



Planet Payment, Inc

**Quarterly Report For
Three Months ended June 30, 2011**

Principal Offices

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Planet Payment, Inc

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QUARTERLY REPORT FOR SECOND QUARTER OF 2011

Consolidated Financial Statements (unaudited)

As of December 31, 2010 and June 30, 2011 and for the six months ended June 30, 2010 and 2011

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PLANET PAYMENT, INC.

QUARTERLY REPORT AS OF AND FOR THE THREE MONTHS ENDED JUNE 30, 2011

Issuer:

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Investor Relations Contact

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Shares Outstanding:

(i) As of June 30, 2011

(ii) Authorized Shares

- a. Common Stock: 80,000,000 shares
- b. Preferred Stock: 4,000,000 shares

(iii) Number of Shares Outstanding

- a. Common Stock: 50,775,629
- b. Preferred Stock: 2,243,750 (convertible into 6,851,144 shares of Common Stock)

(iv) Public Float: 37,856,240 Common Shares

(v) Beneficial Shareholders of Record: 256

Consolidated Financial Statements:

Attached hereto as Exhibit A are the Consolidated Financial Statements (unaudited) as of December 31, 2010 and June 30, 2011 and for the six months ended June 30, 2010 and 2011.

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

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

Key metrics and statistics

For the six months ended June 30, 2010 and 2011 our net revenue was \$13.5 million and \$19.9 million, respectively. In the same periods, our net (loss) income was \$(2.3) million and \$1.0 million, respectively, and our Adjusted EBITDA was \$(0.4) million and \$2.6 million, respectively. Adjusted EBITDA is a financial measure not calculated in accordance with GAAP. For information on how we calculate Adjusted EBITDA and other non-GAAP measures, see below.

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

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

	Six months ended	
	2010	2011
KEY METRICS:		
Consolidated gross billings(1)	\$27,686,282	\$46,958,178
Adjusted EBITDA (non-GAAP)(2)	\$(407,061)	\$2,611,725
Capitalized expenditures	\$1,194,128	\$1,103,938
Total active merchant locations(3)	11,398	22,825
Multi-currency processing services key metrics:		
Active merchant locations(3)	8,639	14,345
Settled transactions processed(4)	3,025,017	4,901,354
Gross foreign currency mark-up(5)	\$21,604,519	\$40,152,003
Settled dollar volume processed(6)	\$592,216,973	\$1,057,312,571
Average net mark-up percentage on settled dollar volume processed(7)	1.26%	1.24%
Payment processing services key metrics:		
Active merchant locations(3)	2,807	8,496
Payment processing services revenue(8)	\$6,081,763	\$6,806,175

- (1) Represents a) gross foreign currency mark-up (“Gross Mark-Up”, see note 5) plus, b) payment processing services revenue (see note 8).
- (2) We define Adjusted EBITDA as GAAP net (loss) income adjusted to exclude (1) interest expense, (2) interest income, (3) provision (benefit) for income taxes, (4) depreciation and amortization, (5) stock-based expense from options and warrants and (6) certain other items management believes affect the comparability of operating results. Please see “Adjusted EBITDA” below for more information and for a reconciliation of Adjusted EBITDA to net (loss) income, the most directly comparable financial measure calculated and presented in accordance with GAAP.
- (3) We consider a merchant location to be active as of a date if the merchant completed at least one revenue-generating transaction at the location during the 90-day period ending on such date. The total

number of active merchant locations exceeds the total number of merchants, as merchants may have multiple locations. For the six months ended June 30, 2010 and 2011, there were 48 and 16 active merchant locations, respectively, that used both our multi-currency processing services and our payment processing services. These amounts are included in multi-currency and payment processing active merchant locations but are not included in total active merchant locations.

- (4) Represents settled transactions processed using our multi-currency processing services.
- (5) Gross foreign currency mark-up, represents the gross mark-up amount on settled dollar volume processed using our multi-currency processing services. Gross mark-up represents multi-currency processing services net revenue plus amounts paid to acquiring banks and their merchants associated with such multi-currency processing transactions. Management believes this metric is relevant because it provides the reader an indication of the gross mark-up derived from multi-currency transactions processed through our platform during a given period. Refer to our revenue recognition policy in Note 3 and segment disclosure in Note 13 of our consolidated financial statements for information on our net revenue from multi-currency processing services.
- (6) Represents settled dollar volume processed using our multi-currency processing services.
- (7) Represents the average net mark-up percentage earned on settled dollar volume processed using our multi-currency processing services. The average net mark-up percentage on settled dollar volume processed is calculated by taking the reported total multi-currency processing services net revenue (\$7.5 million and \$13.1 million for the six months ended June 30, 2010 and 2011, respectively) and dividing by settled dollar volume processed (See note 6).
- (8) Represents revenue earned and reported on payment processing services.

Adjusted EBITDA

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

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

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

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

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

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

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

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

	Six months ended June 30,	
	2010	2011
ADJUSTED EBITDA:		
Net (loss) income.....	\$(2,252,066)	\$975,725
Interest expense	600,386	288,418
Interest income	(91)	(648)
Provision for income taxes	—	—
Depreciation and amortization	825,287	1,180,421
Stock-based expense.....	419,423	226,491
Convertible debt prepayment fee(1).....	—	601,318
Derecognition of note payable(2).....	—	(660,000)
Adjusted EBITDA (non-GAAP)	\$(407,061)	\$2,611,725

- (1) In April 2011, the convertible debt holders converted the outstanding principal amount of \$9.0 million under convertible notes issued in 2007 and 2008 into an aggregate of 4,049,776 shares of common stock. In addition, we issued 127,318 shares of common stock valued at \$0.3 million in lieu of cash payments for accrued interest and 297,682 shares of common stock valued at \$0.6 million as a prepayment fee negotiated at the time of conversion. The shares issued for the accrued interest and the prepayment fee were valued at the average closing price of our common stock on AIM under the symbol "PPTR" during the period immediately prior to the conversion.
- (2) In 2003, we entered into an agreement with FHMS and FTB and recorded a liability. Due to a breach of the contractual terms by FHMS and FTB, we did not believe we were liable to repay these amounts. As of March 31, 2011, the statute of limitations had expired on \$0.66 million of the \$0.7 million balance. For the six months ended June 30, 2011, we recorded other income due to the derecognition of the note payable in the amount of \$0.66 million.

Results of operations

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

Certain adjustments and reclassifications have been made to the financial statements for the six months ended June 30, 2010. Please refer to the immaterial restatement disclosure located in footnote 2 to the financial statements for further information.

	Six months ended June 30,	
	2010	2011
Revenue:		
Multi-currency processing services revenue.....	\$7,466,825	\$13,060,832
Payment processing services revenue.....	6,081,763	6,806,175
Net revenue.....	13,548,588	19,867,007
Operating expenses:		
Cost of revenue:		
Payment processing services fees.....	4,849,162	5,643,131
Processing and service costs.....	3,502,063	4,387,906
Total cost of revenue.....	8,351,225	10,031,037
Selling, general and administrative expenses.....	6,849,134	8,631,157
Total operating expenses.....	15,200,359	18,662,194
(Loss) income from operations.....	(1,651,771)	1,204,813
Other (expense) income:		
Interest expense.....	(600,386)	(288,418)
Interest income.....	91	648
Other income, net.....	—	58,682
Total other expense, net.....	(600,295)	(229,088)
(Loss) income before provision for income taxes.....	(2,252,066)	975,725
Provision for income taxes.....	—	—
Net (loss) income.....	\$(2,252,066)	\$975,725

Comparison of the six months ended June 30, 2011 and 2010

Revenue

	Six months ended June 30,		Variance	
	2011	2010	Amount	Percent
Multi-currency processing services revenue.....	\$13,060,832	\$7,466,825	\$5,594,007	75%
Payment processing services revenue.....	6,806,175	6,081,763	724,412	12
Net revenue.....	\$19,867,007	\$13,548,588	\$6,318,419	47

Net revenue increased \$6.3 million, or 47%, to \$19.9 million for the six months ended June 30, 2011 from \$13.6 million for the six months ended June 30, 2010. The increase in revenue was primarily due to the overall increase by 100%, or 11,427, in total active merchant locations processing transactions through our multi-currency and payment processing services as of June 30, 2011. Additionally, we believe our business was positively impacted by the global shift toward electronic payment transactions, increased international travel and commerce and increased e-commerce on a global scale.

Multi-currency processing services revenue

Multi-currency processing services revenue increased \$5.6 million, or 75%, to \$13.1 million for the six months ended June 30, 2011 from \$7.5 million for the six months ended June 30, 2010. The increase in multi-currency processing services revenue was driven by increases in the following key business metrics:

	Six months ended June 30,		Variance	
	2011	2010	Amount	Percent
Active merchant locations (at period end).....	14,345	8,639	5,706	66%
Settled transactions processed.....	4,901,354	3,025,017	1,876,337	62
Gross mark-up.....	\$40,152,003	\$21,604,519	\$18,547,484	86
Settled dollar volume processed.....	\$1,057,312,571	\$592,216,973	\$465,095,598	79
Average net mark-up % on settled dollar volume processed.....	1.24%	1.26%	(0.02)%	(2)

The 79% increase in settled dollar volume processed resulted in a \$5.9 million increase in revenue, offset by a 0.02% decrease in our average net mark-up percentage on settled dollar volume processed which resulted in a \$0.3 million decrease to revenue. The primary reasons for the increase in settled dollar volume processed were a 66% increase in active merchant locations, which resulted from the addition of new active merchant locations in existing markets, our entry into five new APAC markets in the second quarter of 2010, which had a greater impact on the six months ended June 30, 2011, and the continued improvement in the global economy. This resulted in a 62% increase in settled transactions processed through our multi-currency processing services. The decrease in the average net mark-up percentage on settled dollar volume processed was primarily due to the different mark-ups applied to different customers and for a variety of services.

Payment processing services revenue

Payment processing services revenue is primarily earned from transactions originating in North America. Payment processing services revenue increased \$0.7 million, or 12%, to \$6.8 million for the six months ended June 30, 2011 from \$6.1 million for the six months ended June 30, 2010. The increase was primarily due to increased transaction volume in the Canadian market from the second quarter of 2010 to the second quarter of 2011.

