quarter 2010 (Q3 2010: \$0.4m). See Table 1 in Exhibit 1 for a reconciliation of net loss to adjusted EBITDA.

*Other Income/Expense:* Other Income/Expense increased by \$1.1m to \$1.4m (Q4 2009:\$0.3m). Interest expense was \$0.3m (2009: \$0.3m). This was offset by a \$1.1m charge recognized due to the impairment of software inventory held for resale (as explained above). The Company has thereby eliminated inventory from its balance sheet as of December 31, 2010 and the Company does not typically purchase items for resale.

*Net loss:* The Company's net loss was reduced by 33% to \$0.6 m (Q4 2009 loss: \$0.9m). Prior to the consideration of a \$1.1 million charge for the Impairment of Inventory (as explained above), the Company's net income was \$0.5 million in Q4.

## **CORPORATE FINANCE**

The Company completed a private placing of new common shares in November 2010 raising \$5.7 million, net of expenses. The Company also raised \$2 million as the result of the exercise of approximately 1.5 million warrants in November 2010. A portion of the net proceeds of the private placing and the warrant exercise were used to repay a \$4.0 million long term debt as of November 30, 2010. The remainder will support ongoing working capital requirements.

The Company ended 2010 with \$5.2 million in cash and cash equivalents (2009: \$3.8 million). Accounts receivable increased to \$3.3 million (2009: \$1.9 million) due to the substantial overall growth in the business. Current assets increased to \$12.0 million (2009: \$9.7 million). Current liabilities totalled \$4.2 million at December 31, 2010, a decrease of \$3.2 million over 2009 due to the repayment of \$4.0 million in long term debt in the fourth quarter 2010. Long term liabilities totalled \$9.1 million (2009: \$9.0 million).

The Company ended 2010 with \$19.0 million total assets, a 20% increase (2009: \$15.8 million) and \$5.8 million in Stockholders' Equity as compared to a deficit of \$0.6 million at the end of 2009.

## **CURRENT TRADING AND OUTLOOK**

For the first quarter 2011, total revenue is projected to increase approximately 60% to approximately \$21.0 m (Q1 2010: \$13.2m). Multicurrency revenue is expected to increase approximately 80% to \$18.0 million in the first quarter.

The first quarter projection is noteworthy because our historical seasonal pattern for the last two years indicates an average 10% reduction in revenue from the fourth quarter of one year to the first quarter of the next. We believe this positive trend is due to the increasing geographical diversity and expansion of our customer base.

In 2011 we expect to continue to cross sell our innovative products to our acquiring institution customers and to their merchants. We believe the Company is well positioned for further growth in 2011 based on opening new regions, implementing new acquiring customers and activating new merchants on our platform.

We look forward to an exciting 2011.

Philip Beck  
*Chairman and Chief Executive Officer*

**EXHIBIT 1.**

**Table 1. Reconciliation of Net Loss to Adjusted EBITDA**  
**For the three and twelve month periods ended December 31, 2010 and 2009**

	<b>Three Months Ended</b>		<b>Twelve Months Ended</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
	<i><u>US\$ Million</u></i>		<i><u>US\$ Million</u></i>	
Net Loss	\$ (0.6)	\$ (0.9)	\$ (3.3)	\$ (4.0)
Interest expense, net	0.3	0.3	1.1	1.2
Impairment of Inventory	1.1	0.0	1.1	0.0
Depreciation and amortization	0.5	0.4	1.7	1.5
Stock compensation expense	0.2	0.2	0.8	1.2
Income taxes	0.0	0.0	0.0	0.0
Other expenses	0.3	0.5	0.4	0.6
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Adjusted EBITDA</b>	<b>\$1.8</b>	<b>\$0.5</b>	<b>\$1.8</b>	<b>\$ 0.5</b>

## **FORWARD-LOOKING STATEMENTS**

Information contained in this report may include ‘forward-looking statements’. All statements other than statements of historical facts included herein, including, without limitation, those regarding the financial position, business strategy, plans and objectives of management for future operations of both Planet Payment and its business partners, are forward-looking statements. Such forward-looking statements are based on a number of assumptions regarding Planet Payment’s present and future business strategies, and the environment in which Planet Payment expects to operate in future, which assumptions may or may not be fulfilled in practice. Implementation of some or all of the new services referred to is subject to regulatory or other third party approvals. Actual results may vary materially from the results anticipated by these forward-looking statements as a result of a variety of risk factors, including the risks discussed under the heading “Risk Factors”. These forward-looking statements speak only as to the date of this report and cannot be relied upon as a guide to future performance. Planet Payment expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in this report to reflect any changes in its expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

## **RISK FACTORS**

Risk factors that may affect the Company’s future prospects, performance and results, are referenced in the Company’s Admission document to the AIM market, which is available on its website at [www.planetpayment.com/Investor-Relations/Downloads.aspx](http://www.planetpayment.com/Investor-Relations/Downloads.aspx) . Some of the risk factors that investors or potential investors in Planet Payment’s securities should consider are summarized as follows:

- The business is still in a substantial growth phase, which makes it difficult to evaluate and forecast the Company’s future prospects.
- The Company has incurred losses since its inception and cannot guarantee that it will achieve profitability.
- The Company may require additional capital in the future to fund operations, or it may elect to raise additional capital if market conditions are favorable.
- The Company relies on third parties to implement the Company’s solutions and to market them to end customers, and cardholders may not adopt the Company’s services.
- Implementation, adoption and offering of the service by processors, acquirers, merchants and others may take longer than anticipated, or may not occur at all.
- The Company’s industry is highly competitive.
- The Company may face decreasing gross margins.
- Changes in the credit card industry, regulatory changes, particularly in the United States, Canada and China and changes in card association regulations and practices may impair the Company’s business.
- The Company is required to be registered with card associations in order to provide its services and the Company relies on bank sponsorship for this registration.
- Changes in credit card industry billing and disclosure of cross-currency transactions may impact the Company’s revenues and gross margins.
- Third parties claiming that the Company infringes their proprietary rights could cause the Company to incur significant legal expenses, for itself and on behalf of certain customers who are indemnified by the Company and prevent the Company from offering its services.
- The Company is and may be subject to litigation in the future.
- The Company may not be able to protect and enforce its contractual and intellectual property rights.
- Rapid technological change could render the Company’s services obsolete.
- The Company’s business exposes it to currency exchange risk.
- If the Company were to lose the services of its CEO or other members of its senior management team, the Company may not be able to execute its business strategy.
- The Company faces risks in foreign markets.

- Additional risks may arise with respect to commencing operations in new countries and regions of which the Company is not fully aware at this time.
- The Company could be subject to liability in the event of unauthorized disclosure of cardholder or transaction data.
- Merchant fraud or insolvency could, in some cases, negatively affect the Company's cash flows and operating results and result in liability to the Company.
- Adverse economic and other global conditions, general economic risks and decrease in volume of international travel and commerce could result in a decrease in transaction volumes.
- The Company relies on third party and organic new technology and systems; delays in development and implementation of new technology could delay revenues from the relevant projects or customers.
- Our systems and our third-party providers' systems may fail which could interrupt our service, cause us to lose business, increase our costs and expose us to liability.
- Utility and system interruptions could adversely affect our operations.
- We may experience software defects, undetected errors, and development delays, which could damage customer relations, decrease our potential profitability and expose us to liability.
- The Company could face liability or termination of key contractual relationships in the event of a system failure or a failure to perform to contracted standards.
- Material past or future acquisitions made by the Company may have an adverse effect on its results.
- Additional risks may arise with respect to the recently acquired assets and assumed contracts of which Planet Payment is not fully aware at this time.
- The Company may be required to comply with U.S. federal securities law reporting and corporate governance regulations in the future, which would entail significant expense and could materially impair the Company's operating results.
- Securities traded on the AIM, Pink Sheets and OTCQX markets may involve greater risk, potentially greater volatility and lower liquidity than securities traded on other public markets.
- The Company is not currently subject to the same reporting requirements as companies whose stock is traded on other public markets.
- Ownership of the majority of the Company's Common Shares is concentrated among a small number of large shareholders, and substantial sales by these shareholders could depress the Company's stock price.

**EXHIBIT A**

**Audited Consolidated Financial Statements as of and for the Years Ended  
December 31, 2010 and 2009**

# ***Planet Payment, Inc.***

*Consolidated Financial Statements as of and for the years ended December 31,  
2010 and 2009, and Independent Auditors' Report*

# *Planet Payment, Inc.*

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated balance sheets of Planet Payment, Inc. and its subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related statements of operations, cash flows and stockholders' equity for the years then ended. 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. An audit includes 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 its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

March 21, 2011

# PLANET PAYMENT, INC.

## CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2010 AND 2009

### ASSETS

#### CURRENT ASSETS:

Cash and cash equivalents	\$ 5,182,499	\$ 3,752,423
Restricted cash	1,000,000	1,000,000
Settlement assets	1,810,357	1,763,498
Accounts receivable, net	3,326,111	1,868,713
Prepaid expenses and other assets	638,953	271,850
Inventory	-	1,028,305
Total current assets	<u>11,957,920</u>	<u>9,684,789</u>

#### OTHER ASSETS:

Property and equipment, net	1,127,768	992,633
Intangible assets, net	5,714,838	4,873,263
Security deposits and other assets	<u>245,281</u>	<u>297,528</u>
Total other assets	<u>7,087,887</u>	<u>6,163,424</u>

TOTAL	<u>\$ 19,045,807</u>	<u>\$ 15,848,213</u>
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### LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

#### CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$ 1,086,918	\$ 855,150
Due to merchants	2,294,252	1,763,498
Current portion of long term debt	<u>808,288</u>	<u>4,742,817</u>
Total current liabilities	4,189,458	7,361,465

#### LONG TERM LIABILITIES:

Long-term debt, less current portion	125,053	56,476
Convertible debt	<u>8,979,926</u>	<u>8,979,926</u>
Total long-term liabilities	9,104,979	9,036,402
Total liabilities	<u>13,294,437</u>	<u>16,397,867</u>

### COMMITMENTS AND CONTINGENCIES

#### STOCKHOLDERS' EQUITY (DEFICIT):

Convertible preferred stock—4,000,000 shares authorized, \$0.01 par value:

Series A—2,243,750 issued and outstanding in 2010 and 2009;

\$8,975,000 aggregate liquidation preference	22,438	22,438
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Common stock—70,000,000 shares authorized, \$0.01 par value,

46,068,496 and 39,170,213, respectively, issued and outstanding in 2010 and 2009	460,684	391,701
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Warrants	1,607,723	1,517,982
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Additional paid-in capital	83,459,133	73,969,455
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Cumulative translation adjustment	(27,600)	-
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Accumulated deficit	<u>(79,771,008)</u>	<u>(76,451,230)</u>
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Total stockholders' equity (deficit)	<u>5,751,370</u>	<u>(549,654)</u>
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TOTAL	<u>\$ 19,045,807</u>	<u>\$ 15,848,213</u>
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See notes to consolidated condensed financial statements.

**PLANET PAYMENT, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>REVENUE:</b>		
Multicurrency processing revenue	\$ 52,073,798	\$ 33,322,683
Processing revenue	12,523,883	13,817,675
Professional services revenue	<u>56,044</u>	<u>114,348</u>
Total revenue	<u>64,653,725</u>	<u>47,254,706</u>
<b>COST OF SALES:</b>		
Multicurrency processing cost of sales	34,100,561	20,725,949
Processing cost of sales	10,035,070	10,197,993
Professional services cost of sales	<u>16,570</u>	<u>38,893</u>
Total cost of sales	<u>44,152,201</u>	<u>30,962,835</u>
<b>GROSS PROFIT</b>	<u>20,501,524</u>	<u>16,291,871</u>
<b>OPERATING EXPENSES :</b>		
Compensation and benefits	12,191,830	10,365,438
Professional fees	2,135,413	2,247,626
Depreciation and amortization	1,672,423	1,456,042
Technology	1,222,224	1,229,888
Travel and entertainment	1,217,979	763,992
Facilities	1,644,800	1,552,401
Provision for doubtful accounts	(536,707)	14,997
Other	<u>2,027,250</u>	<u>1,255,993</u>
Total operating expenses	<u>21,575,212</u>	<u>18,886,377</u>
<b>LOSS FROM OPERATIONS</b>	<u>(1,073,688)</u>	<u>(2,594,506)</u>
<b>OTHER INCOME (EXPENSE):</b>		
Interest income	429	18,702
Interest expense	(1,134,786)	(1,189,843)
Impairment charge on inventory	<u>(1,108,514)</u>	<u>-</u>
Total other expense, net	<u>(2,242,871)</u>	<u>(1,171,141)</u>
<b>LOSS FROM CONTINUING OPERATIONS</b>	<u>(3,316,559)</u>	<u>(3,765,647)</u>
<b>Loss from discontinued operations</b>	<u>-</u>	<u>(257,596)</u>
<b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>	<u>(3,316,559)</u>	<u>(4,023,243)</u>
<b>PROVISION FOR INCOME TAXES</b>	<u>3,219</u>	<u>4,095</u>
<b>NET LOSS</b>	<u>\$ (3,319,778)</u>	<u>\$ (4,027,338)</u>

See notes to consolidated financial statements.

## PLANET PAYMENT, INC.

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (3,319,778)	\$ (4,027,338)
Adjustments to reconcile net loss to net cash (provided by) used in operating activities:		
Noncash compensation expense	739,990	1,213,659
Depreciation and amortization expense	1,672,423	1,456,042
(Recovery) provision for doubtful accounts	(36,707)	14,997
Impairment charge for inventory	1,108,514	-
Impairment of note receivable, net	-	212,629
Interest expense on notes payable	-	34,174
Interest expense on convertible debt	808,193	808,193
Interest expense accrued on long-term debt	324,444	337,926
Warrants issued as payment of legal fees	89,741	-
Property and equipment write-off	1,114	-
Changes in operating assets and liabilities:		
Increase in settlement assets	(46,859)	(453,130)
Increase in receivables and prepaid expenses	(1,787,795)	(229,105)
Decrease (increase) in inventory	(80,209)	194,225
Decrease (increase) in security deposits	52,247	(110,570)
Increase (decrease) in accounts payable and accrued expenses	231,769	(797,452)
Increase in due to merchants	530,755	453,130
Decrease in due to affiliates	-	(7,430)
	<u>287,842</u>	<u>(900,050)</u>
Net cash provided by (used in) operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in restricted cash	-	(495,267)
Purchase of property and equipment	(525,619)	(184,544)
Capitalized internal projects	(1,650,268)	(1,386,777)
Purchase of intangible assets	(474,360)	(617,628)
	<u>(2,650,247)</u>	<u>(2,684,216)</u>
Net cash used in investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	6,030,002	6,999,159
Proceeds from convertible debt	-	350,000
Proceeds from loan payable	223,965	119,449
Repayment of loan payable	(89,917)	(20,157)
Payment of capital-raising expense	(343,969)	(368,134)
Repayment of long-term debt	(2,000,000)	-
	<u>3,820,081</u>	<u>7,080,317</u>
Net cash provided by financing activities		

## PLANET PAYMENT, INC.

### CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	<u>(27,600)</u>	<u>9,523</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,430,076	3,505,575
CASH AND CASH EQUIVALENTS—Beginning of year	<u>3,752,423</u>	<u>246,848</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 5,182,499</u>	<u>\$ 3,752,423</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	30,850	9,549
Income taxes paid	142	2,917
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Convertible debt converted to common stock	-	450,000
Common stock issued to pay accrued interest	1,132,638	1,519,336
Common stock issued as payment of accounts payable	-	34,125
Warrants issued as payment of accounts payable	89,741	231,366
Common stock issued for stock options exercised (net exercise method)	19,661	-
Common stock issued for warrants exercised	2,000,000	-
Reduction of long-term debt through exercise of warrants	(2,000,000)	-

See notes to consolidated financial statements.

**PLANET PAYMENT, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	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 OCI	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares Issued	Par Value	Shares Issued	Par Value					
BALANCE—DECEMBER 31, 2008	2,243,750	\$ 22,438	26,931,007	\$ 269,310	\$ 64,243,699	\$ 1,286,617		\$ (72,423,892)	\$ (6,601,828)
Stock issued			12,239,206	122,391	8,512,097				8,634,488
Options exercised									-
Value of warrants issued						231,366			231,366
Stock option expense					1,213,659				1,213,659
Net loss								(4,027,338)	(4,027,338)
BALANCE—DECEMBER 31, 2009	<u>2,243,750</u>	<u>\$ 22,438</u>	<u>39,170,213</u>	<u>\$ 391,701</u>	<u>\$ 73,969,455</u>	<u>\$ 1,517,983</u>	<u>-</u>	<u>\$ (76,451,230)</u>	<u>\$ (549,653)</u>
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)				-
Value of warrants issued						89,740			89,740
Stock option expense					739,992				739,992
Cumulative translation adjustment							(27,600)		(27,600)
Net loss								(3,319,778)	(3,319,778)
BALANCE—DECEMBER 31, 2010	<u>2,243,750</u>	<u>\$ 22,438</u>	<u>46,068,496</u>	<u>\$ 460,684</u>	<u>\$ 83,459,133</u>	<u>\$ 1,607,723</u>	<u>\$ (27,600)</u>	<u>\$ (79,771,008)</u>	<u>\$ 5,751,370</u>

See notes to consolidated financial statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Business Description** — Planet Payment, Inc. (the “Company”) was incorporated in the State of Delaware in October 1999 as Planet Group, Inc. and changed its name to Planet Payment, Inc. on June 18, 2007. The Company enables processors, acquiring banks and their merchants to accept, process, and reconcile credit card transactions in multiple currencies, allowing cardholders to view prices and settle transactions in their native currency. The *Pay in Your Currency*® service is the Company’s suite of multi-currency processing solutions, which includes a multi-currency pricing e-commerce service and a Dynamic Currency Conversion service. Through the *iPAY*® gateway, the Company also offers comprehensive Internet processing solutions for credit card and electronic check payments.

On March 20, 2006, the Company’s common shares were admitted to trading on the London Stock Exchange’s Alternative Investment Market (AIM) market. On November 19, 2008, the Company’s common shares were also admitted to trading on the OTCQX market tier operated by Pink OTC Markets Inc in the United States.

The Company is a registered third-party processor for acquiring banks under Visa, MasterCard, Discover, American Express and JCB card association rules. Visa and MasterCard operating regulations require the Company to be sponsored by an acquirer in order to process card transactions; the Company has third party processor agreements with American Express and JCB. The Company is currently registered with Visa and MasterCard for each bank with which it has a processing agreement. Accordingly, although not a member of either card association (all members are banks), the Company is required to comply with all applicable card association rules.

**Principles of Consolidation** — The consolidated financial statements include the accounts of the Company, one wholly owned U.S. subsidiary and seven wholly owned foreign subsidiaries located in Bermuda, Canada, Hong Kong, Ireland, Isle of Man, The People’s Republic of China and Singapore. All inter-company accounts and transactions are eliminated on consolidation.

**Foreign Currency Translation** — Statement of operations accounts are translated at the average exchange rates during the period, such adjustments are included in net loss. Assets and liabilities are translated at the balance sheet date exchange rates. Such amounts are reflected in accumulated other comprehensive income.

**Cash and Cash Equivalents** — Cash and cash equivalents consist of cash and highly liquid instruments purchased with an original maturity of three months or less.

**Accounts Receivable** — The Company evaluates the collectability of its accounts receivable based on a combination of factors. In cases where the Company is aware of circumstances that may impair a specific customer’s ability to meet its financial obligations, an allowance is recorded against amounts due thereby reducing the net recognized receivable to the amount that the Company reasonably believes will be collected. For all other customers, the Company recognizes an allowance for doubtful accounts based on the length of time the receivables are past due, the current business environment and historical experience. As of December 31, 2010 and December 31, 2009, the Company has included an allowance for doubtful accounts of approximately \$1.4 million and \$1.9 million due to certain receivables being subject to litigation (See Note 13).

**Inventory** – Certain payments made to Servebase Computers, Ltd. (“Servebase”) have been applied to the purchase of software licenses for resale. The licenses are for a point-of-sale credit card application that has been customized to the Company’s specifications, in order to support the Company’s multi-currency applications. Inventory is valued at the lower of cost or market price. Market price is estimated

based on anticipated sales of licenses. The Company performs an annual impairment test comparing the estimated fair value of the inventory to the carrying value. Based on the results of the impairment test, an impairment charge of \$1,108,514 was recorded for the year ended December 31, 2010.

**Property and Equipment** — Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Equipment	5 years
Hardware	5 years
Software	5 years
Furniture and fixtures	5–7 years

Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful life of the assets or the term of the underlying lease arrangements.

Expenditures for maintenance and repairs, which do not improve or extend the useful life of the respective asset, are charged to expense as incurred.

**Intangible Assets** — Intangible assets are recorded at cost less accumulated amortization. Intangible assets are being amortized on a straight-line basis over their estimated lives, as follows:

Software	5 years
Trademarks and patents	15 years
Capitalized projects	5 years
Customer contracts	5 years

The Company performs an annual impairment test comparing the estimated fair value of the intangibles to their carrying value. No impairment was recorded for the years ended December 31, 2010 and 2009.

The Company follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 350, *Intangibles, Goodwill and Other* (“ASC 350”). The Company develops software that is used in providing processing services to customers. Software development costs are capitalized once technological feasibility of the software has been established. Costs incurred prior to establishing technological feasibility are expensed as incurred. Technological feasibility is established when the Company has completed all planning, designing, coding and testing activities that are necessary to determine that a product can be produced to meet its design specifications, including functions, features and technical performance requirements. Capitalization of costs ceases when the product is available for general use. Software development costs are amortized using the straight-line method over the estimated useful life of the software, which is generally five years. During the years ended, December 31, 2010 and 2009, the amount capitalized was \$1,650,268 and \$1,386,777, respectively.

**Security Deposits** — Security deposits are primarily held by landlords to cover rental obligations and are included in security deposits and other assets in the consolidated balance sheets.

**Restricted Cash** — Restricted cash is primarily held by processing partners where the Company holds a share of underwriting risk and for other potential liabilities under processing.

**Due to Merchants** — Due to merchants represents funds collected on behalf of merchants using the iPAY gateway ACH product. The funds are generally held for an average of three days before payment to the merchant and are included in current liabilities in the consolidated balance sheets.

**Use of Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make certain estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include valuation of stock options and warrants, provision for doubtful accounts, asset capitalization and impairment testing. Actual results could differ from those estimates.

**Revenue Recognition** — Processing revenue is based on the mark up and fees charged to customers for services provided in facilitating the sale of goods and services by means of credit and debit cards and does not include the gross sales price paid by the ultimate buyer. Revenues are recorded on a gross basis and offset by the associated costs of sales and are recognized at the time of settlement of the transactions.

Revenue from multi-currency processing is based on the margin earned on the conversion of credit and debit card transactions from one currency into another currency. Multi-currency conversion revenue is recognized when the settlement proceeds of relevant card transactions are paid by the Card Associations to the relevant acquiring bank, with which the Company undertakes the multi-currency processing service.

Certain members of the Company's point-of-sale software development team provide external development and consulting services to third parties under the name Planet Technology Services (PTS). The revenue associated with PTS is principally time and materials consulting revenue that is recognized when earned and invoiced.

**Income Taxes** — The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, which requires the recognition of deferred income taxes for differences between the bases of assets and liabilities for financial statement and income tax purposes. Deferred tax assets and liabilities represent the future tax consequence for those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

**Fair Value of Financial Instruments** — FASB ASC 825, *Financial Instruments*, requires certain disclosures regarding the fair value of financial instruments. Cash and cash equivalents, receivables, debt, accounts payable, due to merchants, accrued expenses and amounts due to affiliates are reflected in the consolidated financial statements at cost which approximates fair value because of the short-term nature of these instruments. The carrying value of the short term portion of the long term and convertible debt approximates fair value primarily due to the short term nature of the debt and because the interest rates applicable to the debt are consistent with current market rates.

**Stock Incentive Plan** — FASB ASC 718, *Compensation – Stock Compensation* (“ASC 718”) requires compensation cost related to share-based payments to employees to be recognized in the consolidated financial statements based on the grant date fair value. The Company uses the Black-Scholes option-pricing model to estimate the grant date fair value of stock option award. The Company recognizes the fair value of the award over the period during which an employee is required to provide service in exchange for the award. (See Note 10 for disclosure on the Company's stock incentive plan).

**Warrants** — The Company has issued detachable warrants to purchase common shares as part of certain debt instruments. These warrants have been accounted for as equity in accordance with the provisions of ASC 470-20, *Debt with Conversion and Other Options*. (See Note 11 for disclosure on the Company's warrants).

**Recently Adopted Accounting Pronouncements**— In June 2009, the FASB issued *The FASB Accounting Standards Codification*<sup>TM</sup> (the Codification) which became the single authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities, with the exception of guidance issued by the Securities and Exchange Commission (SEC). The Codification does not change current U.S. GAAP,

but changes the referencing of financial standards, and is intended to simplify user access to authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for interim and annual periods ending after September 15, 2009, and was effective for our third quarter of 2009. At that time, all references made to U.S. GAAP used the new Codification numbering system prescribed by the FASB.