Cost of revenue

	Six months ended June 30,		Variance	
	2011	2010	Amount	Percent
Payment processing services fees.....	\$5,643,131	\$4,849,162	\$793,969	16%
Processing and service costs.....	4,387,906	3,502,063	885,843	25
Total cost of revenue.....	<u>\$10,031,037</u>	<u>\$8,351,225</u>	<u>\$1,679,812</u>	<u>20</u>

Payment processing services fees

Payment processing services fees primarily consist of third party transactions fees, which may include sponsorship fees, interchange and card association fees and assessments. The increase of \$0.8 million, or 16%, to \$5.6 million for the six months ended June 30, 2011 from \$4.8 million for the six months ended June 30, 2010 is as a result of the increase in payment processing services revenue, coupled with pricing mix of services for the second quarter of 2011.

Processing and service costs

Processing and service costs increased \$0.9 million, or 25%, to \$4.4 million for the six months ended June 30, 2011 from \$3.5 million for the six months ended June 30, 2010. The increase in processing and service costs was primarily the result of increased salary, compensation and related benefit costs of \$0.6 million and an increase in technology expense of \$0.2 million to support the growth in our existing business and the launches into new markets, and an increase in depreciation and amortization expense of \$0.3 million primarily related to software development additions, partially offset by a \$0.2 million decrease in various minor expenses.

Selling, general and administrative expenses

	Six months ended June 30,		Variance	
	2011	2010	Amount	Percent
Selling, general and administrative expenses	\$8,631,157	\$6,849,134	\$1,782,023	26%

Selling, general and administrative expenses increased \$1.8 million, or 26%, to \$8.6 million for the six months ended June 30, 2011 from \$6.8 million for the six months ended June 30, 2010. The increase in selling, general and administrative expenses was primarily the result of increased salary, compensation and related benefit costs of \$1.1 million primarily due to general headcount additions to support the growth in our existing business, the

launches into new markets and increased bonus compensation, and recovery of \$0.5 million of doubtful accounts in the first half of 2010, which reduced the selling, general and administrative expenses for the six months ended June 30, 2010.

Other (expense) income, net

	Six months ended June 30,		Variance	
	2011	2010	Amount	Percent
Interest expense	\$(288,418)	\$(600,386)	\$311,968	*
Interest income	648	91	557	*
Other income, net	58,682	—	58,682	*
Total other expense, net	<u>\$(229,088)</u>	<u>\$(600,295)</u>	<u>\$371,207</u>	*

* Percentages not meaningful.

Total other expense, net, decreased \$0.4 million, to \$0.2 million for the six months ended June 30, 2011 from a non-operating expense of \$0.6 million for the six months ended June 30, 2010. The decrease is primarily due to recording six months of interest expense on our convertible debt for the six months ended June 30, 2010 compared to four months of interest expense for the six months ended June 30, 2011, as all of the debt converted in April 2011. In addition, we recorded \$0.7 million in other income due to the derecognition of a note payable for which the statute of limitations expired and that management did not believe we were liable to repay, which was almost entirely offset by the recognition of a \$0.6 million as a prepayment fee negotiated at the time of conversion of our convertible debt in April 2011.

Cash flows

	Six months ended June 30,	
	2010	2011
Cash (used in) provided by operating activities	\$(1,314,124)	\$2,846,274
Cash used in investing activities.....	(1,196,831)	(1,015,478)
Cash (used in) provided by financing activities	(93,478)	110,464

Operating activities

Cash provided by operating activities during the six months ended June 30, 2011 was \$2.8 million, comprising \$2.6 million cash generated by operations and a net increase in our operating assets and liabilities of \$0.2 million. This net increase in our operating assets and liabilities of \$0.2 million primarily consisted of a \$0.7 million increase in accounts receivable and other current assets, driven by an increase in activity in our multi-currency processing services business during the period, offset by a \$0.9 million increase in accounts payable and accrued expenses. Cash generated by operations of \$2.6 million was inclusive of net income of \$1.0 million and total net non-cash charges of \$1.7 million. Significant non-cash adjustments to net income primarily included: (i) depreciation and amortization expense of \$1.2 million, (ii) non-cash interest expense on convertible and term debt of \$0.3 million, (iii) stock option expense of \$0.2 million, and (iv) prepayment fee negotiated at the time of conversion of convertible debt of \$0.6 million, offset by the derecognition of other income of \$0.7 million related to the expiration of the statute of limitations on a note payable.

Cash used in operating activities during the six months ended June 30, 2010 was \$1.3 million, comprising \$0.5 million cash used in operations and a net increase in our operating assets and liabilities of \$0.8 million. This net increase in our operating assets and liabilities of \$0.8 million consisted of (i) \$0.5 million increase in accounts receivable and other current assets, driven by an increase in activity in our multi-currency processing services business during the period, coupled with (ii) a decrease in accounts payable and accrued expenses of \$0.3 million due to timing of payments. Cash used in operations of \$1.3 million was inclusive of a net loss of \$2.3 million,

offset by total non-cash charges of \$1.8 million. Significant non-cash adjustments to net loss primarily included: (i) depreciation and amortization expense of \$0.8 million, (ii) non-cash interest expense on convertible and term debt of \$0.6 million and (iii) stock option expense of \$0.4 million.

Investing activities

Cash used in investing activities for the six months ended June 30, 2010 and 2011 was \$1.2 million and \$1.0 million, respectively, which was primarily attributable to our investment in the business through capital expenditures for network infrastructure and investments in software development.

Financing activities

Cash (used in) provided by financing activities for the six months ended June 30, 2010 and 2011 was not meaningful.

SALES OF EQUITY SECURITIES

During the three months ended June 30, 2011, the Company issued 66,411 new common shares upon exercise of stock options by current and former employees of the Company. All of the shares were exercised for cash and the weighted average exercise price was \$1.32 per share.

In April 2011, the Company issued an aggregate of 4,049,776 shares of common shares upon the conversion of the convertible promissory notes issued in 2007 and April 2008. In addition, the Company issued an aggregate of 425,000 shares of common shares to these investors in lieu of cash payments for interest due on these convertible promissory notes and a prepayment fee negotiated at the time of conversion.

Further information on the Company's stock options and the Equity Incentive Plan is set forth in the consolidated financial statements for the period included in this Report. Information regarding other issuances of Issuer's equity securities during the three months ended June 30, 2011 has previously been disclosed and are included in the notes to the consolidated financial statements for such period.

LEGAL PROCEEDINGS

The Issuer is not and was not during the three months ended June 30, 2011, party to any legal proceedings or administrative actions that could have a material effect on the Issuer's business, financial condition, or operations nor have any such proceedings been threatened. Neither are there any current, past or pending trading suspensions by a securities regulator.

DEFAULTS UPON SENIOR SECURITIES

Not applicable.

OTHER INFORMATION

During the process of preparing the Company to become a reporting company under U.S. securities laws, the Company reconsidered the presentation of its net revenue. The Audit Committee of the Board of Directors and management concluded on October 20, 2011 that it is more appropriate to present gross foreign currency mark-up amounts billed for multi-currency processing services, net of the mark-up amounts shared with acquiring bank and processing customers and their merchants, with respect to such services. Management consulted with the Company's independent registered public accountant, Deloitte & Touche LLP regarding the issue. As a result, the Company has restated its audited consolidated financial statements for the years ended December 31, 2008, 2009 and 2010 and unaudited consolidated financial statements for the six months ended June 30, 2010. The Company does not believe that these presentational adjustments and the corrections referred to below are material to its financial statements for any reported period.

The Company adjusted the presentation of multi-currency processing services revenues earned on our indirectly acquired business from gross to be net of the amounts related to certain third party revenue share arrangements. Historically, the Company has reported the gross foreign currency mark-up amounts billed, as revenue with the acquirer and merchant share of the gross mark-up being deducted from revenue as a cost of revenue. The financial statements for the years 2008, 2009 and 2010 and the six months ended June 30, 2010 have been adjusted to show as net revenue, the net amount the Company retains after paying these revenue share amounts. The adjustments resulted in a reduction of previously reported revenues and corresponding reductions in cost of revenue in those periods. For 2008, 2009 and 2010 the reduction in revenue and the corresponding reduction in cost of revenue are \$14.7 million, \$20.7 million and \$34.1 million, respectively and for the six months ended June 30, 2010 the reduction in revenue and the corresponding reduction in cost of revenue is \$14.1 million.

The Company has also taken the opportunity to make certain corrections to its financial statements, as explained in the notes thereto, which are unrelated to the adjustments referred to above and which are not considered

material to the financial statements for any period. The complete restated audited Consolidated Financial Statements as of December 31, 2009 and 2010 and for the years ended December 31, 2008, 2009 and 2010, together with the notes thereto and the updated auditors' opinion thereon have been posted on the Company's website at www.planetpayment.com and at www.otcqx.com.

The previously issued Consolidated Financial Statements as of December 31, 2009 and 2010 and for the years ended December 31, 2008, 2009 and 2010, together with the notes thereto and auditors' opinion thereon, and previously issued unaudited Consolidated Financial Statements as of and for the six months ended June 30, 2010, should no longer be relied upon. Similarly, related press releases, annual reports and stockholder communications describing the Company's financial statements for these periods should no longer be relied upon. Only the reissued statements for such periods should be relied upon. The restated unaudited consolidated statements of operations and cash flows for the six months ended June 30, 2010 are included in the financial statements appended to this Report.

EXHIBITS

Exhibit A: Consolidated Financial Statements (unaudited) as of December 31, 2010 and June 30, 2011 and for the six months ended June 30, 2010 and 2011

Exhibit B: Amended & Restated Certificate of Incorporation filed June 6, 2011

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 under “Investor Relations”. 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 through the end of 2010 and achieved its first period of profitability in the three months ended March 31, 2011. The Company cannot guarantee that it will continue to achieve profitability.
- A significant portion of the Company’s revenue comes from a limited number of customers and a decrease in revenue from these customers could have a material adverse effect on the Company’s operating results and cash flow.
- 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.
- In order for the Company to continue to grow and improve its operating results, the Company must continue to increase participation by existing customers, cross sell additional services and add new customers in existing and new geographies.
- 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 payment 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 payment 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 derives a significant percentage of its net revenue from a limited number of countries and territories, and any natural disasters or other adverse change could harm the Company's business.
- The Company's quarterly results are inherently unpredictable and subject to substantial fluctuations, and, as a result, the Company may fail to meet the expectations of securities analyst and investors, which could adversely affect the trading price of shares of the Company's common stock.
- 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.
- The Company's systems and its third-party providers' systems may fail which could interrupt service, cause loss of business, increase costs and expose the Company to liability.
- Utility and system interruptions could adversely affect the Company's operations.
- The Company may experience software defects, undetected errors, and development delays, which could damage customer relations, decrease its potential profitability and expose the Company 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 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.
- The Company may not be able to utilize a significant portion of the Company's net operating loss carryforwards, which could adversely affect the Company's results.
- The Company's business and financial performance could be negatively impacted by the application of new tax regulations or changes in existing tax laws or regulations.
- Securities traded on the AIM, OTC Markets and OTCQX markets may involve greater risk, potentially greater volatility and lower liquidity than securities traded on other public markets.
- The Company restated and reissued its financial statements for the three years ended December 31, 2010 and the six months ended June 30, 2010. The Company received a letter from its auditors indicating a material weakness in internal controls over financial reporting, in relation to such restatement.
- 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

Planet Payment, Inc.

**Condensed consolidated financial statements (unaudited) as of
December 31, 2010 and June 30, 2011 and for each of the six months
ended June 30, 2010 and 2011.**

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Planet Payment, Inc. condensed consolidated balance sheets (unaudited)

	December 31, 2010	June 30, 2011
Current assets:		
Cash and cash equivalents.....	\$5,182,499	\$7,123,759
Restricted cash.....	2,060,357	2,149,355
Accounts receivable, net of allowances of \$1.4 million as of December 31, 2010 and June 30, 2011.....	3,326,111	3,310,037
Prepaid expenses and current other assets.....	638,953	1,295,633
Total current assets.....	11,207,920	13,878,784
Other assets:		
Restricted cash.....	750,000	661,540
Property and equipment, net.....	1,384,310	1,384,594
Software development costs, net.....	4,635,799	4,844,927
Intangible assets, net.....	945,681	883,601
Security deposits and other assets.....	245,281	216,590
Total other assets.....	7,961,071	7,991,252
Total assets	\$19,168,991	\$21,870,036
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable.....	\$591,461	\$423,090
Accrued expenses.....	495,457	1,562,341
Due to merchants.....	2,294,252	2,362,600
Current portion of term debt and capital leases.....	917,834	330,167
Total current liabilities.....	4,299,004	4,678,198
Long-term liabilities:		
Long-term portion of capital leases.....	213,351	236,991
Convertible debt.....	8,979,926	—
Total long-term liabilities.....	9,193,277	236,991
Total liabilities	13,492,281	4,915,189
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Convertible preferred stock—4,000,000 shares authorized, \$0.01 par value: Series A—2,243,750 issued and outstanding as of December 31, 2010 and June 30, 2011; \$8,975,000 aggregate liquidation preference.....	22,438	22,438
Common stock—70,000,000 shares authorized, \$0.01 par value, 46,068,496 and 50,775,629 issued and outstanding as of December 31, 2010 and June 30, 2011, respectively.....	460,684	507,756
Additional paid-in capital.....	83,459,133	93,702,967
Warrants.....	1,607,723	1,617,499
Accumulated other comprehensive loss.....	(27,600)	(25,870)
Accumulated deficit.....	(79,845,668)	(78,869,943)
Total stockholders' equity.....	5,676,710	16,954,847
Total liabilities and stockholders' equity	\$19,168,991	\$21,870,036

The accompanying notes are an integral part of these financial statements

Planet Payment, Inc. condensed consolidated statements of operations (unaudited)

	Six months ended	
	June 30,	
	2010	2011
Revenue:		
Net revenue	\$13,548,588	\$19,867,007
Operating expenses:		
Cost of revenue:		
Payment processing services fees	4,849,162	5,643,131
Processing and service costs	3,502,063	4,387,906
Total cost of revenue	8,351,225	10,031,037
Selling, general and administrative expenses	6,849,134	8,631,157
Total operating expenses	15,200,359	18,662,194
(Loss) income from operations.....	(1,651,771)	1,204,813
Other (expense) income:		
Interest expense.....	(600,386)	(288,418)
Interest income	91	648
Other income, net (Notes 6 and 7).....	—	58,682
Total other expense, net.....	(600,295)	(229,088)
(Loss) income before provision for income taxes	(2,252,066)	975,725
Provision for income taxes	—	—
Net (loss) income	\$(2,252,066)	\$975,725
Basic net (loss) income per share applicable to common stockholders	\$(0.06)	\$0.02
Diluted net (loss) income per share applicable to common stockholders	\$(0.06)	\$0.02
Weighted average common stock outstanding (basic).....	39,230,963	47,837,945
Weighted average common stock outstanding (diluted).....	39,230,963	56,829,616

The accompanying notes are an integral part of these financial statements

Planet Payment, Inc. condensed consolidated statements of cash flows (unaudited)

	Six months ended June 30,	
	2010	2011
Cash flows from operating activities:		
Net (loss) income	\$(2,252,066)	\$975,725
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Stock option expense	353,129	216,715
Depreciation and amortization expense	825,287	1,180,421
(Recovery) provision for doubtful accounts	(36,703)	56,082
Non-cash interest expense on convertible debt	400,775	254,636
Non-cash interest expense on term debt	167,574	—
Warrant expense	66,294	9,776
Derecognition of note payable	—	(660,000)
Non-cash prepayment fee on conversion of convertible debt	—	601,318
Changes in operating assets and liabilities, net of effect of acquisition:		
Increase in settlement assets	(1,091,792)	(88,998)
Increase in accounts receivables, prepaid expenses and other current assets	(479,316)	(696,688)
Decrease in security deposits and other assets	24,612	28,691
(Decrease) increase in accounts payable and accrued expenses	(275,275)	888,737
Increase in due to merchants	996,576	68,348
Other	(13,219)	11,511
Net cash (used in) provided by operating activities	(1,314,124)	2,846,274
Cash flows from investing activities:		
(Increase) decrease in restricted cash	(2,703)	88,460
Purchase of property and equipment	(190,027)	(168,392)
Capitalized software development	(987,225)	(886,103)
Purchase of intangible assets	(16,876)	(49,443)
Net cash used in investing activities	(1,196,831)	(1,015,478)
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	238,310
Principal payments on capital lease obligations	(93,478)	(127,846)
Net cash (used in) provided by financing activities	(93,478)	110,464
Effect of exchange rate changes on cash and cash equivalents(*)	—	—
Net (decrease) increase in cash and cash equivalents	(2,604,433)	1,941,260
Beginning of period	3,752,423	5,182,499
End of period	\$1,147,990	\$7,123,759
Supplemental disclosure:		
Cash paid for:		
Interest	\$32,037	\$33,782
Income taxes	—	—
Non-cash investing and financing activities:		
Convertible debt converted to common stock	\$—	\$8,979,926
Common stock issued as payment of accounts payable		20,000
Warrants issued as payment of accounts payable	66,294	9,776
Assets acquired under capital leases	132,585	223,815
Derecognition of note payable	—	660,000
Prepayment fee on conversion of convertible debt	—	601,318

(*) For the six months ended June 30, 2010 and 2011, the effect of exchange rate changes on cash and cash equivalents was less than \$1,000.

The accompanying notes are an integral part of these financial statements

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

	Convertible preferred stock \$0.01 par value— 4,000,000 shares authorized Series A		Common stock \$0.01 par value— 70,000,000 shares authorized		Additional paid-In capital	Warrants	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity	Comprehensive income
	Shares issued	Shares par value	Issued	Par value						
	Balance—December 31, 2010	2,243,750	\$22,438	46,068,496						
Stock issued.....	—	—	4,484,776	44,848	9,811,033	—	—	—	9,855,881	
Warrants exercised.....	—	—	15,206	152	(152)	—	—	—	—	
Options exercised.....	—	—	207,151	2,072	216,238	—	—	—	218,310	
Warrant expense.....	—	—	—	—	—	9,776	—	—	9,776	
Stock option expense.....	—	—	—	—	216,715	—	—	—	216,715	
Cumulative translation adjustment.....	—	—	—	—	—	—	1,730	—	1,730	\$1,730
Net income.....	—	—	—	—	—	—	—	975,725	975,725	975,725
Comprehensive income.....	—	—	—	—	—	—	—	—	—	\$977,455
Balance—June 30, 2011	2,243,750	\$22,438	50,775,629	\$507,756	\$93,702,967	\$1,617,499	\$(25,870)	\$(78,869,943)	\$16,954,847	

The accompanying notes are an integral part of these financial statements

Planet Payment, Inc.

Notes to condensed consolidated financial statements

1. Business description and basis of presentation

Business description

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

Company structure

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

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

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

Basis of presentation

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

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

For the six months ended June 30, 2011, the Company evaluated subsequent events through October 24, 2011, the date on which these interim financial statements were available to be issued. There were no event or transactions, other than those events disclosed in Notes 1 and 11, occurring during this subsequent reporting period that require recognition or disclosure in the financial statements.

Unaudited consolidated interim financial information

The accompanying unaudited consolidated interim financial statements as of June 30, 2011 and for the six months ended June 30, 2010 and 2011 are unaudited and have been prepared on the same basis as the annual consolidated financial statements. In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, which are normal and recurring, necessary for a fair presentation of a statement of results of operations, financial position and cash flows. Operating results for the six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

2. Immaterial restatement

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

While we do not believe these errors to be material to our financial statements for any reported period, the Company's management concluded that the consolidated financial statements as of December 31, 2009 and 2010 and for the years ended December 31, 2008, 2009 and 2010 and for the six months ended June 30, 2010 should be restated.

Furthermore, as more fully described in the following two paragraphs, in preparation of becoming an SEC registrant, the Company made certain changes to the previously issued Condensed Consolidated Statement of Operation and Balance Sheet to conform to the SEC format for public filers. The "As Previously Reported" lines within the table below conform to the SEC format for public filers and therefore reflect the condensation of the previously reported line item, for which financial statements are not being presented in this report, and for the six months ended June 30, 2010.