The Codification does not change or alter existing U.S. GAAP and did not have any impact on our consolidated financial position, cash flows, or results of operations.

In May 2009, the FASB issued ASC 855, *Subsequent Events* (“ASC 855”). ASC 855 introduces the concept of financial statements being available to be issued and requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. ASC 855 is effective for reporting periods ending after June 15, 2009. The Company adopted ASC 855 on June 30, 2009 and its subsequent amendment in February 2010. Adoption of ASC 855 did not have a material impact on the Company’s consolidated financial statements.

## 2. ACCOUNTS RECEIVABLE and PREPAID EXPENSES

A summary of receivables by major class is as follows at December 31, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Accounts receivable from banks and processors	\$ 4,677,856	\$ 3,750,407
Accounts receivable from others	<u>2,945</u>	<u>9,703</u>
Total accounts receivable	4,680,801	3,760,110
Less allowance for doubtful accounts	<u>1,354,690</u>	<u>1,891,397</u>
Accounts receivable, net	<u>\$ 3,326,111</u>	<u>\$ 1,868,713</u>

A summary of the activity in the allowance for doubtful accounts for the years ended December 31, 2010 and 2009 is as follows:

Beginning balance	\$ 1,891,397	\$ 1,876,400
(Decreases) Additions to allowance	<u>(536,707)</u>	<u>14,997</u>
Ending balance	<u>\$ 1,354,690</u>	<u>\$ 1,891,397</u>

Prepaid expenses and other assets as of December 31, 2010 and 2009 of \$638,953 and \$271,850, respectively included costs attributable to the Company’s support and service agreements.

### 3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2010 and 2009 consisted of the following:

	<b>2010</b>	<b>2009</b>
Equipment	\$ 700,087	\$ 592,627
Computer hardware	1,635,810	1,246,602
Furniture and fixtures	178,080	174,138
Leasehold improvements	<u>355,123</u>	<u>331,228</u>
Subtotal	2,869,100	2,344,595
Less accumulated depreciation	<u>1,741,332</u>	<u>1,351,962</u>
Property and equipment, net	<u>\$ 1,127,768</u>	<u>\$ 992,633</u>

Depreciation expense amounted to \$389,370 and \$371,062 during the years ended December 31, 2010 and 2009, respectively. During 2010 and 2009 the Company had additions totaling \$525,619 and \$184,544 and dispositions totaling \$1,114 and \$34,694 respectively.

### 4. INTANGIBLE ASSETS AT DECEMBER 31, 2010 AND 2009

	<b>2010</b>	<b>2009</b>
Software:		
Costs	\$ 4,135,263	\$ 3,740,522
Less accumulated amortization	<u>2,707,923</u>	<u>2,276,238</u>
	<u>\$ 1,427,340</u>	<u>\$ 1,464,284</u>
Trademarks and patents:		
Costs	\$ 661,379	\$ 581,760
Less accumulated amortization	<u>149,375</u>	<u>105,834</u>
	<u>\$ 512,004</u>	<u>\$ 475,926</u>
Capitalized Projects:		
Costs	\$ 4,554,490	\$ 2,904,222
Less accumulated amortization	<u>1,212,673</u>	<u>578,317</u>
	<u>\$ 3,341,817</u>	<u>\$ 2,325,905</u>
Customer Contracts:		
Costs	\$ 867,354	\$ 867,354
Less accumulated amortization	<u>433,677</u>	<u>260,206</u>
	<u>\$ 433,677</u>	<u>\$ 607,148</u>
Intangible Assets, net	<u>\$ 5,714,838</u>	<u>\$ 4,873,263</u>

The Company purchases third party software for use in its business. The costs of these purchases are capitalized as software. For 2010 and 2009, the amount purchased and capitalized was \$394,742 and \$496,309 respectively.

The Company incurs legal and government application and registration fees which are capitalized as trademark and patent costs. For 2010 and 2009, the amount capitalized was \$79,619 and \$121,305.

The capitalized projects met the characteristics of internal use software as set forth in Statement of ASC 350-40, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Amounts capitalized are based on actual development hours incurred and the developers' average hourly rate and directly related expenses. During 2010 and 2009, the amount capitalized was \$1,650,268 and \$1,386,777.

Amortization expense for the years ended December 31, 2010 and 2009 was \$1,283,053 and \$1,084,966, respectively.

The estimated aggregate amortization expense for each of the next five years is as follows:

2011	\$ 1,583,515
2012	\$ 1,402,343
2013	\$ 1,051,251
2014	\$ 723,383
2015	\$ 394,417

## 5. LONG TERM DEBT

Long term debt at December 31, 2010 and 2009 consisted of the following:

	2010	2009
8% Note payable to Inter-Atlantic Fund, L.P. due November 30, 2010. Interest is payable annually in cash or common stock at the Company's election. The Company issued one warrant exercisable for 3,053,435 shares of common stock as additional consideration for entering into the note. 1,526,718 of those warrant shares were exercised at November 30, 2010 and the note was repaid in full. The remaining warrant was extended to 2015.	\$ -	\$ 4,000,000
Capital leases to various lessors secured by financed equipment and software with interest rates ranging from 9.29% to 20.04% Principal and interest payable monthly through January 2014.	233,341	99,293
Non-interest bearing amount from First Horizon Merchant Services, Inc. ("FHMS") and First Tennessee Bank National Association ("FTB") payable on demand. The advance is secured by the underlying cash flow associated with the contract in respect of which the advance was made.	660,000	660,000
Non-interest bearing amount from FHMS and FTB payable on demand. The advance is secured by the underlying cash flow associated with the contract in respect of which the advance was made.	<u>40,000</u>	<u>40,000</u>
	933,341	4,799,293
Less current portion	<u>808,288</u>	<u>4,742,817</u>
Long term portion	<u>\$ 125,053</u>	<u>\$ 56,476</u>

In June 2006 the Company received a request for repayment of the \$700,000 of debt which is payable on demand. The Company does not believe it is liable to repay such amount and no action has been taken by the creditor to collect it.

Total interest expense related to long term debt for the years ended December 31, 2010 and 2009 was \$326,593 and \$337,926, respectively. Accrued interest payable for the twelve months ended November 30, 2010 and 2009 was subsequently paid through the issuance of 255,625 common shares in 2010 and 521,745 common shares in 2009 (See Note 12).

## **6. CONVERTIBLE DEBT**

In February 2007, the Company issued a \$5 million five-year term note convertible into 2,272,727 common shares as part of a \$7.6 million private placing which included the issuance of 1,141,491 new common shares at a price of \$2.28 per share (equivalent to £1.16 per share). The note carries an interest rate of 8% per annum and is convertible at any time at the option of the Noteholders, or automatically upon the achievement by the Company of certain milestones, namely a qualified U.S. initial public offering (IPO) or the achievement of certain liquidity and market value in the trading of the Company's common shares. Interest is payable semi-annually commencing June 30, 2007, but at the Company's sole option, interest payments through December 31, 2008, totaling \$811,057 were capitalized and added to the principal amount. Also, at the Company's election, subject to specified conditions, at any time after January 1, 2009, interest may be payable in the form of common shares at the fair market value. As a result of the \$100,000 convertible note referred to below, the interest rate increased to 9% per annum.

In April 2008, concurrent with the iPay acquisition, the Company issued a \$3 million convertible promissory note, with a four year term, convertible into 1,333,333 common shares at a conversion price of \$2.25 per share. The note carried an interest rate of 8% per annum and is convertible at any time at the option of the Noteholders, or automatically upon the achievement of certain milestones, namely a qualified U.S. IPO or the achievement of certain liquidity and market value in the trading of the Company's common shares. Interest is payable semi-annually commencing June 30, 2008, but at the Company's sole option, interest payments through December 31, 2008, totaling \$168,870 were capitalized and added to the principal amount. Also, at the Company's election, subject to specified conditions, at any time after January 1, 2009, interest may be payable in the form of common shares at the fair market value. As a result of the \$100,000 convertible note referred to below, the interest rate increased to 9% per annum.

In December 2008, the Company issued a \$100,000 convertible promissory note, with a five year term, convertible into 100,000 common shares at a conversion price of \$1.00 per share, to an existing shareholder. The Noteholder also received 25,000 warrants at an exercise price of \$1.00. In January and February 2009, the Company issued \$350,000 in convertible promissory notes, with a five year term, convertible into 350,000 common shares at a conversion price of \$1.00 per share, to existing shareholders. The Noteholders also received 87,500 warrants at an exercise price of \$1.00. The Company could prepay the unpaid balance of the Notes at any time on or after July 31, 2009 (First Measurement Date) without prior consent of the Noteholders and without penalty. As a result of the March 2009 private placing, the conversion price of the Notes and the exercise price under the Warrants were adjusted to \$0.45. The Notes carried an interest rate of 8% per annum. The Notes were convertible at any time at the option of the Noteholders. Interest was payable upon the First Measurement Date, but at the Company's sole option, interest payments through July 31, 2009 totaling \$18,613 were capitalized and added to the principal amount. The Noteholders exercised their rights to convert the principal amount and all accrued interest under the notes to an aggregate of 1,076,283 common shares as of December 31, 2009 and the notes were discharged as paid in full as of that date.

Convertible debt as of December 31, 2010, was comprised of the following:

Principal	Accrued Capitalized Interest	Total Convertible Debt	Maturity Date	Interest Rate	Conversion Price
\$ 5,000,000	\$ 811,056	\$ 5,811,056	February 7, 2012	9%	\$2.20
<u>\$ 3,000,000</u>	<u>\$ 168,870</u>	<u>\$ 3,168,870</u>	April 21, 2012	9%	\$2.25
\$ 8,000,000	\$ 979,926	\$ 8,979,926			

Convertible debt as of December 31, 2009, was comprised of the following:

Principal	Accrued Capitalized Interest	Total Convertible Debt	Maturity Date	Interest Rate	Conversion Price
\$ 5,000,000	\$ 811,056	\$ 5,811,056	February 7, 2012	9%	\$2.20
<u>\$ 3,000,000</u>	<u>\$ 168,870</u>	<u>\$ 3,168,870</u>	April 21, 2012	9%	\$2.25
\$ 8,000,000	\$ 979,926	\$ 8,979,926			

Total interest expense related to convertible debt for the years ended December 31, 2010 and 2009 was \$808,193 and \$842,367, respectively. In July 2009, the Company issued 609,679 new common shares at a price of £0.40 per share (approximately \$0.66) and as of December 31, 2009 the Company issued a further 240,187 new common shares at a price of £1.05 per share (approximately \$1.70) in payment of such interest on the notes. As of June 30, 2010 the Company issued 303,371 new common shares at a price of £0.89 per share (approximately \$1.32) and as of December 31, 2010 the Company issued a further 298,901 new common shares at a price of £0.875 per share (approximately \$1.36) in payment of such interest on the notes.

## 7. JOINT VENTURE / DISCONTINUED OPERATION

In January 2008, the Company terminated its joint venture with JourneyPay Limited by mutual agreement. As a result, in 2009 the Company no longer contributed capital to the joint venture business and no longer consolidates the results of the joint venture's operations. Processing of transactions for JourneyPay continues under a prior processing agreement. In November 2008, the Company entered into an amendment Agreement and sold its interest in the joint venture to JourneyPay Limited for consideration of a note receivable in the amount of \$212,629 repayable with interest at a rate of 7% per annum over a period of approximately five years. This note receivable (including accrued interest) in the amount of \$257,596 was subsequently written off as uncollectable in 2009 and is included in the Loss from discontinued operations

## 8. OTHER OPERATING EXPENSE

The other operating expense is comprised of insurance, telecommunications, general & administrative and marketing expenses which for the years ended December 31, 2010 and 2009 totaled \$2,027,250 and \$1,255,993.

## 9. RELATED-PARTY TRANSACTIONS

During the years ended December 31, 2010 and 2009, the Company incurred the following general and administrative expenses to two affiliated companies that are principally owned by executives, directors or stockholders of the Company (Synergy Corporate Technologies Ltd., and BDP Realty Associates LLC):

	<b>2010</b>	<b>2009</b>
Rent	\$ 493,037	\$ 463,936
Consulting / Professional Fees	\$ 21,291	\$ -

Rent expense is included in the facilities expense on the consolidated statement of operations.

## 10. STOCK INCENTIVE PLAN

The Board of Directors and Stockholders approved a new 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. Employees and certain contractors, who in the judgment of the Committee render significant service to the Company, are eligible to participate.