On the Condensed Consolidated Statement of Operations, the Company condensed the previously reported two revenue lines into a single "Net revenue" (net of provisions for sales credits) line, condensed the previously reported two costs of sales lines into a single "Payment processing service fees" cost of revenue line which excludes the aforementioned third party revenue share arrangements fees, and disaggregated the previously reported total operating expense line items into the "Selling, general and

administrative expense” line and reclassified certain amounts to the “Processing and service cost” cost of revenue line, which was an added cost of revenue line item.

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

The following table sets forth the effects of the correcting adjustments (hereafter in this Note referred to as “adjustments”) on affected line items based on the new SEC format within our previously reported Consolidated Statements of Operations for the years ended December 31, 2008, 2009 and 2010, for which these financial statements are not being presented in this report, and the for the six months ended June 30, 2010.

	Year Ended December 31,						Six Months Ended June 30,	
	2008		2009		2010		2010	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
Net revenue.....	\$36,188,610	\$21,185,878(1)(6)	\$47,254,706	\$26,319,319(1)(6)	\$64,653,725	\$30,553,164(1)	\$27,686,281	\$13,548,588(1)
Cost of revenue:								
Processing services fees.....	24,712,399	9,808,434(1)(6)	30,962,835	10,175,430(1)(6)	44,152,201	10,051,640(1)	18,986,855	4,849,162(1)
Processing and service costs.....	—	6,434,693(2)	—	6,282,743(2)	—	6,980,981(2)	—	3,502,063(2)
Software licenses impairment.....	—	—	—	—	—	1,108,514(5)	—	—
Total cost of revenue.....	24,712,399	16,243,127	30,962,835	16,458,173	44,152,201	18,141,135	18,986,855	8,351,225
Selling, general and administrative expenses.....	21,752,048	15,365,254(2)(6)	18,886,377	12,822,449(2)(4)(6)	21,575,212	14,304,448(2)(6)	10,370,348	6,849,134(2)
Goodwill impairment	—	129,887(3)	—	—	—	—	—	—
Total operating expenses	46,464,447	31,738,268	49,849,212	29,280,622	65,727,413	32,445,583	29,357,203	15,200,359
Loss from operations.....	(10,275,837)	(10,552,390)	(2,594,506)	(2,961,303)	(1,073,688)	(1,892,419)	(1,670,922)	(1,651,771)
Other (expense) income:								
Interest expense	(988,510)	(1,015,633)(6)	(1,189,843)	(1,236,504)(6)	(1,134,786)	(1,169,578)(6)	(581,235)	(600,386)(6)
Interest income	140,191	140,191	18,702	18,702	429	429	91	91
Goodwill software licenses impairment	(129,887)	—(3)	—	—	(1,108,514)	—(5)	—	—
Total other expense, net	(978,206)	(875,442)	(1,171,141)	(1,217,802)	(2,242,871)	(1,169,149)	(581,144)	(600,295)
Loss from continuing operations, before provision for income taxes	(11,254,043)	(11,427,832)	(3,765,647)	(4,179,105)	(3,316,559)	(3,061,568)	(2,252,066)	(2,252,066)
Provision for income taxes.....	(1,681)	(1,681)	(4,095)	(4,095)	(3,219)	(3,219)	—	—
Loss from continuing operations.....	(11,255,724)	(11,429,513)	(3,769,742)	(4,183,200)	(3,319,778)	(3,064,787)	(2,252,066)	(2,252,066)
Income (loss) from discontinued operations, net of taxes	272,847	272,847	(257,596)	—(4)	—	—	—	—
Net loss	\$(10,982,877)	\$(11,156,666)	\$(4,027,338)	\$(4,183,200)	\$(3,319,778)	\$(3,064,787)	\$(2,252,066)	\$(2,252,066)
Basic net loss per share from continuing operations	\$(0.42)	\$(0.43)	\$(0.11)	\$(0.12)	\$(0.08)	\$(0.08)	\$(0.06)	\$(0.06)
Basic net income (loss) per share from discontinued operations	\$0.01	\$0.01	\$(0.01)	\$—	\$—	\$—	\$—	\$—
Basic and diluted net loss per share applicable to common stockholders	\$(0.41)	\$(0.42)	\$(0.12)	\$(0.12)	\$(0.08)	\$(0.08)	\$(0.06)	\$(0.06)

(1) Multi-currency processing services revenue was previously presented gross of amounts related to certain third party revenue share arrangements. The Company reconsidered the requirements of ASC 605-45 as it related to its multi-currency processing services revenue stream and concluded that based on the terms of its contractual arrangements ASC 605-45 was not applicable to its facts and circumstances, that the Company was earning a processing fee for its service, and that its multi-currency processing services revenue should be presented net of amounts related to certain third party revenue share arrangements. All

periods presented have been corrected to show the transaction fee that the Company earns for its processing services. The effect of the correction resulted in a reduction of previously reported revenues and corresponding reductions in cost of revenue in those periods. For 2008, 2009 and 2010 and the six months ended June 30, 2010, the reduction in revenue and the corresponding reduction in cost of revenue is \$14.7 million, \$20.7 million, \$34.1 million and \$14.1 million, respectively. Refer to the Company's summary of significant accounting policies for further information regarding the Company's accounting policy on revenue recognition.

(2) In preparation of becoming an SEC registrant, the Company condensed the previously reported operating expense line items into the Selling, General, & Administrative ("SG&A") line and reclassified certain amounts to the Processing and service costs line. The Company reclassified \$6.4 million, \$6.3 million, \$7.0 million and \$3.5 million, for the years ended December 31, 2008, 2009, and 2010 and the six months ended June 30, 2010, respectively, from SG&A to Processing and service costs for costs related to running the Company's technology platform infrastructure, including: compensation and related benefits related to the infrastructure personnel, internet connectivity, hosting and data storage expenses, amortization expense on acquired intangibles and capitalized software development costs and a portion of overhead. The amounts that remained in SG&A related to compensation and related benefit costs for our sales, marketing, customer service and administrative functions, facility costs, public company costs, administrative professional services fees and a portion of overhead.

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

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

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

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

The following table sets forth the effects of the adjustments on affected line items, based on the new SEC format, within our previously reported Consolidated Balance Sheets as of December 31, 2009 (not included in this report) and 2010.

	2009		As of December 31, 2010	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
Assets line items affected:				
Restricted cash (current).....	\$2,763,498	\$2,263,498(7)	\$2,810,357	\$2,060,357(7)

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

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

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

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

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

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

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

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

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

The following table sets forth the effects of the adjustments on affected line items, based on the new SEC format, within our previously reported Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2009 and 2010, for which these financial statements are not being presented in this report and the six months ended June 30, 2010.

	Year Ended December 31,						Six Months Ended June 30,	
	2008		2009		2010		2010	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
Cash flow statement line items affected:								
Net loss	\$(10,982,877)	\$(11,156,666)	\$(4,027,338)	\$(4,183,200)	\$(3,319,778)	\$(3,064,787)	\$(2,252,066)	\$(2,252,066)
Depreciation and amortization expense	1,166,309	1,203,644(15)	1,456,042	1,537,674(15)	1,672,423	1,769,650(15)		
Write-off of note receivable			212,629	257,596(17)				
Non-cash interest expense on term debt					324,444	295,743(20)		
Warrant expense	—	318,974(16)	—	231,366(16)				
Increase (decrease) in accounts payable and accrued expenses	608,233	289,259(16)	(797,452)	(1,073,787)(16)(17)				
Increase in due to merchants	1,310,368	1,484,157(18)	453,130	608,992(18)	530,755	201,103(18)		
Net cash (used in) provided by operating activities	(7,964,116)	(7,926,781)	(900,050)	(818,422)	287,842	280,594	(1,669,275)	(1,314,124)(15)(16)(27)(28)
Purchase of property and equipment			(184,544)	(143,370)(26)	(525,619)	(300,540)(25)		
Capitalized software development	(1,062,180)	(1,496,738)(22)	(1,386,777)	(1,804,822)(22)	(1,650,268)	(1,970,349)(19)(22)		
Purchase of intangible assets	(552,582)	(118,025)(22)	(617,628)	(121,305)(22)(26)	(474,360)	(79,618)(22)		
Net cash provided by (used in) investing activities	2,418,849	2,418,848	(2,684,216)	(2,564,764)	(2,650,247)	(2,350,507)	(1,326,686)	(1,196,831)(26)
Proceeds from issuance of common stock					6,030,002	6,058,702(20)	400,775	—(27)
Principal payments on capital lease obligations	—	(37,335)(15)	(20,157)	(101,789)(15)	(89,917)	(187,144)(15)	—	(93,478)(15)
Net cash provided by financing activities	2,934,857	2,897,522	7,080,317	6,879,238	3,820,081	3,527,589	486,744	(93,478)(15)(23)(27)
(Decrease) increase in cash and cash equivalents							(2,509,217)	(2,604,433)(28)
Cash and cash equivalents—Beginning of period							3,752,423	3,752,423
Cash and cash equivalents—End of period							1,243,206	1,147,990(28)
Supplemental disclosure line items affected:								
Cash paid for interest	41,059	68,183(21)	9,549	56,211(21)	30,850	65,642(21)	—	32,037(21)
Common stock issued to pay accrued interest					1,132,638	1,103,936(20)	—	—
Assets acquired under capital leases	—	222,990(24)	—	252,136(23)(24)(26)	—	223,965(23)(25)	—	132,585(26)
Warrants issued as payment of accounts payable							—	66,294(16)

(15) Represents a correction to reclassify \$37,000, \$0.1 million, \$0.1 million and \$0.1 million for the years ended December 31, 2008, 2009, 2010 and the six months ended June 30, 2010, respectively, from Principal payments on capital leases obligations to Depreciation and amortization expense in relation to the items within note (8) above.

(16) A correction to reclassify \$0.3 million, \$0.2 million and \$0.1 million for the years ended December 31, 2008, 2009 and the six months ended June 30, 2010, respectively, of warrant expense from a component of Changes in operating assets and liabilities to a component of Adjustments to reconcile net loss to net cash (used in) provided by operating activities.

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

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

- (19) Represents a correction of the capitalized software development cost associated with note (9) above.
- (20) Represents a correction to reclassify approximately \$28,000 from non-cash interest expense on term debt to Proceeds from issuance Common Stock. Item also impacts non-cash disclosure of Common stock issued to pay accrued interest by a reduction of approximately \$28,000.
- (21) Represents a correction of interest related to capital leases noted in note (8) above.
- (22) Represents the reclassification of software intangible asset of \$0.4 million, \$0.4 million and \$0.4 million for the years ended December 31, 2008, 2009, and 2010, respectively, to capitalized software development related to the change in presentation described above in the consolidated balance sheet related to intangible asset, net to conform to the SEC format.
- (23) Represents a correction that was made to remove the balances previously recorded as “Proceeds from loan payable” under cash flows from changes in Financing Activities of \$0.1 million, \$0.2 million, and \$0.1 million for the year ended December 31, 2009, 2010 and the six months ended June 30, 2010, respectively, and amounts are now disclosed as supplemental non-cash information as it related to assets acquired under capital leases. Subsequently there is no “Proceeds from loan payable” line within the Cash Flow Statement.
- (24) Represents the correction of unrecorded capital lease assets acquired of \$0.2 million and \$0.1 million for the year ended December 31, 2008, and 2009, respectively.
- (25) Represent a correction to reclassify capital lease assets acquired of \$0.2 million from purchase of property and equipment to a non-cash investing activity.
- (26) Represents the correction to reclassify capital lease assets acquired of \$0.1 million from investing activities to a non-cash investing activity.
- (27) Represent a correction to reclassify common stock issued to pay accrued interest on loans of \$0.4 million from financing activity to non-cash financing activity and non-cash interest adjustment in operating activities.
- (28) Represents the correction to reclassify \$0.1 million from cash and cash equivalents to restricted cash as it should have been recorded as a settlement asset.

3. Summary of significant accounting policies

Use of estimates

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

On an on-going basis, the Company evaluates its estimates, including those related to the accounts receivable allowance, recoverability of long-lived assets, and other assets and liabilities; the useful lives of intangible assets, property and equipment, capitalized software development costs; assumptions used to calculate stock-based expense including volatility, expected life and forfeiture rate; and income taxes (including recoverability of deferred taxes), among others. The Company bases its estimates on historical

experience and on other various assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Reclassifications

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

Revenue recognition

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

Multi-currency processing services revenue

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

Payment processing services revenue

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

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

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

Cash and cash equivalents

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

Restricted cash

Restricted cash is held either by processing partners, where the Company holds a share of underwriting risk and for other potential liabilities under processing agreements, or by the Company on behalf of an automated clearing house, or ACH transaction processing, customers. The restricted cash balance related to the ACH customer represents a contractual requirement with a sponsor bank to hold three times the

daily average of the last thirty days of transactions. The long-term portion of restricted cash is contractually required to be held by some of the Company's processing partners and will remain restricted as long as the associated contracts are effective. As such, the Company classifies these portions as long-term.

Translation of non-U.S. currencies

The translation of assets and liabilities denominated in foreign currency into U.S. Dollars is made at the prevailing rate of exchange at the balance sheet date. Revenue and expenses are translated at the average exchange rates during the period. Translation adjustments are reflected in accumulated other comprehensive (loss) income on our consolidated balance sheets, while gains and losses resulting from foreign currency transactions are included in our consolidated statements of operations. Amounts resulting from foreign currency transactions included in our statement of operations were not material for the six months ended June 30, 2010 and 2011.

Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make payments due to the Company. The amount of the allowance is based on historical experience and our analysis of the accounts receivable balance outstanding. While credit losses have historically been within the Company's expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates that it has in the past. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, additional allowances may be required which would result in an additional expense in the period that this determination was made. As of December 31, 2010 and June 30, 2011, the Company has included an allowance for doubtful accounts of approximately \$1.4 million.

Property, equipment and depreciation

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

Software development costs and amortization

The Company capitalizes costs of materials, consultants and payroll and payroll-related costs incurred by employees involved in developing internal use computer software. Costs incurred during the preliminary project and post-implementation stages are charged to processing and service costs, which are included in cost of revenue as incurred. Software development costs are amortized to processing and service costs, which are included in cost of revenue on a straight-line basis over estimated useful lives of approximately five years. The Company performs periodic reviews to ensure that unamortized software costs remain recoverable from future cash flows. Capitalized software development costs, net, were \$4.6 million and \$4.8 million as of December 31, 2010 and June 30, 2011, respectively. Amortization expense totaled \$0.5 million and \$0.7 million for the six months ended June 30, 2010 and 2011, respectively.

Goodwill, intangibles and long-lived assets

The Company records as goodwill the excess of purchase price over the fair value of the tangible and identifiable intangible assets acquired. Goodwill is tested annually for impairment as well as whenever events or circumstances change that would make it more likely than not that an impairment may have occurred. Goodwill is tested for impairment using a two-step approach. The first step tests for potential goodwill impairment by comparing the fair value of identified reporting units to its carrying value. If the fair value of the reporting units are less than its carrying value the second step is to record an impairment loss to the extent that the implied fair value of the goodwill of each reporting unit is less than its carrying value. As of December 31, 2010 and as of June 30, 2011, the Company had zero goodwill recorded.

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

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

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

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

Due to merchants

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

Income taxes

The Company accounts for income taxes on the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequence attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences

are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in results of operations in the period during which the tax change occurs. The Company's operations are conducted in various geographies with different tax rates. As the Company's operations evolve this may impact the Company's future effective tax rate.

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

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

Concentration of credit risk

The Company's assets that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents, restricted cash and receivables from clients. The Company places its cash, cash equivalents, and restricted cash with financial banking institutions that are insured by the Federal Depository Insurance Corporation ("FDIC") up to \$250,000. The Company also maintains cash balances at foreign banking institutions, which are not insured by the FDIC. As of December 31, 2010 and June 30, 2011, the Company's uninsured cash balances totaled \$3.8 million and \$6.6 million, respectively. The Company maintains an allowance for uncollectible accounts receivable based on expected collectability and perform ongoing credit evaluations of customers' financial condition.

3. Summary of significant accounting policies

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

	As of December 31, 2010	As of June 30, 2011
Customer A	33%	28%
Customer B (*).....	22	19
Customer C		10

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

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

	Six months ended June 30,	
	2010	2011
Customer A	29%	30%

Net (loss) income per share

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

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

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

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

	Six months ended	
	June 30,	
	2010	2011
Numerator:		
Net (loss) income	\$(2,252,066)	\$975,725
Amounts allocated to participating preferred stockholders under the two-class method	—	(116,002)
Net (loss) income applicable to common stockholders (basic).....	\$(2,252,066)	\$859,723
Dilutive effect of allocated income related to participating preferred stock	—	116,002
Net (loss) income applicable to common stockholders (dilutive).....	\$(2,252,066)	\$975,725
Denominator:		
Weighted average common stock outstanding (basic).....	39,230,963	47,837,945
Common equivalent shares from options and warrants to purchase common stock	—	2,140,527
Dilutive effect of assumed conversion of preferred stock	—	6,851,144
Weighted average common stock outstanding (diluted).....	39,230,963	56,829,616
Basic net (loss) income per share applicable to common stockholders	\$(0.06)	\$0.02
Diluted net (loss) income per share applicable to common stockholders	\$(0.06)	\$0.02

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

	Six months ended June 30,	
	2010	2011
Stock options.....	7,070,312	2,527,108
Warrants.....	3,797,535	182,539
Convertible debt.....	4,049,776	2,653,955
Convertible preferred stock.....	6,851,144	—
Total antidilutive securities.....	<u>21,768,767</u>	<u>5,363,602</u>

Stock-based expense and assumptions

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

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

	Six months ended June 30,	
	2010	2011
Processing and service costs	\$109,952	\$68,354
Selling, general and administrative expenses	309,471	158,137
Total stock-based expense	<u>\$419,423</u>	<u>\$226,491</u>

The following summarizes stock-based expense recognized by type:

	Six months ended June 30,	
	2010	2011
Stock options.....	\$353,129	\$216,715
Warrants(1)	66,294	9,776
Total stock-based expense	<u>\$419,423</u>	<u>\$226,491</u>

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

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

	As of June 30, 2011	
	Unamortized stock-based expense	Weighted average remaining amortization period (in years)
Stock options.....	\$1,033,044	2.04
Warrants.....	\$—	—

Stock-based expense assumptions and vesting requirements

Determining the appropriate fair value model and calculating the fair value of options and warrants require the input of highly subjective assumptions, including the expected life, expected stock price volatility, and the number of expected options and warrants that will be forfeited prior to the completion

of the vesting requirements. The Company uses the Black-Scholes Option Pricing Model to value its options and warrants.

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

Expected life

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

Expected stock price volatility

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

Risk-free interest rate and dividend yield

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

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

Vesting requirements

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

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

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

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

Black-Scholes assumptions used for options and warrants

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

	Six months ended	
	June 30,	
	2010	2011
Expected life (in years)	5.0 - 6.0	5.0 - 6.32
Expected volatility (percentage)	34.50 - 36.23	27.80 - 36.68
Risk-free interest rate (percentage)	2.22 - 3.04	2.17 - 2.72
Expected dividend yield.....	—	—

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

For further information, please refer to Notes 11 and 12.

Fair value measurements

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

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

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

Recent accounting pronouncements

In June 2011, the FASB issued an accounting pronouncement that provides new guidance on the presentation of comprehensive income (FASB ASC Topic 220) in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. Under the single-statement approach, entities

must include the components of net income, a total for net income, the components of other comprehensive income and a total for comprehensive income. Under the two-statement approach, entities must report an income statement and, immediately following, a statement of other comprehensive income. Under either method, entities must display adjustments for items reclassified from other comprehensive income to net income in both net income and other comprehensive income. The provisions for this pronouncement are effective for the fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company will adopt this pronouncement January 1, 2012.