Under the terms of the Plan, participants may be granted restricted shares or options to purchase the Company's common stock at the fair market value on the date the option is granted. Options granted generally vest equally over three years and expire ten years after the grant date. At December 31, 2010 and December 31, 2009, a total of 7,301,883 and 6,793,299 shares, respectively, were reserved for issuance under the Plan. No restricted shares have been issued as of December 31, 2010 and of the stock options granted in 2009 and 2010, none were at a strike price lower than the market price at the time of the grant. At December 31, 2010, 983,504 common shares remained available for future stock option and restricted stock awards under the Plan.

Stock option plan activity for the years ended December 31, 2010 and 2009 was as follows:

	Options	Weighted-Average Exercise Price
Balance—January 1, 2009	6,851,397	\$ 2.44
Granted	348,500	1.52
Exercised	-	-
Cancelled	(229,139)	2.46
Forfeited	<u>(177,459)</u>	<u>3.01</u>
Balance— December 31, 2009	6,793,299	\$ 2.36
Granted	1,306,678	1.95
Exercised	(13,668)	0.77
Cancelled	(626,594)	2.86
Forfeited	<u>(157,832)</u>	<u>2.08</u>
Balance—December 31, 2010	7,301,883	\$ 2.25
Options exercisable at December 31, 2009	<u>5,535,148</u>	<u>\$ 2.32</u>
Options exercisable at December 31, 2010	<u>5,942,540</u>	<u>\$ 2.33</u>

Exercise Price	Number Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number Exercisable
\$ 4.40	66,667	\$ 4.40	0.8	66,667
4.00	50,000	4.00	4.1	50,000
3.07	75,000	3.07	6.7	75,000
3.05	18,000	3.05	7.0	18,000
3.01	753,995	3.01	6.5	753,995
2.88	643,055	2.88	5.9	643,055
2.53	325,000	2.53	5.6	325,000
2.50	2,552,203	2.50	4.0	2,536,703
2.13	932,678	2.13	9.2	31,178
1.75	10,000	1.75	8.9	3,333
1.70	75,000	1.70	9.0	25,000
1.65	200,000	1.65	8.9	66,667
1.30	120,000	1.30	9.4	-
1.28	99,000	1.28	8.8	99,000
1.24	115,000	1.24	9.8	-
1.20	1,166,285	1.20	7.1	1,148,942
0.60	<u>100,000</u>	0.60	1.4	<u>100,000</u>
	<u>7,301,883</u>	<u>\$ 2.25</u>		<u>5,942,540</u>

The Company's Plan provides for acceleration of exercisability of the options upon the occurrence of certain events related to a change in control, merger, and sale of assets or liquidation of the Company.

FASB ASC 718 requires compensation cost related to share-based payments to employees to be recognized in the financial statements based on the grant date fair value over the period during which an employee is required to provide service in exchange for the award. . For the year ended December 31, 2010, the Company incurred total share-based expense of \$739,992; \$649,152 related to employee compensation and \$ 90,840 related to non-employee directors. For the year ended December 31, 2009, the Company incurred total share-based expense of \$1,213,659; \$1,096,588 related to employee compensation and \$117,071 related to non-employee directors. As of December 31, 2010, the total remaining unrecognized compensation expense related to the Company's unvested stock options was

\$805,248. This unrecognized compensation expense is expected to be recognized over a weighted-average period of one year.

For awards granted in 2010 and 2009, the Company used the Black-Scholes model for valuation. Assumptions, including volatility, term and risk-free rate, utilized in the model were provided by or confirmed by an independent entity. Since the Company had little historical information regarding the volatility of its share price, estimated volatility was based on the historic volatility of comparative companies from the same industry. The Company believes that its historical share option experience does not provide a reasonable basis upon which to estimate expected term. Following the guidance of SAB ASC Topic 14, *Share-Based Payment*, the Company used a “simplified” method to determine expected term based on the vesting and original contractual terms. The valuation for stock option awards for the years ended December 31, 2010 and 2009 was:

Award Date	May <u>2009</u>	October <u>2009</u>	November <u>2009</u>	December <u>2009</u>
Exercise Price	\$1.20	\$1.28	\$1.65	\$1.75
Implied Volatility	36.5 - 36.8%	36.17%	36.15%	35.43%
Expected Term (years)	5.6 - 6.0	5.5	6.0	5.8
Risk-Free Rate	2.31 - 2.47%	2.57%	2.40%	2.47%
Fair Value per Share of Option	\$0.10 - 0.11	\$0.48	\$0.64	\$0.66

Award Date	January <u>2010</u>	April <u>2010</u>	May <u>2010</u>	June <u>2010</u>	November <u>2010</u>	November <u>2010</u>
Exercise Price	\$1.70	\$2.13	\$2.13	\$1.30	\$1.24	\$1.25
Implied Volatility	36.21%	34.5 - 35.9%	36.23%	34.59%	28.20%	28.20%
Expected Term (years)	6.0	5 - 6	6.0	5.5	6.0	6.0
Risk-Free Rate	3.01%	2.67 - 3.04%	2.56%	2.22%	1.59%	1.82%
Fair Value per Share of Option	\$0.69	\$0.74 - 0.85	\$0.31	\$0.46	\$0.38	\$0.39

## 11. WARRANTS

The Company had outstanding warrants to purchase 2,119,312 shares of common stock as of December 31, 2010, in addition to the stock options granted under the stock incentive plan.

Warrant activity for the years ended December 31, 2010 and 2009 was as follows:

	Warrants	Weighted-Average Exercise Price
Balance— January 1, 2009	4,526,399	\$ 1.57
Granted	149,198	0.37
Exercised	-	-
Cancelled	<u>(890,269)</u>	<u>1.73</u>
Balance— December 31, 2009	<u>3,785,328</u>	<u>\$ 1.50</u>
Granted	23,931	0.25
Exercised	(1,541,924)	1.30
Cancelled	<u>(148,023)</u>	<u>1.29</u>
Balance— December 31, 2010	<u>2,119,312</u>	<u>\$ 1.64</u>
Warrants exercisable—December 31, 2009	<u>3,785,328</u>	<u>\$ 1.50</u>
Warrants exercisable—December 31, 2010	<u>2,119,312</u>	<u>\$ 1.64</u>

Warrants Outstanding at December 31, 2010				
Exercise Price	Number Outstanding	Weighted - Average Exercise Price	Weighted-Average Remaining Life (Years)	Number Exercisable
0.25	221,104	0.25	3.4	221,104
0.45	112,500	0.45	3.3	112,500
1.31	1,381,717	1.31	4.5	1,381,717
2.50	220,903	2.50	2.8	220,903
5.50	<u>183,088</u>	<u>5.50</u>	2.8	<u>183,088</u>
	<u>2,119,312</u>	<u>\$ 1.64</u>		<u>2,119,312</u>

During the years ended December 31, 2010 and 2009, the Company issued 23,931 and 61,698 warrants respectively with an exercise price of \$0.25 per share as partial payment for legal services rendered and recognized an expense of \$89,741 and \$231,365 respectively. These expenses are included in professional fees on the Consolidated Statements of Operations. The Company also issued detachable warrants to purchase common shares as part of certain debt instruments (See Note 6).

## 12. CAPITAL STOCK

During the year ended December 31, 2009, the Company issued 521,745 new common shares, in payment of \$676,816 of accrued interest upon long term debt.

During the year ended December 31, 2009, the Company issued 849,866 new common shares, in payment of \$808,193 of accrued interest upon the convertible debt, which remains outstanding as of December 31, 2010.

The Company issued 1,076,283 new common shares, in payment of \$484,327 of principal and accrued interest on the convertible debt, which was converted and discharged as of December 31, 2009.

On March 16, 2009, the Company completed a private placing of 6,659,000 new common shares at a price of £0.32 per share (approximately \$0.45 per share) raising approximately \$3 million (before expenses). The common shares were issued to institutional and other investors. The net proceeds of this private placing provided additional working capital.

In May 2009, a director was issued 56,312 new common shares at a price of £0.40 (approximately \$0.61 per share) in lieu of payments of director's fees owed to him for past services.

On November 4, 2009, the Company completed a private placing of 3,076,000 new common shares at a price of \$1.30 per share (approximately £0.80 per share) raising approximately \$4 million (before expenses). The common shares were issued to institutional and other investors. The net proceeds of this private placing provided additional working capital.

During the year ended December 31, 2010 the Company issued 255,625 new common shares in payment of \$324,444 of accrued interest upon long term debt. During the year ended and as of December 31, 2010, the Company issued 602,272 new common shares in payment of \$808,194 of accrued interest upon the convertible debt, which remains outstanding as of December 31, 2010.

The Company issued 1,526,718 new common shares upon exercise of warrants for \$2 million and repaid in cash the \$2 million balance of principal on the long term debt, which was discharged as of November 30, 2010. The remaining warrant was extended to 2015.

During the year ended December 31, 2010 the Company issued 13,668 new common shares upon exercise of employee stock options granted pursuant to the 2006 Equity Incentive Plan.

On October 22, 2010 the Company completed a private placing of 4,500,000 new common shares at a price of £0.85 (\$1.34 per share) raising approximately \$6.03 million (before expenses). The common shares were issued to institutional investors. The net proceeds of the private placing provided additional working capital and were used to pay off long term debt.

The terms on the Company's various classes and series of capital stock are summarized as follows:

**Series A Convertible Preferred Stock** —The Series A preferred stock had the following rights as of December 31, 2010:

**Liquidation Preference** — The holders of the Series A preferred stock are entitled upon a liquidation event, to receive back their original investment, in priority to any return of capital to all other stockholders, with no further participation. The Series A preferred stock are convertible into 6,851,144 shares of common stock and the voting, dividend and distribution rights are determined on an "as converted" basis.

**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.

### 13. COMMITMENTS AND CONTINGENCIES

**Leases**—The Company leases office facilities under operating leases expiring at various dates through December 2016. One of the operating leases, which was entered into on August 15, 2005, is from a related company, BDP Realty Associates, LLC. Minimum future lease payments due on the non-cancelable operating leases in excess of one year are as follows:

2011	\$ 1,479,857
2012	\$ 846,800
2013	\$ 826,475
2014	\$ 527,491
Thereafter	\$ 1,057,270

Rental expense amounted to \$1,243,621 and \$1,284,851 during the years ended December 31, 2010 and 2009, respectively. Rent is included in facilities expense on the Consolidated Statement of Operations.

**Service Agreements**—The Company has entered into seven agreements for technology, consulting and processing services expiring at various dates through 2015. Future minimum payments due on the service agreements are as follows:

2011	\$ 524,301
2012	\$ 369,722
2013	\$ 342,811
2014	\$ 308,028
2015	\$ 225,000

### **Contingent Liabilities**

In certain instances, the Company bears a risk that a merchant may engage in fraud by submitting for payment certain credit card transactions that have been manipulated, are fictitious, or are otherwise not bona fide. Similarly, the Company sometimes 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 negatively 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 therewith, 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 chargebacks related to merchant fraud based upon an assessment of actual historical fraud loss rates compared to recent bank card processing volume levels. No contingent liability has been recorded as of December 31, 2010 as the risk of loss is considered remote.

In June 2006, the Company received a request for repayment of the \$700,000 long-term debt which is payable on demand. The Company does not believe it is liable to repay such amount due to a dispute and no action has been taken by the creditor to collect it.

**Outstanding Litigation** - The Company is involved in litigation arising in the normal course of business. Although the amount of any ultimate liability arising from these matters cannot presently be determined, the Company does not anticipate that any such liability will have a material effect on the Company's consolidated financial position or results of operations. 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 to the Company of \$500,000 (before expenses).

## **14. INCOME TAXES**

The income tax provision for the years ended December 31, 2010 and 2009 consisted of the following:

Current:		
Federal	\$ -	\$ -
State	<u>3,219</u>	<u>4,095</u>
Total tax provision	<u>\$ 3,219</u>	<u>\$ 4,095</u>

The Company has incurred net operating losses since inception and thus has not recorded any Federal tax expense. The Company has recorded applicable minimum state income taxes due. There are no federal, state or foreign current or deferred tax liabilities.

A reconciliation of the statutory income tax to the effective income tax provision is as follows:

	<b>2010</b>	<b>2009</b>
Tax benefit at statutory rate (34%)	\$ (1,346,123)	\$ (1,724,094)
State tax—net of federal tax benefit	3,219	4,095
Valuation allowance	<u>\$ 1,346,123</u>	<u>\$ 1,724,094</u>
	<u>\$ 3,219</u>	<u>\$ 4,095</u>

The major sources of temporary differences and their deferred tax effect at December 31, 2010 and 2009, were as follows:

	<b>2010</b>	<b>2009</b>
Depreciation	\$ (738,790)	\$ (384,892)
Stock Options	1,735,678	1,484,009
Provision for doubtful accounts	455,642	637,976
Deferred Asset / Net operating loss carryforwards	<u>23,184,156</u>	<u>21,838,033</u>
Total net deferred tax assets	24,636,686	23,575,126
Less valuation allowance	<u>(24,636,686)</u>	<u>(23,575,126)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The Company has provided a valuation allowance to fully offset the amount of the net deferred asset due to continued operating losses. Management's conclusion is that it is not more likely than not that the Company would be able to realize its deferred tax assets as of December 31, 2010.