4. Property and equipment

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

	Estimated useful life (years)	As of December 31, 2010	As of June 30, 2011
Equipment.....	5	\$700,087	\$773,639
Computer hardware.....	5	2,128,112	2,362,691
Furniture and fixtures.....	5 - 7	178,080	193,323
Leasehold improvements	5 - 7	355,123	331,081
		3,361,402	3,660,734
Less: Accumulated depreciation and amortization		(1,977,092)	(2,276,140)
Property and equipment, net		<u>\$1,384,310</u>	<u>\$1,384,594</u>

Property and equipment depreciation and amortization expense is as follows:

	Six months ended June 30,	
	2010	2011
Depreciation and amortization expense	\$233,729	\$327,874

5. Intangible assets

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

The gross book value, accumulated amortization and amortization periods of intangible assets were as follows:

	As of December 31, 2010			As of June 30, 2011			Amortization period (years)
	Gross book value	Accumulated amortization	Net book value	Gross book value	Accumulated amortization	Net book value	
Trademarks and patents.....	\$661,379	\$(149,375)	\$512,004	\$710,822	\$(174,163)	\$536,659	15
Customer contracts....	867,354	(433,677)	433,677	867,354	(520,412)	346,942	5
Intangible assets, net .	<u>\$1,528,733</u>	<u>\$(583,052)</u>	<u>\$945,681</u>	<u>\$1,578,176</u>	<u>\$(694,575)</u>	<u>\$883,601</u>	

Amortization expense related to intangible assets is as follows:

	Six months ended	
	June 30,	
	2010	2011
Amortization expense	\$108,156	\$111,523

6. Long and short-term debt

Long and short-term debt consisted of the following:

	December 31, 2010	June 30, 2011
Note payable due to First Horizon Merchant Services, Inc. ("FHMS") and First Tennessee Bank National Association ("FTB") payable on demand(1)	\$660,000	\$—
Note payable due to FHMS and FTB payable on demand(1)	40,000	40,000
Capital leases to various lessors secured by financed equipment and software with interest rates ranging from 9.29% to 20.04%. Principal and interest are payable monthly through January 2014	431,185	527,158
Total long and short-term debt and capital leases	1,131,185	567,158
Less current portion of debt and capital leases	(917,834)	(330,167)
Long-term portion of capital leases	\$213,351	\$236,991

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

Interest expense by term debt component is as follows:

	Six months ended	
	June 30,	
	2010	2011
Inter-Atlantic Fund L.P. note payable (non-cash)	\$167,574	\$—
Capital leases	32,037	33,782
Total term debt interest expense	\$199,611	\$33,782

7. Convertible debt

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

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

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

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

In April 2011, the convertible debt holders converted their entire \$9.0 million under convertible notes issued in 2007 and 2008 into an aggregate of 4,049,776 shares of common stock. In addition, we issued 127,318 shares of common stock valued at \$0.3 million in lieu of cash payments for accrued interest and 297,682 shares of common stock valued at \$0.6 million as a prepayment fee negotiated at the time of conversion. The shares issued for the accrued interest and the prepayment fee were valued at the average closing price of the Company's common stock on AIM under the symbol "PPTR" during the period immediately prior to the conversion. For the six months ended June 30, 2011, the Company recorded an other expense of \$0.6 million which is included in Other income, net on the condensed consolidated statement of operations.

Total interest expense related to convertible debt is as follows:

	Six months ended June 30,	
	2010	2011
Convertible debt interest expense (non-cash)	\$400,775	\$254,636

8. Commitments and contingencies

Employment agreements

Pursuant to employment agreements with certain employees, the Company had a commitment to pay severance of approximately \$1.3 million and \$1.8 million as of December 31, 2010 and June 30, 2011, respectively, in the event of termination without cause, as defined in the agreements. Additionally, in the event of termination upon a change of control, as defined in the agreements, the Company had a commitment to pay severance of \$1.6 million and \$1.9 million as of December 31, 2010 and June 30, 2011, respectively.

Contingent liabilities

In instances where the Company is acting as the merchant acquiror, the Company bears a risk that a merchant may engage in fraud by submitting for payment certain credit card transactions that may have been manipulated, are fictitious, or otherwise not bona fide. Similarly, the Company bears the risk that a merchant becomes insolvent, owing money to cardholders. To the extent that such fraud or insolvency occurs in circumstances where the Company is liable to make good any resultant losses, this could affect the Company's operating results and cash flows. The Company has required certain merchants to post cash reserves with the acquirer against such liabilities and has itself paid the acquirer a security deposit in connection there with, as shown on the consolidated balance sheets. Under FASB ASC 460, *Guarantees*, the Company evaluates its ultimate risk and records an estimate of potential loss for chargeback's related to merchant fraud based upon an assessment of actual historical fraud rates compared to recent bank card processing volume levels. No contingent liability has been recorded as of December 31, 2009 and 2010 and as of June 30, 2011, as the risk of material loss is considered remote. The Company monitors this contingent liability on a quarterly basis and will provide for a reserve if deemed necessary.

Outstanding litigation

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

9. Common stock

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

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

10. Related party transactions

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

	Six months ended	
	June 30,	
	2010	2011
Rent.....	\$237,019	\$242,906
Consulting and professional fees.....	—	51,984

11. Stock incentive plan

2000 Stock Incentive Plan

Options granted under the 2000 Stock Incentive Plan were all non-qualified stock options. As of June 30, 2011, 120,000 options are outstanding and zero options are available for future grant under the 2000 Stock Incentive Plan.

2006 Equity Incentive Plan

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

Under the terms of the 2000 Stock Incentive Plan and the 2006 Equity Incentive Plan, participants may be granted restricted shares or options to purchase the Company’s common stock at the fair market value on the date of grant. As of December 31, 2010 and June 30, 2011, 8.1 million shares and 11.1 million shares, respectively, were reserved for issuance under the Plan. As of June 30, 2011, no restricted shares have been issued and no options have been issued below fair value. As of June 30, 2011, 3.3 million shares of common stock are available for future issuance under the Plan.

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

2011 Long Term Incentive Restricted Stock Purchase Agreement

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

A summary of stock option activity for both plans for the six months ended June 30, 2011 is as follows:

	Number of options	Weighted- average exercise price	Weighted- average remaining contractual life (years)	Aggregate intrinsic value
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Outstanding as of December 31, 2010	<u>7,301,883</u>	\$2.25	6.67	\$275,523
Options granted	780,500	2.19		
Options exercised	(207,151)	1.09		
Options cancelled	(108,058)	3.19		
Options forfeited	<u>(25,833)</u>	2.08		
Outstanding as of June 30, 2011	<u>7,741,341</u>	2.26	6.62	1,645,350
Options exercisable as of June 30, 2011	<u>5,958,051</u>	2.31	6.21	1,303,410
Vested and expected to vest as of June 30, 2011	<u>7,741,341</u>	2.26	6.62	1,645,350

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

	Six months ended	
	June 30,	
	2010	2011
Weighted-average grant date fair value for options granted during the period	\$0.78	\$0.72
Total fair value of options vested during the period	94,615	349,548
Total intrinsic value of options exercised during the period	11,866	229,176

The exercise prices range from \$0.60 to \$4.40 for stock options outstanding and exercisable as of June 30, 2011.

The aggregate intrinsic value of stock options outstanding, vested and unvested expected to vest, and exercisable, represent the total pre-tax intrinsic value, based on the closing price of \$1.32 and \$2.20 of PPTR as reported on AIM on June 30, 2010 and 2011, respectively.

12. Warrants

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

A summary of warrant activity during the six months ended June 30, 2011 is as follows:

	Number of warrants	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
Outstanding as of December 31, 2010	<u>2,119,312</u>	\$1.64	3.40	\$399,733
Warrants granted	3,981	0.25		
Warrants exercised	—	—		
Warrants cancelled	—	—		
Warrants forfeited	—	—		
Outstanding as of June 30, 2011	<u>2,123,293</u>	1.64	3.10	1,865,519
Warrants exercisable as of June 30, 2011	<u>2,123,293</u>	1.64	3.10	1,865,519
Vested and expected to vest as of June 30, 2011	<u>2,123,293</u>	1.64	3.10	1,865,519

	Six months ended	
	June 30,	
	2010	2011
Weighted average grant date fair value for warrants granted during the period	\$1.60	\$2.84
Total fair value of warrants vested during the period	28,215	11,292

Total intrinsic value of warrants exercised during the period..... — —

The exercise prices range from \$0.25 to \$5.50 for warrants outstanding and exercisable as of June 30, 2011.

The aggregate intrinsic value of warrants outstanding, vested and unvested expected to vest, and exercisable, represent the total pre-tax intrinsic value, based on the closing price of \$1.32 and \$2.20 of PPTR as reported on AIM on June 30, 2010 and 2011, respectively.

13. Segment information

General information

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

Information about revenue, profit and assets

The CODM evaluates performance and allocate resources based on net revenue and gross profit of each segment. For purposes of analyzing segments, gross profit of the multi-currency processing services segment is equal to net revenue, while the gross profit for the payment processing services segment includes net revenue of the segment less the cost of revenue component "processing services fees", which may include interchange and card network fees and assessment. Net revenue and gross profit by geographical region is based upon where the transaction originated. Lastly, the Company does not evaluate performance or allocate resources using segment asset data. Long-lived assets are primarily located in North America and as of December 31, 2010 and June 30, 2011 long-lived asset amounts are \$7.0 million and \$7.1 million, respectively.

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

	Six months ended	
	June 30,	
	2010	2011
Net Revenue:		
APAC.....	\$6,478,100	\$9,203,328
North America	979,763	1,986,708
CEMEA	8,962	1,870,796
Total multi-currency processing services revenue.....	7,466,825	13,060,832
Payment processing services revenue	6,081,763	6,806,175
Net revenue	<u>\$13,548,588</u>	<u>\$19,867,007</u>
Gross Profit:		
APAC.....	\$6,478,100	\$9,203,328
North America	979,763	1,986,708

CEMEA	8,962	1,870,796
Total multi-currency processing services gross profit	7,466,825	13,060,832
Payment processing services gross profit	1,232,601	1,163,044
Total gross profit.....	<u>\$8,699,426</u>	<u>\$14,223,876</u>

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

Concentration of revenue by customer by geographical region:

	Six months ended June 30,	
	2010	2011
Multi-currency processing services revenue:		
APAC:		
Customer A	60%	65%
Customer D	10%	
Customer E	12%	13%
North America:		
Customer F	25%	11%
Customer G	18%	46%
Customer H	39%	27%
CEMEA:		
Customer C		100%

EXHIBIT B
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
PLANET PAYMENT, INC.

Planet Payment, Inc. a corporation organized and existing under the laws of the State of Delaware (the “*Corporation*”) hereby certifies as follows:

FIRST The name of the corporation is Planet Payment, Inc., and it is a Delaware corporation. The original certificate of incorporation was filed with the Secretary of State on October 12, 1999 under the name “Planet Group, Inc.”

SECOND This Amended and Restated Certificate of Incorporation restates and integrates and further amends the provisions of the Corporation’s Certificate of Incorporation as heretofore amended or supplemented. This Certificate has been duly adopted in accordance with the provisions of Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware, by resolutions of the directors and stockholders of the Corporation.

THIRD The Certificate of Incorporation of the Corporation is hereby amended and restated to read in its entirety, as follows:

1. The name of the Corporation is Planet Payment, Inc.
2. The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.
3. The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.
4. The total number of shares of stock, which the Corporation shall have authority to issue, is 80,000,000 shares of Common Stock of \$0.01 par value each (“*Common Stock*”) and 4,000,000 shares of Convertible Preferred Stock of \$0.01 par value each (“*Preferred Stock*”). The Preferred Stock shall have attached thereto all such rights and privileges as may be determined by resolution of the Board of Directors of the Corporation, prior to the issuance thereof and as set forth in a Certificate of Designation relating to the Preferred Stock to be executed and filed pursuant to Section 151(g) of the General Corporation Law of the State of Delaware. As of the date of filing of this Amended and Restated Certificate of Incorporation, an aggregate of 2,243,750 shares of Preferred Stock have been designated as “Series A Preferred Stock”, with the rights, preferences, privileges and restrictions set forth on the Certificate of Designation attached hereto as Exhibit A.
5. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under

Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived any improper personal benefit.

6. Any amendment, alteration or repeal of any provision of, or addition of any provision to, the Corporation's certificate of incorporation, or any other action which would adversely affect the rights of holders of the Common Stock with respect to voting, dividends, liquidation preferences, conversion or redemption, shall not be adopted or effected unless approved by (i) the holders of shares of Common Stock, present in person or by proxy at any meeting of stockholders duly called and held, carrying not less than 67% of the votes of shares of Common Stock held by persons present in person or by proxy at such meeting; or (ii) a written resolution relating to such matters signed by the holders of not less than 67% of the issued and outstanding shares of Common Stock in the Company.

IN WITNESS WHEREOF, said corporation has caused this Amended and Restated Certificate of Incorporation to be signed by its duly authorized officer this 3rd day of June, 2011 and the foregoing facts stated herein are true and correct.

PLANET PAYMENT, INC.

By: /s/ Philip D. Beck _____
Name: Philip D. Beck
Title: President

Exhibit A

**CERTIFICATE OF DESIGNATION OF
SERIES A PREFERRED STOCK OF
PLANET PAYMENT, INC.**

A. Designation and Amount. Of the 4,000,000 shares of Preferred Stock, par value \$0.01 per share, authorized to be issued by this corporation, 2,243,750 shares are hereby designated as “Series A Preferred Stock.” Such number of shares may be increased or decreased by resolution of the Corporation’s Board of Directors, provided that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than the number of shares then outstanding.

B. Rights, Preferences and Restrictions of Series A Preferred Stock. The rights, preferences, privileges and restrictions granted to and imposed on the Series A Preferred Stock are as follows:

1. Definitions.

- (a) “**Board**” shall mean the Board of Directors of the Corporation.
- (b) “**Corporation**” shall mean this corporation.
- (c) “**Common Stock**” shall mean the Common Stock, \$0.01 par value, of the Corporation.
- (d) “**Common Stock Dividend**” shall mean a stock dividend declared and paid on the Common Stock that is payable in shares of Common Stock.
- (e) “**Common Stock Event**” shall mean (i) the issue by the Corporation of additional shares of Common Stock as a Common Stock Dividend or other distribution on outstanding Common Stock, (ii) a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock, or (iii) a combination of the outstanding shares of Common Stock into a smaller number of shares of Common Stock.
- (f) “**Conversion Price**” shall mean \$1.31 as of the date of filing of this Amended and Restated Certificate of Incorporation, as adjusted pursuant to Section 4.4 below.
- (g) “**Convertible Securities**” shall mean stock or other securities convertible into or exchangeable for shares of Common Stock.
- (h) “**Merger**” shall mean a consolidation or merger (or similar transaction or series of transactions) of the Corporation with or into any other corporation or corporations or the sale of all of the capital stock of the Corporation in a single transaction or series of related transactions, in each case under circumstances in which the holders of the Corporation’s outstanding shares immediately before such transaction or series of related transactions do not, immediately after such transaction or series of related transactions, retain stock representing a majority of the voting power of the surviving corporation (or its parent corporation if the surviving corporation is wholly owned by the parent corporation) of such

transaction or series of related transactions, on account of the shares of capital stock of the Corporation held by them immediately prior to such transaction or series of related transactions.

(i) “**Original Issue Date**” shall mean November 10, 2004, the date on which the first share of Series A Preferred Stock was issued by the Corporation.

(j) “**Original Issue Price**” shall mean \$4.00, which is the price per share for the Series A Preferred Stock paid by the Purchasers in Section 1 of the Subscription Agreement (as defined below), as adjusted to the extent necessary to reflect any Preferred Stock Event.

(k) “**Preferred Stock**” shall mean the Series A Preferred Stock and any other series of Preferred Stock authorized under the Certificate of Incorporation of the Corporation.

(l) “**Preferred Stock Event**” shall mean any of the following events occurring after the Original Issue Date: (A) the issuance by the Corporation of additional shares of Series A Preferred Stock as a dividend or other distribution on the outstanding shares of Series A Preferred Stock, (B) a subdivision of the outstanding shares of Series A Preferred Stock into a greater number of shares of Series A Preferred Stock, (C) a combination of the outstanding shares of Series A Preferred Stock into a small number of shares of Series A Preferred Stock, and (D) the conversion or exchange of the outstanding shares of Series A Preferred Stock into a different number of shares of some other class or classes of stock whether by recapitalization, reclassification or otherwise; provided, however, that in no event shall a Preferred Stock Event be deemed to include any liquidation, dissolution or winding up of the Corporation provided for in Section 2 or any conversion or other adjustment event described in Section 4.

(m) “**Rights or Options**” shall mean warrants, options or other rights to purchase or acquire shares of Common Stock or Convertible Securities.

(n) “**Series A Preferred Stock**” shall mean the Series A Preferred Stock, \$0.01 par value per share, of the Corporation.

(o) “**Subscription Agreement**” shall mean that certain Subscription Agreement dated November 10, 2004, among the Company and the persons and entities listed on Schedule 1 thereto, as amended by that certain letter agreement dated October 31, 2005, as further amended from time to time. The Subscription Agreement is incorporated by reference into this Certificate of Designation. A copy of the Subscription Agreement is on file in the office of the Secretary of the Corporation, and may be obtained by holders of Series A Preferred Stock upon written request to the Secretary of the Corporation.

(p) “**Valuation**” shall have the meaning ascribed to such term in the Subscription Agreement.

2. Liquidation Rights. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the funds and assets that may be legally distributed to the Corporation’s stockholders (the “**Available Funds and Assets**”) shall be distributed to stockholders in the following manner:

2.1 **Liquidation Preference.** Subject to prior payment in full of the liquidation preference of any shares of any series of Preferred Stock (or any other stock) ranking prior and superior to the Series A Preferred Stock, the holders of each share of Series A Preferred Stock then outstanding shall be entitled to be paid, out of the Available Funds and Assets, and prior and in preference to any payment or distribution (or any setting apart of any payment or distribution) of any Available Funds and Assets on any shares of Common Stock, an amount per share equal to the Original Issue Price of the Series A

Preferred Stock, plus all declared but unpaid dividends on the Series A Preferred Stock. If upon any liquidation, dissolution or winding up of the Corporation, and after payment in full of the preferential amount payable to any shares of any series of Preferred Stock (or any other stock) ranking prior and superior to the Series A Preferred Stock, the Available Funds and Assets shall be insufficient to permit the payment to holders of the Series A Preferred Stock and to holders of each share of Preferred Stock then outstanding which ranks *pari passu* with the Series A Preferred Stock as to liquidation preference (“*Pari Passu Preferred Stock*”) of their full preferential amount described in this subsection, then all of the remaining Available Funds and Assets shall be distributed among the holders of the then outstanding Series A Preferred Stock and the *Pari Passu Preferred Stock* pro rata, according to the aggregate full preferential amount payable with respect to all the then-outstanding shares of each such series of Preferred Stock.

2.2 Remaining Assets. If there are any Available Funds and Assets remaining after the payment or distribution (or the setting aside for payment or distribution) to the holders of the Series A Preferred Stock of their full preferential amounts described subsection 2.1, then all such remaining Available Funds and Assets shall be distributed among the holders of the then outstanding Common Stock on a pro rata basis according to the number of shares of Common Stock held by each holder thereof.

2.3 Merger or Sale of Assets. A Merger or a sale, lease, exclusive license or other disposition of all or substantially all of the assets of the Corporation, in a single transaction or a series of transactions, shall also be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 2; provided that the holders of a majority of the Series A Preferred Stock may elect by written notice not to treat such event as a liquidation, dissolution or winding up, for the purposes of this Section.

2.4 Non-Cash Consideration. If any assets of the Corporation distributed to stockholders in connection with any liquidation, dissolution, or winding up of the Corporation are other than cash, then the value of such assets shall be their fair market value as determined by the Board in good faith, except that any securities to be distributed to stockholders in a liquidation, dissolution, or winding up of the Corporation shall be valued as follows:

(a) The method of valuation of securities not subject to investment letter or other similar restrictions on free marketability shall be as follows:

(i) unless otherwise specified in a definitive agreement for the acquisition of the Corporation, if the securities are then traded on a national securities exchange or the Nasdaq National Market (or a similar national quotation system), then the value shall be deemed to be the average of the closing prices of the securities on such exchange or system over the 30 day period ending three days prior to the distribution; and

(ii) if (i) above does not apply but the securities are actively traded over-the-counter, then, unless otherwise specified in a definitive agreement for the acquisition of the Corporation, the value shall be deemed to be the average of the closing bid prices over the 30 calendar day period ending three (3) trading days prior to the distribution; and

(iii) if there is no active public market as described in clauses (i) or (ii) above, then the value shall be the fair market value thereof, as determined in good faith by the Board.