The foreign subsidiaries have a net operating loss in respect of which a full valuation allowance has been established.

The Company has available, at December 31, 2010, unused operating loss carry-forwards of \$64,521,718, which may be applied against future taxable income expiring in various years from 2020 through 2029.

## **15. CONCENTRATIONS OF CREDIT RISK**

The Company maintains cash balances at financial banking institutions that are insured by the Federal Depository Insurance Corporation ("FDIC") up to \$250,000 as of December 31, 2010 and December 31, 2009. The Company also maintains cash balances at foreign banking institutions, which are not insured by the FDIC. At December 31, 2010 and 2009, the Company's uninsured cash balances totaled \$3,800,998 and \$2,986,036, respectively.

During the years ended December 31, 2010 and 2009, one of the Company's customers accounted for approximately 48% and 38% of the total revenue, respectively.

## 16. LOSS PER SHARE

### *Computation of Loss per Common Share*

Basic loss per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted loss per common share is computed using the weighted-average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist primarily of preferred shares, warrants, stock options and convertible debt. Due to the Company's net loss for all periods presented, the diluted loss calculation is not provided, in that the results of this calculation would be anti-dilutive.

The basic loss per share is calculated on the following data:

	<u>2010</u>	<u>2009</u>
Weighted average number of common shares (for basic loss per share)	40,431,073	33,725,727
Potential dilutive ordinary shares:		
Preferred shares	6,851,144	6,851,144
Warrants	3,661,083	4,279,472
Stock incentive plan	7,264,204	6,605,583
Convertible debt	4,049,776	4,867,730
Diluted basis	<u>62,257,280</u>	<u>56,329,656</u>
Loss from continuing operations, net of tax	\$ (3,319,778)	\$ (3,769,742)
Loss from discontinued operations, net of tax	-	(257,596)
Net loss	<u>\$ (3,319,778)</u>	<u>\$ (4,027,338)</u>
Basic loss per share	<u>(\$0.08)</u>	<u>(\$0.11)</u>
Basic earnings (loss) per share from discontinued operations and write-off of note receivable, net	<u>0.00</u>	<u>(0.01)</u>
Basic loss per share	<u>(\$0.08)</u>	<u>(\$0.12)</u>

## 17. SUBSEQUENT EVENTS

We evaluated subsequent events through March 21, 2011, the date on which these financial statements were finalized. There were no events or transactions occurring during this subsequent event reporting period that require recognition or disclosure in the financial statements.

\* \* \* \* \*

**EXHIBIT B**

**Amended and Restated By-Laws adopted at the Annual Meeting of Shareholders of the  
Company on June 4, 2010**

**AMENDED AND RESTATED  
BY-LAWS**

**OF**

**PLANET PAYMENT, INC.**

(A Delaware Corporation)

ARTICLE 1

DEFINITIONS

As used in these By-laws, unless the context otherwise requires, the term:

1.1 “Admission” means admission of the Corporation’s Common Stock to AIM.

1.2 “AIM” means the AIM market of the London Stock Exchange plc.

1.3 “Board” means the Board of Directors of the Corporation.

1.4 “Certificate of Incorporation” means the initial certificate of incorporation of the Corporation, as amended, supplemented or restated from time to time, including any certificates of designation thereto.

1.5 “Corporation” means PLANET PAYMENT, INC.

1.6 “General Corporation Law” means the General Corporation Law of the State of Delaware, as amended from time to time.

ARTICLE 2

SHAREHOLDERS

2.1 Place of Meetings. Every meeting of shareholders shall be held at the principal office of the Corporation or at such other place within or without the State of Delaware or by means of remote communication as shall be specified or fixed in the notice of such meeting or in the waiver of notice thereof.

2.2 Annual Meeting. A meeting of shareholders shall be held annually for the election of directors and the transaction of other business at such hour and on such business day as may be determined by the Board and designated in the notice of meeting.

2.3 Other Special Meetings.

2.3.1 A special meeting of shareholders, unless otherwise prescribed by statute, may be called at any time by the Board or by the President or by the Secretary. At any special meeting of shareholders only such business may be transacted as is related to the purpose or purposes of such meeting set forth in the notice thereof given pursuant to Section 2.5 of the By-laws or in any waiver of notice thereof given pursuant to Section 2.6 of the By-laws.

2.3.2 The Board shall, on the requisition of holders of not less than one-tenth of the shares entitled to vote at any meeting of shareholders forthwith proceed to call a special meeting of shareholders.

(a) The requisition must state the purpose of the meeting and must be signed by the requisitionists and deposited at the office of the Corporation, and may consist of several documents in like form each signed by one or more requisitionists.

(b) If the Board does not within 21 days from the date of the deposit of the requisition proceed to call a special meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves call a meeting, but any meeting so called shall not be held after the expiration of three months from that date.

(c) A meeting convened under this Section by requisitionists shall be called in accordance with the provisions of Section 2.4 through 2.6.

(d) Any reasonable expenses incurred by the requisitionists by reason of the failure of the Board duly to call a meeting shall be repaid to the requisitionists by the Corporation, and any sum so repaid shall be retained by the Corporation out of any sums due or to become due from the Corporation by way of fees or other remuneration in respect of their services to such of the directors as were in default.

2.4 Fixing Record Date. For the purpose of determining the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to or dissent from any proposal without a meeting, or for the purpose of determining shareholders entitled to receive payment of any dividend or the allotment of any rights, or for the purpose of any other action, the Board may fix, in advance, a date as the record date for any such determination of shareholders. Such date shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. If no such record date is fixed:

2.4.1 The record date for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given;

2.4.2 The record date for determining shareholders for any purpose other than that specified in Section 2.4.1 shall be at the close of business on the day on which the resolution of the Board relating thereto is adopted.

When a determination of shareholders entitled to notice of or to vote at any meeting of shareholders has been made as provided in this Section 2.4, such determination shall apply to any adjournment thereof, unless the Board fixes a new record date for the adjourned meeting.

2.5 Notice of Meetings of Shareholders. Except as otherwise provided in Sections 2.4 and 2.6 of the By-laws, whenever under the General Corporation Law or the Certificate of Incorporation or the By-laws, shareholders are required or permitted to take any action at a meeting, notice shall be given in writing or by electronic transmission in the manner provided by Article 9 stating the place, date and hour of the meeting and, unless it is the annual meeting, indicating that it is being issued by or at the direction of the person or persons calling the meeting. Notice of a special meeting shall also state the purpose or purposes for which the meeting is called. A copy of the notice of any meeting shall be given, personally by mail by telecopier or by e-mail, not less than ten nor more than sixty days before the date of the meeting, to each shareholder entitled to notice of or to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, with postage thereon prepaid (for airmail if applicable), directed to the shareholder at his address as it appears on the record of shareholders, or, if he shall have filed with the Secretary a written request that notices to him be mailed to some other address, then directed to him at such other address. If sent by telecopier or e-mail such notice shall be deemed given one business day after being transmitted to the telecopier number or e-mail address as it appears on the record of shareholders or if he shall have filed with the Secretary a written request that notices to him be sent to some other number or address then directed to him at such other number or address. An affidavit of the Secretary or other person giving the notice or of the transfer agent of the Corporation that the notice required by this section has been given shall, in the absence of fraud, be prima facie evidence of the facts therein stated. When a meeting is adjourned to another time or place, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken, and at the adjourned meeting any business may be transacted that might have been transacted at the meeting as originally

called. However, if after the adjournment the Board fixes a new record date for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record on the new record date who is entitled to notice.

2.6 Waivers of Notice. Notice of meeting need not be given to any shareholder who submits a signed waiver of notice, in person or by proxy, whether before or after the meeting. The attendance of any shareholder at a meeting, in person or by proxy, without protesting prior to any vote being taken, the lack of notice of such meeting, shall constitute a waiver of notice by him.

## 2.7 Notice of Stockholder Business; Nominations.

### 2.7.1 Annual Meeting of Stockholders.

(a) Nominations of persons for election to the Board and the proposal of business to be considered by the stockholders shall be made at an annual meeting of stockholders (i) pursuant to the Corporation's notice of such meeting, (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Corporation who was a stockholder of record at the time of giving of the notice provided for in this Section 2.7, who is entitled to vote at such meeting and who complies with the notice procedures set forth in this Section 2.7.

(b) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of subparagraph 2.7.1(a), the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice must be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the seventy-fifth (75th) day nor earlier than the close of business on the one hundred and fifth (105th) day prior to the first anniversary of the preceding year's annual meeting (except in the case of the 2006 annual meeting, for which such notice shall be timely if delivered in the same time period as if such meeting were a special meeting); provided, however, that in the event that the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the one hundred and fifth (105th) day prior to such annual meeting and not later than the close of business on the later of the seventy-fifth (75th) day prior to such annual meeting or the close of business on the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by the Corporation. Such stockholder's notice shall set forth: (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (1) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, and (2) the class and number of shares of the Corporation that are owned beneficially and held of record by such stockholder and such beneficial owner.

(c) Notwithstanding anything in the second sentence of subparagraph 2.7.1(b) to the contrary, in the event that the number of directors to be elected to the Board is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased board of directors at least seventy-five (75) days prior to the first anniversary of the preceding year's annual meeting (or, if the annual meeting is held more than thirty (30) days before or sixty (60) days after such anniversary date, at least seventy-five (75) days prior to such annual meeting), a stockholder's notice required by this Section 2.7 shall also be considered timely, but only with respect to nominees for

any new positions created by such increase, if it shall be delivered to the Secretary of the Corporation at the principal executive office of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

2.7.2 Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of such meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of such meeting (a) by or at the direction of the Board or (ii) provided that the Board has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice of the special meeting, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 2.7. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by subparagraph 2.7.1(b) shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not earlier than the one hundred fifth (105th) day prior to such special meeting and not later than the close of business on the later of the seventy-fifth (75th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting.

2.7.3 General.

(a) Only such persons who are nominated in accordance with the procedures set forth in this Section 2.7 shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 2.7. Except as otherwise provided by law or these Bylaws, the chairperson of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 2.7 and, if any proposed nomination or business is not in compliance herewith, to declare that such defective proposal or nomination shall be disregarded.

(b) For purposes of this Section 2.7, the term "**public announcement**" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service in the United States or United Kingdom or over the Regulatory Information Service of the London Stock Exchange plc.

2.8 List of Shareholders at Meeting. A list of shareholders as of the record date, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder, shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, and shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present at the meeting. If the meeting is held solely by means of remote communication, then the list shall be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network. If the right to vote at any meeting is challenged, the inspectors of election, or person presiding thereat, shall require such list of shareholders to be produced as evidence of the right of the persons challenged to vote at such meeting, and all persons who appear from such list to be shareholders entitled to vote thereat may vote at such meeting.

2.9 Quorum of Shareholders; Adjournment. The holders of one-third of the shares entitled to vote at any meeting of shareholders, present in person or represented by proxy, shall constitute a quorum for the transaction of any business at any such meeting, provided that when a specified item of business is required to be voted on by a class or series (if the Corporation shall then have outstanding shares of more than one class or series) voting as a

class, the holders of one-third of the shares of such class or series shall constitute a quorum (as to such class or series) for the transaction of such item of business. When a quorum is once present to organize a meeting of shareholders, it is not broken by the subsequent withdrawal of any shareholders or their proxies. The holders of a majority of shares present in person or represented by proxy at any meeting of shareholders, including an adjourned meeting, whether or not a quorum is present, may adjourn such meeting to another time and place.

2.10 Voting; Proxies. Unless otherwise provided in the Certificate of Incorporation, every shareholder of record shall be entitled at every meeting of shareholders to one vote for each share standing in his name on the record of shareholders determined in accordance with Section 2.4 of the By-laws. The provisions of Section 212 and 217 of the General Corporation Law shall apply in determining whether any shares may be voted and the persons, if any, entitled to vote such shares; but the Corporation shall be protected in treating the persons in whose names and shares stand on the record of shareholders as owners thereof for all purposes. At any meeting of shareholders (at which a quorum was once present to organize the meeting), all matters other than election of directors, except as otherwise provided by law or by the Certificate of Incorporation or by the By-laws, shall be decided by a majority of the votes cast at such meeting by the holders of shares present in person or represented by proxy and entitled to vote thereon, whether or not a quorum is present when the vote is taken. In voting on any question on which a vote by ballot is required by law or is demanded by any shareholder entitled to vote, the voting shall be by ballot. Each ballot shall be signed by the shareholder voting or by his proxy, and shall state the number of shares voted. On all other questions, the voting may be by show of hands. Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent without a meeting may authorize another person or persons to act for him by proxy. The validity and enforceability of any proxy shall be determined in accordance with Section 212 of the General Corporation Law.

2.11 Selection and Duties of Inspectors at Meeting of Shareholders. The Board, in advance of any meeting of shareholders, may appoint one or more inspectors to act at the meeting or any adjournment thereof. If inspectors are not so appointed, the person presiding at such meeting may, and on the request of any shareholder entitled to vote thereat shall, appoint one or more inspectors. In case any person appointed fails to appear or act, the vacancy may be filled by appointment made by the Board in advance of the meeting or at the meeting by the person presiding thereat. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspector or inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and shall do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the person presiding at the meeting or any shareholder entitled to vote thereat, the inspector or inspectors shall make a report in writing of any challenge, question or matter determined by him or them and execute a certificate of any fact found by him or them. Any report or certificate made by the inspector or inspectors shall be prima facie evidence of the facts stated and of the vote as certified by him or them.

2.12 Organization. At every meeting of shareholders, the Chairperson or in the absence of the Chairperson the President, or in the absence of both a Vice President, and in case more than one Vice President shall be present that Vice President having the duty to do so by virtue of the order of precedence prescribed pursuant to Section 5.7 of the By-laws, shall act as chairman of the meeting. The Secretary, or in his absence one of the Assistant Secretaries, shall act as secretary of the meeting. In case none of the persons above designated to act as chairman or secretary of the meeting, respectively, shall be present, a chairman or a secretary of the meeting, as the case may be, shall be chosen by a majority of the votes cast at such meeting by the holders of shares present in person or represented by proxy and entitled to vote at the meeting.

2.13 Order of Business. The order of business at all meetings of shareholders shall be as determined by the chairman of the meeting, subject to Section 2.7 hereof, but the order of business to be followed at any meeting at which a quorum is present may be changed by a majority of the votes cast at such meeting by the holders of shares present in person or represented by proxy and entitled to vote at the meeting.

2.14 Written Consent of Shareholders without a Meeting. Whenever the shareholders are required or permitted to take any action by vote, such action may be taken without a meeting on written consent, setting forth the action so taken or to be taken, signed by the holders of a majority of the outstanding shares entitled to vote thereon and when signed may consist of several writings each signed by one or more shareholders provided that no written consent shall be effective unless, within sixty days of the earliest dated consent delivered to the Corporation, written consents signed by a sufficient number of stockholders to take the action set forth therein are delivered to the Corporation. Such consent shall have the same effect as a vote of shareholders at a meeting duly constituted. The resolution and the written consents thereto by the shareholders shall be filed with the minutes of the proceedings of the shareholders.

2.15 Participation in Meeting of Shareholders by Means of Conference Telephone or Similar Communications Equipment. Any one or more Shareholders may participate in a meeting of the Shareholders by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

## ARTICLE 3

### DIRECTORS

3.1 General Powers. Except as otherwise provided in the Certificate of Incorporation, the business of the Corporation shall be managed under the direction of its Board. The Board may adopt such rules and regulations, not inconsistent with the Certificate of Incorporation or the By-laws or applicable laws, as it may deem proper for the conduct of its meetings and the management of the Corporation. In addition to the powers expressly conferred by the By-laws, the Board may exercise all powers and perform all acts which are not required, by the By-laws or the Certificate of Incorporation, to be exercised and performed by the shareholders.

3.2 Number; Qualification. The board of directors shall consist of one or more members. The number of directors shall be fixed initially by the Incorporator and may thereafter be changed from time to time by action of the shareholders or of the Board. Each director shall be at least eighteen years of age.

3.3 Election. Directors shall, except as otherwise required by law or by the Certificate of Incorporation, be elected by a plurality of the votes cast at a meeting of shareholders by the holders of shares entitled to vote in the election.

3.4 Classification of Board; Term of Office. Following Admission, the Board shall be divided into three classes designated as Class I, Class II and Class III, respectively. Directors shall be assigned to each class in accordance with resolutions adopted by the Board, with the number of directors in each class to be divided as equally as reasonably possible. The term of office of the Class I directors shall expire at the Corporation's first annual meeting of shareholders following Admission, the term of office of the Class II directors shall expire at the Corporation's second annual meeting of shareholders following Admission, and the term of office of the Class III directors shall expire at the Corporation's third annual meeting of shareholders following Admission. At each annual meeting of shareholders commencing with the first annual meeting of shareholders following Admission, directors elected to succeed those directors of the class whose terms then expire shall be elected for a term of office to expire at the third succeeding annual meeting of shareholders after their election. Prior to Admission, each director shall hold office until the next annual meeting of stockholders and until such director's successor is elected and qualified, or until such director's earlier death, resignation or removal.

3.5 Newly Created Directorships and Vacancies. Newly created directorships resulting from an increase in the number of directors and vacancies occurring in the Board for any reason may be filled by vote of a majority of the directors then in office, although less than a quorum, at any meeting of the Board. A director elected to fill a vacancy shall be designated as a Class I, Class II or Class III director in accordance with Section 3.3, but shall hold office only until the next annual meeting of stockholders, (at which time, if such director wishes to continue serving

the Board, continued service shall be subject to re-nomination and re-election at such annual meeting of stockholders) or until such director's earlier death, resignation or removal.

3.6 Resignations. Any director may resign at any time by written notice to the President or the Secretary. Such resignation shall take effect at the time therein specified, and, unless otherwise specified, the acceptance of such resignation shall not be necessary to make it effective.

3.7 Removal of Directors. Subject to the provisions of Section 141 of the General Corporation Law, any or all of the directors may be removed with or without cause by the vote of the holders of a majority of the shares then entitled to vote at an election of directors.

3.8 Compensation. Each director, in consideration of his service as such, shall be entitled to receive from the Corporation such amount per annum or such fees for attendance at directors' meetings, or both, in the form of cash or equity awards under the Corporation's stock option or equity incentive plan or plans then in effect, as the Board may from time to time determine, together with reimbursement for the reasonable expenses incurred by him in connection with the performance of his duties. Each director who shall serve as a member of any committee of directors in consideration of his serving as such shall be entitled to such additional amount per annum or such fees for attendance at committee meetings, or both, in the form of cash or equity awards under the Corporation's stock option or equity incentive plan or plans then in effect, as the Board may from time to time determine, together with reimbursement for the reasonable expenses incurred by him in the performance of his duties. Nothing in this section contained shall preclude any director from serving the Corporation or its subsidiaries in any other capacity and receiving proper compensation therefor.

3.9 Place and Time of Meetings of the Board. Meetings of the Board, regular or special, may be held at any place within or without the State of Delaware. The times and places for holding meetings of the Board may be fixed from time to time by resolution of the Board or (unless contrary to resolution of the Board) in the notice of the meeting.

3.10 Regular Meetings. Regular meetings of the Board may be held at such times and places as may be fixed from time to time by the Board. Unless otherwise required by the Board, regular meetings of the Board may be held without notice provided that the times and places of such meetings are fixed by resolution of the Board.

3.11 Special Meetings. Special meetings of the Board shall be held whenever called by the Chairperson, the President or the Secretary or by a majority of the Board. Notice of each special meeting of the Board shall, if mailed, be addressed to each director at the address designated by him for that purpose or, if none is designated, at his last known address at least four days before the date on which the meeting is to be held; or such notice shall be sent to each director at such address by telecopier, e-mail or similar means of communication, or be delivered to him personally, not later than the day before the date on which such meeting is to be held. Every such notice shall state the time and place of the meeting but need not state the purposes of the meeting, except to the extent required by law, and unless otherwise indicated in the notice any and all business may be transacted at a special meeting. If mailed, each notice shall be deemed given when deposited, with postage thereon prepaid, in a post office or official depository under the exclusive care and custody of the United States post office department. Such mailing shall be by first class mail (and airmail if applicable).

3.12 Adjourned Meetings. A majority of the directors present at any meeting of the Board, including an adjourned meeting, whether or not a quorum is present, may adjourn such meeting to another time and place. Notice of any adjourned meeting of the Board need not be given to any director whether or not present at the time of the adjournment. Any business may be transacted at any adjourned meeting that might have been transacted at the meeting as originally called.

3.13 Waivers of Notice of Meetings. Anything in these By-laws or in any resolution adopted by the Board to the contrary notwithstanding, notice of any meeting of the Board need not be given to any director who submits a signed waiver of such notice, whether before or after such meeting, or who attends such meeting without protesting, prior thereto or at its commencement, the lack of notice to him.

3.14 Organization. At each meeting of the Board, the Chairperson, or in the absence of the Chairperson, the President of the Corporation, or in the absence of both, a chairman chosen by the majority of the directors present, shall preside. The Secretary shall act as Secretary at each meeting of the Board. In case the Secretary shall be absent from any meeting of the Board, an Assistant Secretary shall perform the duties of Secretary at such meeting; and in the absence from any such meeting of the Secretary and Assistant Secretaries, the person presiding at the meeting may appoint any person to act as Secretary of the meeting.

3.15 Quorum of Directors. A majority of the total number of directors then serving on the Board shall constitute a quorum for the transaction of business or of any specified item of business at any meeting of the Board.

3.16 Action by the Board. Except as otherwise provided in Section 3.17 of the By-Laws, all corporate action taken by the Board shall be taken at a meeting of the Board. Except as otherwise provided by the Certificate of Incorporation or by law, the vote of a majority of the directors present at the time of the vote, if a quorum is present at such time, shall be the act of the Board.

3.17 Written Consent of Directors Without a Meeting. Any action required or permitted to be taken by the Board may be taken without a meeting upon written consent signed by all members of the Board to the adoption of a resolution authorizing the action and when signed may consist of several writings each signed by one or more directors. Such consent shall have the same effect as a unanimous vote of the Board. The resolution and the written consents thereto by the members of the Board shall be filed with the minutes of the proceedings of the Board.

3.18 Participation in Meeting of Board by Means of Conference Telephone or Similar Communications Equipment. Any one or more members of the Board may participate in a meeting of the Board by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

## ARTICLE 4

### EXECUTIVE COMMITTEE AND OTHER COMMITTEES

4.1 How Constituted and Powers. The Board, by resolution adopted by a majority of the Board, may designate from among its members an executive committee and other committees, including but not limited to a Compensation Committee and an Audit Committee (each consisting of two or more directors, and the majority of whom shall be non-executive directors to the extent possible), each of which, to the extent expressly provided in the resolution, shall have all the authority of the Board, except that no such committee shall have authority as to the following matters:

- (a) .the submission to shareholders of any matter that needs shareholders' approval;
- (b) the filling of vacancies in the Board or in any committee;
- (c) the amendment or repeal of the By-laws, or the adoption of new By-laws; or
- (d) the amendment or repeal of any resolution of the Board which includes among its terms a provision that it is not so amendable or repealable.

4.2 General. Any committee designated by the Board pursuant to Section 4.1 of the By-laws, and each of the members and alternate members thereof, shall serve at the pleasure of the Board. The Board may designate one or more directors as alternate members of any such committee, who may replace any absent member or members at any meeting of such committee. All corporate action taken by any committee designated by the Board pursuant to Section 4.1 of the By-laws shall be taken at a meeting of such committee except that any action required or permitted to be taken by any committee may be taken without a meeting if all members of the committee consent in

writing to the adoption of a resolution authorizing the action; in such event the resolution and the written consents thereto by the members of the committee shall be filed with the minutes of the proceedings of the committee. Any one or more members of any committee may participate in a meeting of such committee by means of conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting. Any committee may adopt such rules and regulations, not inconsistent with the Certificate of Incorporation or the By-laws or applicable laws or the resolution of the Board designating such committee, as it may deem proper for the conduct of its meetings and the exercise by it of the authority of the Board conferred upon such committee by the resolution of the Board designating such committee. Any committee may (subject to the approval of the Board) invite any director who is not a member of the committee to participate in (but not vote at) any meeting or meetings of such committee as the committee deems appropriate or necessary.

## ARTICLE 5

### OFFICERS

5.1 Officers. The Board may elect or appoint a President, one or more Vice Presidents, a Secretary and a Treasurer, and such other officers as it may determine. All officers shall be elected or appointed to hold office until the meeting of the Board following the next annual meeting of shareholders. The Board may designate one or more Vice Presidents as Executive Vice Presidents, and may use descriptive words or phrases to designate the standing, seniority or area of special competence of the Vice Presidents elected or appointed by it. Each officer shall hold office for the term for which he is elected or appointed, and until his successor shall have been elected or appointed and qualified or until his death, his resignation or his removal in the manner provided in Section 5.2 of the By-laws. Any two or more offices may be held by the same person, except the offices of President and Secretary; provided, however, that if all of the issued and outstanding shares of the Corporation are owned by one person, such person may hold all or any combination of offices. All officers as between themselves and the Corporation shall have such authority and perform such duties in the management of the Corporation as may be provided in the By-laws or as the Board may from time to time determine.