(b) The method of valuation of securities subject to investment letter or other restrictions on free marketability shall be to make an appropriate discount from the market value determined as above in subparagraphs (a)(i), (ii) or (iii) of this subsection to reflect the approximate fair market value thereof, as determined in good faith by the Board.

3. Voting Rights.

3.1 Voting Generally. Each holder of shares of Series A Preferred Stock shall be entitled to the number of votes equal to the number of whole shares of Common Stock into which such shares of Series A Preferred Stock could be converted pursuant to the provisions of Section 4 at the record date for the determination of the stockholders entitled to vote on such matters or, if no such record date is established, the date such vote is taken or any written consent of stockholders is solicited. Subject to the other provisions of this Certificate of Incorporation, each holder of Series A Preferred Stock shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock, and shall be entitled to notice of any stockholders' meeting in accordance with the bylaws of the Corporation (as in effect at the time in question) and applicable law, and shall be entitled to vote, together with the holders of Common Stock, with respect to any question upon which holders of Common Stock have the right to vote, except as may be otherwise provided by applicable law. Except as otherwise expressly provided herein or as required by law, the holders of Series A Preferred Stock shall vote together with the holders of shares of other series of Preferred Stock and the holders of Common Stock, and not as a separate series or class.

4. Conversion Rights. The outstanding shares of Series A Preferred Stock shall be convertible into Common Stock as follows:

4.1 Optional Conversion. At the option of the holder thereof, each share of Series A Preferred Stock shall be convertible, at any time or from time to time, into fully paid and nonassessable shares of Common Stock as provided herein. Each holder of Series A Preferred Stock who elects to convert the same into shares of Common Stock shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or any transfer agent for the Series A Preferred Stock or Common Stock, and shall give written notice to the Corporation at such office that such holder elects to convert the same and shall state therein the number of shares of Series A Preferred Stock being converted. Thereupon the Corporation shall promptly issue and deliver at such office to such holder a certificate or certificates for the number of shares of Common Stock to which such holder is entitled upon such conversion. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the certificate or certificates representing the shares of Series A Preferred Stock to be converted, and the person entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Common Stock on such date.

4.2 Automatic Conversion.

(a) Each share of Series A Preferred Stock shall automatically be converted into fully paid and nonassessable shares of Common Stock, as provided herein: (i) immediately prior to the closing of a firm commitment underwritten public offering pursuant to an effective registration statement filed under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Corporation (an "*IPO*") in which the aggregate total valuation of the Company's capital stock, based on the public offering price per share (before deduction of underwriters' discounts and commissions) and assuming the conversion or exercise of all Preferred Stock and Rights or Options into Common Stock, equals or exceeds an amount equal to two (2) multiplied by the Valuation and aggregate net proceeds received by the Corporation are at least \$25 million (a "*Qualifying IPO*"); or

(ii) upon the Corporation's receipt of the written consent of the holders of not less than 2/3rds of the then outstanding shares of Series A Preferred Stock to the conversion of all then outstanding Series A Preferred Stock under this Section 4.

(b) Upon the occurrence of any event specified in subparagraph 4.2(a) above, the outstanding shares of Series A Preferred Stock shall be converted into Common Stock automatically without the need for any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the Corporation or its transfer agent; provided, however, that the Corporation shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon such conversion unless the certificates evidencing such shares of Series A Preferred Stock are either delivered to the Corporation or its transfer agent as provided below, or the holder notifies the Corporation or its transfer agent that such certificates have been lost, stolen or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection with such certificates. Upon the occurrence of such automatic conversion of the Series A Preferred Stock, the holders of Series A Preferred Stock shall surrender the certificates representing such shares at the office of the Corporation or any transfer agent for the Series A Preferred Stock or Common Stock. Thereupon, there shall be issued and delivered to such holder promptly at such office and in its name as shown on such surrendered certificate or certificates, a certificate or certificates for the number of shares of Common Stock into which the shares of Series A Preferred Stock surrendered were convertible on the date on which such automatic conversion occurred.

4.3 Conversion Price. Each share of Series A Preferred Stock shall be convertible in accordance with subsection 4.1 or subsection 4.2 above into the number of shares of Common Stock which results from dividing the Original Issue Price for the Series A Preferred Stock by the Conversion Price that is in effect at the time of conversion. The Conversion Price of the Series A Preferred Stock shall be subject to adjustment from time to time as provided below. Following each adjustment of the Conversion Price, such adjusted Conversion Price shall remain in effect until a further adjustment of the Conversion Price hereunder.

4.4 Adjustment Upon Common Stock Event. Upon the happening of a Common Stock Event (as hereinafter defined) after the Original Issue Date, the Conversion Price of the Series A Preferred Stock shall, simultaneously with the happening of such Common Stock Event, be adjusted by multiplying the Conversion Price of the Series A Preferred Stock in effect immediately prior to such Common Stock Event by a fraction, (i) the numerator of which shall be the number of shares of Common Stock issued and outstanding immediately prior to such Common Stock Event, and (ii) the denominator of which shall be the number of shares of Common Stock issued and outstanding immediately after such Common Stock Event, and the product so obtained shall thereafter be the Conversion Price for the Series A Preferred Stock.

4.5 Adjustments for Other Dividends and Distributions. If, at any time or from time to time after the Original Issue Date, the Corporation pays a dividend or makes another distribution to the holders of the Common Stock payable in securities of the Corporation, other than an event constituting a Common Stock Event, then in each such event provision shall be made so that the holders of Series A Preferred Stock shall receive upon conversion thereof, in addition to the number of shares of Common Stock receivable upon conversion thereof, the amount of securities of the Corporation which they would have received had their Series A Preferred Stock been converted into Common Stock on the date of such event (or such record date, as applicable) and had they thereafter, during the period from the date of such event (or such record date, as applicable) to and including the conversion date, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Section 4 with respect to the rights of the holders of Series A Preferred Stock or with respect to such other securities by their terms.

4.6 Adjustment for Reclassification, Exchange and Substitution. If, at any time or from time to time after the Original Issue Date, the Common Stock issuable upon the conversion of the Series A Preferred Stock is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than by a Common Stock Event or a stock dividend, reorganization, merger, or consolidation provided for elsewhere in this Section 4), then in any such event each holder of Series A Preferred Stock shall have the right thereafter to convert such stock into the kind and amount of stock and other securities and property receivable upon such recapitalization, reclassification or other change by holders of the number of shares of Common Stock into which such shares of Series A Preferred Stock could have been converted immediately prior to such recapitalization, reclassification or change, all subject to further adjustment as provided herein or with respect to such other securities or property by the terms thereof.

4.7 Reserved.

4.8 Reserved.

4.9 Certificate of Adjustment. In each case of an adjustment or readjustment of the Conversion Price for Series A Preferred Stock, the Corporation, at its expense, shall cause its Chief Financial Officer to compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to each registered holder of Series A Preferred Stock at the holder's address as shown in the Corporation's books.

4.10 Fractional Shares. No fractional shares of Common Stock shall be issued upon any conversion of Series A Preferred Stock. In lieu of any fractional share to which the holder would otherwise be entitled, the Corporation shall pay the holder cash equal to the product of such fraction multiplied by the Common Stock's fair market value as determined in good faith by the Board as of the date of conversion.

4.11 Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of Series A Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series A Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of Series A Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

4.12 Notices. Any notice required by the provisions of these Certificate of Incorporation to be given to the holders of shares of Series A Preferred Stock shall be deemed given upon the earlier of actual receipt or deposit in the United States mail, by certified or registered mail, return receipt requested, postage prepaid, or delivery by a recognized express courier, fees prepaid, addressed to each holder of record at the address of such holder appearing on the books of the Corporation.

4.13 No Impairment. The Corporation shall not avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but shall at all times in good faith assist in carrying out all such action as may be reasonably necessary or appropriate in order to protect the rights, preferences and privileges of the holders of Series A Preferred Stock against impairment.

5. Dividends. If the Board declares and pays any dividend on the Common Stock, such dividend shall also be declared and paid on each outstanding share of Series A Preferred Stock based on the number of whole shares of Common Stock into which such share of Series A Preferred Stock then could be converted pursuant to the provisions of subsection 4.1. Except as provided in the preceding sentence, holders of Series A Preferred Stock shall not be entitled to receive any dividends. No rights or interest shall accrue to the holders of the Series A Preferred Stock by reason of the fact that the Corporation shall fail to declare or pay dividends on the Common Stock or Series A Preferred Stock in any calendar year or any fiscal year of the Corporation, whether or not the earnings of the Corporation in any calendar year or fiscal year were sufficient to pay such dividends in whole or in part.

6. Reserved.

7. Miscellaneous.

7.1 No Reissuance of Series A Preferred Stock. No share or shares of Series A Preferred Stock acquired by the Corporation by reason of purchase, conversion or otherwise shall be reissued, and all such shares shall be cancelled, retired and eliminated from the shares which the Corporation shall be authorized to issue.

7.2 Preemptive Rights. No stockholder of the Corporation shall have a right to purchase shares of capital stock of the Corporation sold or issued by the Corporation except to the extent that such a right may from time to time be set forth in a written agreement between the Corporation and a stockholder.

7.3 Adjustments for Stock Splits, Etc. Except as otherwise required by law, wherever in this Certificate of Designation there is a reference to a specific number of shares Series A Preferred Stock, then, upon the occurrence of any Common Stock Event or Preferred Stock Event, the specific number of shares so referenced herein shall automatically be proportionally adjusted to reflect the effect on the outstanding shares of such class or series of stock by such Common Stock Event or Preferred Stock Event, as applicable.

PLANET PAYMENT, INC.

QUARTERLY REPORT

**FOR THE QUARTER
ENDED JUNE 30, 2011**

CERTIFICATIONS

I, Philip D Beck, certify that:

1. I have reviewed this Quarterly Report for the quarter ended June 30, 2011 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: October 25, 2011



Philip D Beck, CEO

I, Robert Cox, certify that:

1. I have reviewed this Quarterly Report for the quarter ended June 30, 2011 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: October 25, 2011



Robert Cox, CFO

1. I have reviewed this Quarterly Report for the quarter ended June 30, 2011 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: October 25, 2011



Graham N. Arad, SVP & General Counsel