5.2 Removal of Officers. Any officer elected or appointed by the Board may be removed by the Board with or without cause. The removal of an officer without cause shall be without prejudice to his contract rights, if any. The election or appointment of an officer shall not of itself create contract rights.

5.3 Resignations. Any officer may resign at any time by notifying the Board or the President or the Secretary in writing. Such resignation shall take effect at the date of receipt of such notice or at such later time as is therein specified, and, unless otherwise specified, the acceptance of such resignation shall not be necessary to make it effective. The resignation of an officer shall be without prejudice to the contract rights of the Corporation, if any.

5.4 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause may be filled for the unexpired portion of the term by the Board at any regular or special meeting of the Board.

5.5 Compensation. No officer shall be prevented from receiving a salary or other compensation by reason of the fact that he is also a director.

5.6 Chairperson of the Board. The Chairperson of the Board of Directors shall have the power to preside at all meetings of the Board of Directors and shall have such other powers and duties as provided in these Bylaws and as the Board of Directors may from time to time prescribe.

5.7 Chief Executive Officer. Subject to the control of the Board and such supervisory powers, if any, as may be given by the Board, the powers and duties of the Chief Executive Officer of the Corporation are:

- (a) To act as the general manager and, subject to the control of the Board, to have general supervision, direction and control of the business and affairs of the Corporation;

- (b) To preside at all meetings of the stockholders;
- (c) To call meetings of the stockholders to be held at such times and, subject to the limitations prescribed by law or by these Bylaws, at such places as he or she shall deem proper; and
- (d) To affix the signature of the Corporation to all deeds, conveyances, mortgages, guarantees, leases, obligations, bonds, certificates and other papers and instruments in writing which have been authorized by the Board or which, in the judgment of the Chief Executive Officer, should be executed on behalf of the Corporation; to sign certificates for shares of stock of the Corporation; and, subject to the direction of the Board, to have general charge of the property of the Corporation and to supervise and control all officers, agents and employees of the Corporation.

5.8 President. The President shall be the Chief Executive Officer unless the Board shall have designated another officer as the Chief Executive Officer. Subject to the provisions of these Bylaws and to the direction of the Board, and subject to the supervisory powers of the Chief Executive Officer (if the Chief Executive Officer is an officer other than the President), and subject to such supervisory powers and authority as may be given by the Board to the Chairperson of the Board, and/or to any other officer, the President shall have the responsibility for the general management the control of the business and affairs of the Corporation and the general supervision and direction of all of the officers, employees and agents of the Corporation (other than the Chief Executive Officer, if the Chief Executive Officer is an officer other than the President) and shall perform all duties and have all powers that are commonly incident to the office of President or that are delegated to the President by the Board.

5.9 Chief Financial Officer. The Chief Financial Officer shall be the Treasurer of the Corporation unless the Board of Directors shall have designated another officer as the Treasurer of the Corporation. Subject to the direction of the Board of Directors and the Chief Executive Officer, the Chief Financial Officer shall perform all duties and have all powers that are commonly incident to the office of Chief Financial Officer.

5.10 Vice Presidents. Each Vice President shall have all such powers and duties as are commonly incident to the office of Vice President, or that are delegated to him or her by the Board or the Chief Executive Officer. A Vice President may be designated by the Board to perform the duties and exercise the powers of the Chief Executive Officer in the event of the Chief Executive Officer's absence or disability. Any Vice President may also, with the Secretary or the Treasurer or an Assistant Secretary or an Assistant Treasurer, sign certificates for shares of the Corporation; may sign and execute, in the name of the Corporation, deeds, mortgages, bonds, contracts or other instruments authorized by the Board, except in cases where the signing and execution thereof shall be expressly delegated by the Board or by the By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed; and shall perform such other duties as from time to time may be assigned to him by the Board or by the President.

5.11 Secretary. The Secretary, if present, shall act as Secretary of all meetings of the shareholders and of the Board, and shall keep the minutes thereof in the proper book or books to be provided for that purpose; he shall see that all notices required to be given by the Corporation are duly given and served; he may, with the President or a Vice President, sign certificates for shares of the Corporation; he shall be custodian of the seal of the Corporation and may seal with the seal of the Corporation or a facsimile thereof, all certificates for shares of the Corporation and all documents the execution of which on behalf of the Corporation under its corporate seal is authorized in accordance with the provisions of the By-laws; he shall have charge of the share records and also of the other books, records and papers of the Corporation relating to its organization and management as a Corporation, and shall see that the reports, statements and other documents required by law are properly kept and filed; and shall, in general, perform all the duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board or by the President.

5.12 Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds, securities and notes of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any sources whatsoever; deposit all such moneys in the name of the Corporation in such banks, trust

companies or other depositaries as shall be selected in accordance with these By-laws; against proper vouchers, cause such funds to be disbursed by checks or drafts on the authorized depositaries of the Corporation signed in such manner as shall be determined in accordance with any provisions of the By-laws, and be responsible for the accuracy of the amounts of all moneys so disbursed; regularly enter or cause to be entered in books to be kept by him or under his direction full and adequate account of all moneys received or paid by him for the account of the Corporation; have the right to require, from time to time, reports or statements giving such information as he may desire with respect to any and all financial transactions of the Corporation from the officers or agents transacting the same; render to the President or the Board, whenever the President or the Board, respectively, shall require him so to do, an account of the financial condition of the Corporation and of all his transactions as Treasurer; exhibit at all reasonable times his books of account and other records to any of the directors upon application at the office of the Corporation where such books and records are kept; and, in general, perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board or by the Chief Executive Officer; and he may sign with the President or a Vice President certificates for shares of the Corporation.

5.13 Assistant Secretaries and Assistant Treasurers. Assistant Secretaries and Assistant Treasurers shall perform such duties as shall be assigned to them by the Secretary or by the Treasurer, respectively, or by the Board or by the President. Assistant Secretaries and Assistant Treasurers may, with the President or a Vice President, sign certificates for shares of the Corporation.

## ARTICLE 6

### CONTRACTS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

6.1 Execution of Contracts. The Board may authorize any officer, employee or agent, in the name and on behalf of the Corporation, to enter into any contract or execute and satisfy any instrument, and any such authority may be general or confined to specific instances, or otherwise limited.

6.2 Loans. The President or any other officer, employee or agent authorized by the By-laws or by the Board may effect loans and advances at any time for the Corporation from any bank, trust company or other institutions or from any firm, corporation or individual and for such loans and advances may make, execute and deliver promissory notes, bonds or other certificates or evidences of indebtedness of the Corporation, and when authorized so to do may pledge and hypothecate or transfer any securities or other property of the Corporation as security for any such loans or advances. Such authority conferred by the Board may be general or confined to specific instances or otherwise limited.

6.3 Checks, Drafts, Etc. All checks, drafts and other orders for the payment of money out of the funds of the Corporation and all notes or other evidences of indebtedness of the Corporation shall be signed on behalf of the Corporation in such manner as shall from time to time be determined by resolution of the Board.

6.4 Deposits. The funds of the Corporation not otherwise employed shall be deposited from time to time to the order of the Corporation in such banks, trust companies or other depositaries as the Board may select or as may be selected by an officer, employee or agent of the Corporation to whom such power may from time to time be delegated by the Board.

## ARTICLE 7

### SHARES AND DIVIDENDS

7.1 Certificates Representing Shares. The shares of the Corporation shall be represented by certificates in such form (consistent with the provisions of Section 158 of the General Corporation Law) as shall be approved by the Board, unless the Board shall provide by resolution that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Certificates shall be signed by the President or a Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, and may be sealed with the seal of the Corporation or a facsimile thereof. The signatures of the officers upon a certificate may be facsimiles, if the certificate is countersigned by a transfer agent or registered by a registrar other than the Corporation itself or its employee. In case any officer who has signed or whose facsimile signature has been placed upon any certificate shall have ceased to be such officer before such certificate is issued, such certificate may, unless otherwise ordered by the Board, be issued by the Corporation with the same effect as if such person were such officer at the date of issue.

7.2 Transfer of Shares. Transfers of shares shall be made only on the books of the Corporation by the holder thereof or by his duly authorized attorney appointed by a power of attorney duly executed and filed with the Secretary or a transfer agent of the Corporation, and with respect to certificated shares, on surrender of the certificate or certificates representing such shares properly endorsed for transfer, and upon payment of all necessary transfer taxes. A person in whose name shares shall stand on the books of the Corporation shall be deemed the owner thereof to receive dividends, to vote as such owner and for all other purposes as respects the Corporation. No transfer of shares shall be valid as against the Corporation, its shareholders and creditors for any purpose, except to render the transferee liable for the debts of the Corporation to the extent provided by law, until such transfer shall have been entered on the books of the Corporation by an entry showing from and to whom transferred. No transfer of shares shall be recorded by the Corporation unless the Corporation is satisfied that the shares so transferred are registered pursuant to the Securities Act of 1933 or any other applicable securities laws or that an exemption from such registration is applicable thereto. The Corporation may require the transferor and the transferee to provide at their cost such additional documentation, including an opinion of counsel acceptable to the Corporation, as the Corporation considers necessary to make such determination.

7.3 Transfer of Shares Subject to Regulation S. With respect to any securities of the Company issued or transferred pursuant to Rule 903(b)(3) of Regulation S under the Securities Act of 1933, the Corporation shall refuse to register any subsequent transfer of such securities not made in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act of 1933, or pursuant to an available exemption from registration; provided, however, that if foreign law prevents the Corporation from refusing to register securities transfers, the Corporation may instead implement other reasonable procedures to prevent transfers of such securities not made in accordance with the provisions of Regulation S.

7.4 Transfer and Registry Agents. The Corporation may from time to time maintain one or more transfer offices or agents and registry offices or agents at such place or places as may be determined from time to time by the Board.

7.5 Lost, Destroyed, Stolen and Mutilated Certificates. The holder of any shares shall immediately notify the Corporation of any loss, destruction, theft or mutilation of the certificate representing such shares, and the Corporation may issue a new certificate to replace the certificate alleged to have been lost, destroyed, stolen or mutilated. The Board may, in its discretion, as a condition to the issue of any such new certificate, require the owner of the lost, destroyed, stolen or mutilated certificate, or his legal representatives, to make proof satisfactory to the Board of such loss, destruction, theft or mutilation and to advertise such fact in such manner as the Board may require, and to give the Corporation and its transfer agents and registrars, or such of them as the Board may require, a bond in such form, in such sums and with such surety or sureties as the Board may direct, to indemnify the Corporation and its transfer agents and registrars against any claim that may be made against any of them on account

of the continued existence of any such certificate so alleged to have been lost, destroyed, stolen or mutilated and against any expense in connection with such claim.

7.6 Regulations. The Board may make such rules and regulations as it may deem expedient, not inconsistent with the By-laws or with the Certificate of Incorporation, concerning the issue, transfer and registration of certificates representing shares.

7.7 Dividends, Surplus, Etc. Subject to the provisions of the Certificate of Incorporation and applicable law, the Board:

(a) May declare and pay dividends or make other distributions on the outstanding shares in such amounts and at such time or times as, in its discretion, the condition of the affairs of the Corporation shall render advisable;

(b) May use and apply, in its discretion, any of the surplus of the Corporation in purchasing or acquiring any shares of the Corporation, or purchase warrants therefor, in accordance with law, or any of its bonds, debentures, notes, scrip or other securities or evidences of indebtedness;

(c) May set aside from time to time out of such surplus or net profits such sum or sums as, in its discretion, it may think proper, as a reserve fund to meet contingencies, or for equalizing dividends or for the purpose of maintaining or increasing the property or business of the Corporation, or for any other purpose it may think conducive to the best interests of the Corporation.

7.8 Obligation to Disclose Interests in Voting Rights Attaching to Shares and Remedies for Failure to Disclose Such Interests.

(a) Each securityholder shall be under an obligation to make certain notifications in accordance with the provisions of this Section 7.8.

(b) For so long as the Corporation shall have a class of shares admitted to trading on AIM, the provisions of Chapter 5 of the Disclosure and Transparency Rules (as amended from time to time) (“DTR 5”) of the UK Financial Services Authority Handbook (the “Handbook”) shall be deemed to be incorporated by reference into these By-laws and accordingly the vote holder and issuer notification rules set out in DTR 5 shall apply to the Corporation and each securityholder. Notwithstanding the time limits for disclosure set out in DTR 5, the Corporation is required by AIM Rules For Companies from time to time in force (the “AIM Rules”) to announce via a Regulatory Information Service (as defined in the AIM Rules), all the information contained in any vote holder notification “without delay”.

(c) For the purposes of the incorporation by reference of DTR 5 into these By-laws and the application of DTR 5 to the Corporation and each securityholder, the Corporation shall (for the purposes of this Section 7.8 only) be deemed to be an “issuer”, as such term is defined in DTR 5 (and not, for the avoidance of doubt, a “non-UK issuer”, as such term is defined in DTR 5).

(d) For the purposes of this Section 7.8 only, defined terms in DTR 5 shall bear the meaning set out in DTR 5, and if the meaning of a defined term is not set out in DTR 5, the defined term shall bear the meaning set out in the Glossary to the Handbook (in such case, read as the definition applicable to DTR 5).

(e) In addition to the obligations set out in Sections 7.8(a) to 7.8(d) (inclusive) the Corporation may, by issuing a notice in writing in such form as the Board may from time to time approve (a “Disclosure Notice”), require a registered securityholder to disclose the nature of his interest in a relevant shareholding in the Corporation in accordance with this Section 7.8.

(f) The Corporation may issue a Disclosure Notice to any securityholder at any time and the securityholder shall be obliged to respond in writing confirming such details as the Disclosure Notice requires within fourteen (14) days of receipt of the Disclosure Notice.

(g) A securityholder who holds less than one quarter of one per cent (0.25%) of the issued shares of any particular class is obliged to disclose to the Corporation by virtue of a Disclosure Notice:

- (1) whether such shareholding is held legally and beneficially by that securityholder, without any residual or equitable interest or encumbrance or other third party interest in such shareholding of any sort; and
- (2) if such securityholder does not hold its shareholding legally and beneficially for itself only, in what capacity it holds it (for example, whether as trustee, nominee or otherwise); and
- (3) the class of persons for whom or on whose behalf he ultimately holds it or which otherwise has the ultimate interest or interests in such shareholding including, but not limited to whether or not such interest is held on behalf of a family trust, individual holding or investment company, trading company or otherwise, but nothing in this Section 7.9(g) shall oblige the registered securityholder to disclose the actual identity of such persons.

(h) A securityholder who holds one quarter of one per cent (0.25%) or more of the issued shares is obliged pursuant to a Disclosure Notice to disclose:

- (1) the matters required by Section 7.8(g)(1);
- (2) if such securityholder does not hold the relevant shareholding legally and beneficially for itself only pursuant to Section 7.8(g)(1), the capacity in which it holds the relevant shares; and
- (3) the identity or identities of all persons or entities for whom or on whose behalf the relevant shares are ultimately held or the persons or entities which hold the ultimate beneficial interest or have a beneficial interest in the shares or which ultimately influence or control the holding of the shares to the extent these are known by him.

(i) In this Section 7.8, references to the ultimate holding or to persons or entities on whose behalf the relevant shares are ultimately held require disclosure of the person or persons or entities which ultimately control, benefit or have an interest in the shares such that the Board may reasonably determine the identity of the person or persons or entities which have an indirect interest in the relevant shares and the nature of that shareholding and a registered securityholder will not comply with the provisions of this Section 7.8 by virtue of disclosing the legal entities or persons through whom the relevant shares are held without also disclosing the actual identity of the relevant person or persons or entities for whom the relevant shares are ultimately held.

(j) Nothing in this Section 7.8 will require a registered securityholder to disclose the specific structure or order of the persons or entities behind a relevant shareholding except to the extent that such arrangements have an impact on who the ultimate beneficiaries, controllers or parties able to exercise influence over the relevant shares in accordance with Section 7.8(h)(3) are.

(k) In the event that a registered securityholder fails to make the appropriate disclosures in accordance with this Section 7.8, the Board may avail itself of all remedies permissible under both the General Corporation Law and the AIM Rules.

## ARTICLE 8

### INDEMNIFICATION

8.1 Indemnification of Directors and Officers. The Corporation shall, to the fullest extent now or hereafter

permitted by the General Corporation Law, indemnify any director or officer who is or was made, or threatened to be made, a party to an action, suit or proceeding including, without limitation, an action by or in the right of the Corporation to procure a judgment in its favor, whether civil or criminal, whether involving any actual or alleged breach of duty, neglect or error, any accountability, or any actual or alleged misstatement, misleading statement or other act or omission and whether brought or threatened in any court or administrative or legislative body or agency, including an action by or in the right of any other corporation of any type or kind, domestic or foreign, or any partnership, joint venture, trust, employee benefit plan or other enterprise, which any director or officer of the Corporation is serving or served in any capacity at the request of the Corporation, by reason of the fact that he, his testator or intestate, is or was a director or officer of the Corporation, or is serving or served such other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise in any capacity, against judgments, fines, amounts paid in settlement, and costs, charges and expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of such action, suit or proceeding or any appeal therein; provided, however, that no indemnification shall be provided to any such director or officer if a judgment or other final adjudication adverse to the director or officer establishes that (i) his acts were committed in bad faith or were the result of active and deliberate dishonesty and, in either case, were material to the cause of action so adjudicated, or (ii) he personally gained in fact a financial profit or other advantage to which he was not legally entitled. Such right of indemnification shall not be deemed exclusive of any other rights to which such director or officer may be entitled apart from the foregoing provisions. The foregoing provisions of this Section 8.1 shall be deemed to be a contract between the Corporation and each director and officer who serves in such capacity at any time while this Article 8 and the relevant provisions of the General Corporation Law and other applicable law, if any, are in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought or threatened based in whole or in part upon any such state of facts.

8.2 Indemnification of Other Persons. The Corporation may indemnify any other person (including, without limitation, corporate personnel other than directors or officers) to the extent permitted by and in accordance with the General Corporation Law and any applicable law, as the same may be amended from time to time and pursuant to (i) a resolution of stockholders, (ii) a resolution of directors, or (iii) an agreement providing for such indemnification, it being expressly intended that these By-laws authorize the creation of other rights in any such manner.

8.3 Advancement of Expenses. The Corporation shall, from time to time, reimburse or advance to any person referred to in Section 8.1, and may reimburse or advance to any person referred to in Section 8.2, the funds necessary for payment of expenses, including attorneys' fees, incurred in connection with any action or proceeding referred to in Sections 8.1 and 8.2, upon receipt of a written undertaking by or on behalf of such person to repay such amount(s) if a judgment or other final adjudication adverse to the director, officer or other person establishes that (i) his acts were committed in bad faith or were the result of active and deliberate dishonesty and, in either case, were material to the cause of action so adjudicated, or (ii) he personally gained in fact a financial profit or other advantage to which he was not legally entitled.

8.4 Insurance. The Board in its discretion shall have the power to purchase and maintain insurance in accordance with, and subject to, the provisions of Section 145 General Corporation Law.

8.5 Amendment, Modification or Repeal. This Article 8 may be amended, modified or repealed either by action of the Board of Directors of the Corporation or by the vote of the stockholders. Any repeal or modification of the foregoing provisions of this Article 8 shall not adversely affect any right or protection of any person in respect of any act or omission occurring prior to the time of such repeal or modification.

## ARTICLE 9

### NOTICE

9.1 Form and Delivery. Except as otherwise specifically required in these By-laws (including, without

limitation, Section 9.2 below) or by law, all notices required to be given pursuant to these By-laws shall be in writing and may, (a) in every instance in connection with any delivery to a member of the Board, be effectively given by hand delivery (including use of a delivery service), by depositing such notice in the mail, postage prepaid, or by sending such notice by prepaid telegram, cablegram, overnight express courier, facsimile, electronic mail or other form of electronic transmission and (b) be effectively be delivered to a stockholder when given by hand delivery, by depositing such notice in the mail, postage prepaid or, if specifically consented to by the stockholder as described in Section 9.2 of this Article 9 by sending such notice by telegram, cablegram, facsimile, electronic mail or other form of electronic transmission. Any such notice shall be addressed to the person to whom notice is to be given at such person's address as it appears on the records of the Corporation. The notice shall be deemed given (a) in the case of hand delivery, when received by the person to whom notice is to be given or by any person accepting such notice on behalf of such person, (b) in the case of delivery by mail, upon deposit in the mail, (c) in the case of delivery by overnight express courier, when dispatched, and (d) in the case of delivery via telegram, cablegram, facsimile, electronic mail or other form of electronic transmission, when dispatched.

9.2 Electronic Transmission. Without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the Corporation under any provision of the General Corporation Law, the Certificate of Incorporation, or these By-laws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given in accordance with Section 232 of the General Corporation Law. Any such consent shall be revocable by the stockholder by written notice to the Corporation. Any such consent shall be deemed revoked if (a) the Corporation is unable to deliver by electronic transmission two consecutive notices given by the Corporation in accordance with such consent and (b) such inability becomes known to the Secretary or an Assistant Secretary of the Corporation or to the transfer agent, or other person responsible for the giving of notice; *provided, however*, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action. Notice given pursuant to this Section 9.2 shall be deemed given: (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice; (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of such posting and the giving of such separate notice; and (iv) if by any other form of electronic transmission, when directed to the stockholder.

## ARTICLE 10

### MISCELLANEOUS

10.1 Corporate Seal. The Board may adopt a corporate seal which shall be in the form of a circle and shall bear the full name of the Corporation and the year of its incorporation.

10.2 Fiscal Year. The fiscal year of the Corporation shall be determined, and may be changed, by resolution of the Board.

10.3 Reliance Upon Books and Records. A member of the Board, or a member of any committee designated by the Board shall, in the performance of such person's duties, be fully protected in relying in good faith upon records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of the Corporation's officers or employees, or committees of the Board, or by any other person as to matters the member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

10.4 Certificate of Incorporation Governs. In the event of any conflict between the provisions of the Corporation's Certificate of Incorporation and Bylaws, the provisions of the Certificate of Incorporation shall govern.

10.5 Voting of Shares Held by the Corporation. Unless otherwise provided by resolution of the Board, the

Chief Executive Officer may, from time to time, appoint one or more attorneys or agents of the Corporation, in the name and on behalf of the Corporation, to cast the votes which the Corporation may be entitled to cast as a shareholder or otherwise in any other corporation, any of whose shares or securities may be held by the Corporation, at meetings of the holders of the shares or other securities of such other corporation, and to consent in writing to any action, by any such other corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed on behalf of the Corporation and under its corporate seal, or otherwise, such written proxies, consents, waivers or other instruments as he may deem necessary or proper in the premises; or the President may himself attend any meeting of the holders of the shares or other securities of any such other corporation and thereat vote or exercise any or all other powers of the Corporation as the holder of such shares or other securities of such other corporation.

## ARTICLE 11

### AMENDMENTS

The By-laws may be altered, amended, supplemented or repealed, or new By-laws may be adopted, by vote of the holders of a majority of the shares entitled to vote in the election of directors. Except as may be otherwise provided in a By-law adopted by the shareholders, the By-laws may be altered, amended, supplemented or repealed, or new By-laws may be adopted, by the Board. If any By-law regulating an impending election of directors is adopted, altered, amended, supplemented or repealed by the Board, such By-law shall be set forth in the notice of the next meeting of shareholders for election of directors, together with a concise statement of the changes made. Any By-laws adopted, altered, amended, or supplemented by the Board may be altered, amended, supplemented or repealed by the shareholders entitled to vote thereon.

**PLANET PAYMENT, INC.**  
**ANNUAL REPORT**  
**YEAR ENDED DECEMBER 31, 2010**

**CERTIFICATIONS**

I, Philip D Beck, certify that:

1. I have reviewed this Annual Report for the year ended December 31, 2010 of Planet Payment, Inc.;
2. Based on my knowledge, this disclosure statement does 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 financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 21, 2011



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Philip D. Beck, CEO

I, Seth Asofsky, certify that:

1. I have reviewed this Annual Report for the year ended December 31, 2010 of Planet Payment, Inc.;
2. Based on my knowledge, this disclosure statement does 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 financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 21, 2011



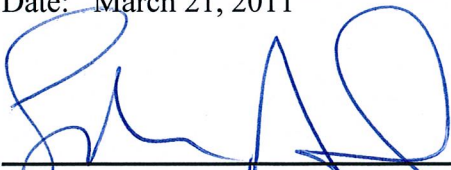
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Robert Cox, CFO

I, Graham N. Arad, certify that:

1. I have reviewed this Annual Report for the year ended December 31, 2010 of Planet Payment, Inc.;
2. Based on my knowledge, this disclosure statement does 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 financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 21, 2011



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Graham N. Arad, SVP & General Counsel