# Planet Payment, Inc.

## Report For
## The Quarterly Period Ended September 30, 2011

**Principal Offices**
670 Long Beach Boulevard
Long Beach, NY 11561

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

www.planetpayment.com
investors@planetpayment.com

# Planet Payment, Inc.

**Page(s)**

## QUARTERLY REPORT FOR THIRD QUARTER OF 2011

Condensed Consolidated Financial Statements (unaudited)
As of December 31, 2010 and September 30, 2011 and for the nine months ended September 30, 2010 and 2011

# PLANET PAYMENT, INC.

## REPORT FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

**Issuer:**
Planet Payment, Inc.

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**Investor Relations Contact**

Graham N. Arad, SVP & General Counsel
investors@planetpayment.com

**Shares Outstanding:**

(i) As of September 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: 51,714,051
   b. Preferred Stock: 2,243,750 (convertible into 6,851,144 shares of Common Stock)

(iv) Public Float: 37,879,662 shares of common stock

(v) Beneficial Shareholders of Record: 255

**Condensed Consolidated Financial Statements:**

Attached hereto as Exhibit A are the Condensed Consolidated Financial Statements (unaudited) as of December 31, 2010 and September 30, 2011 and for the nine months ended September 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 this report and in the Annual and Quarterly Reports 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 nine months ended September 30, 2010 and 2011 our net revenue was $21.0 million and $29.5 million, respectively. In the same periods, our net (loss) income was $(2.8) million and $0.6 million, respectively, and our Adjusted EBITDA was $(0.1) million and $3.2 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:

| | Nine months ended September 30, | |
|---|---|---|
| | **2010** | **2011** |
| **KEY METRICS:** | | |
| Consolidated gross billings(1) | $43,225,609 | $70,903,471 |
| Adjusted EBITDA (non-GAAP)(2) | $(70,398) | $3,187,182 |
| Capitalized expenditures | $1,712,944 | $1,573,772 |
| Total active merchant locations (at period end) (3) | 13,610 | 25,013 |
| **Multi-currency processing services key metrics**: | | |
| Active merchant locations (at period end) (3) | 9,982 | 15,036 |
| Settled transactions processed(4) | 4,750,334 | 7,680,971 |
| Gross foreign currency mark-up(5) | $34,072,645 | $60,662,730 |
| Settled dollar volume processed(6) | $916,061,688 | $1,612,753,388 |
| Average net mark-up percentage on settled dollar volume processed(7) | 1.30% | 1.20% |
| **Payment processing services key metrics**: | | |
| Active merchant locations (at period end) (3) | 3,682 | 9,993 |
| Payment processing services revenue(8) | $9,152,964 | $10,240,741 |

(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. As of September 30, 2010 and 2011, there were 54 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 ($11.9 million and $19.3 million for the nine months ended September 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:

| | Nine months ended September 30, | |
|---|---|---|
| | **2010** | **2011** |
| **ADJUSTED EBITDA:** | | |
| Net (loss) income | $(2,831,657) | $600,311 |
| Interest expense | 906,286 | 307,796 |
| Interest income | (142) | (804) |
| Provision for income taxes | — | 106,260 |
| Depreciation and amortization | 1,212,387 | 1,837,147 |
| Stock-based expense | 642,728 | 435,154 |
| Convertible debt prepayment fee(1) | — | 601,318 |
| Derecognition of note payable(2) | — | (700,000) |
| Adjusted EBITDA (non-GAAP) | $(70,398) | $3,187,182 |

(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 and as of September 30, 2011 the statute of limitations had expired on the remaining $40,000. For the nine months ended September 30, 2011, we recorded other income due to the derecognition of the note payable in the amount of $0.7 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 nine months ended September 30, 2010. Please refer to the immaterial restatement disclosure located in footnote 2 to the financial statements for further information.

| | Nine months ended September 30, | |
|---|---|---|
| | 2010 | 2011 |
| **Revenue:** | | |
| Multi-currency processing services revenue | $11,873,716 | $19,286,394 |
| Payment processing services revenue | 9,152,964 | 10,240,741 |
| Net revenue | 21,026,680 | 29,527,135 |
| **Operating expenses:** | | |
| Cost of revenue: | | |
| Payment processing services fees | 7,423,046 | 8,273,579 |
| Processing and service costs | 5,175,096 | 6,758,294 |
| Total cost of revenue | 12,598,142 | 15,031,873 |
| Selling, general and administrative expenses | 10,354,051 | 13,580,381 |
| Total operating expenses | 22,952,193 | 28,612,254 |
| (Loss) income from operations | (1,925,513) | 914,881 |
| **Other (expense) income:** | | |
| Interest expense | (906,286) | (307,796) |
| Interest income | 142 | 804 |
| Other income, net | — | 98,682 |
| Total other expense, net | (906,144) | (208,310) |
| (Loss) income before provision for income taxes | (2,831,657) | 706,571 |
| Provision for income taxes | — | 106,260 |
| Net (loss) income | $(2,831,657) | $600,311 |

## Comparison of the nine months ended September 30, 2011 and 2010

### *Revenue*

| | Nine months ended September 30, | | Variance | |
|---|---|---|---|---|
| | 2011 | 2010 | Amount | Percent |
| Multi-currency processing services revenue | $19,286,394 | $11,873,716 | $7,412,678 | 62% |
| Payment processing services revenue | 10,240,741 | 9,152,964 | 1,087,777 | 12 |
| Net revenue | $29,527,135 | $21,026,680 | $8,500,455 | 40 |

Net revenue increased $8.5 million, or 40%, to $29.5 million for the nine months ended September 30, 2011 from $21.0 million for the nine months ended September 30, 2010. The increase in revenue was primarily due to the overall increase by 84%, or 11,403, in total active merchant locations processing transactions through our multi-currency and payment processing services as of September 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 $7.4 million, or 62%, to $19.3 million for the nine months ended September 30, 2011 from $11.9 million for the nine months ended September 30, 2010. The increase in multi-currency processing services revenue was driven by changes in the following key business metrics:

| | Nine months ended September 30, | | Variance | |
|---|---|---|---|---|
| | 2011 | 2010 | Amount | Percent |
| Active merchant locations (at period end) | 15,036 | 9,982 | 5,054 | 51% |
| Settled transactions processed | 7,680,971 | 4,750,334 | 2,930,637 | 62 |
| Gross mark-up | $60,662,730 | $34,072,645 | $26,590,085 | 78 |
| Settled dollar volume processed | $1,612,753,388 | $916,061,688 | $696,691,700 | 76 |
| Average net mark-up % on settled dollar volume processed | 1.20% | 1.30% | (0.10)% | (8) |

The 76% increase in settled dollar volume processed resulted in a $8.3 million increase in revenue, offset by a 0.10% decrease in our average net mark-up percentage on settled dollar volume processed which resulted in a $0.9 million decrease to revenue. The primary reasons for the increase in settled dollar volume processed were a 51% increase in active merchant locations, which resulted from the addition of new active merchant locations in existing markets, our entry into seven new markets in APAC and CEMEA during 2010, which had a greater impact on the nine months ended September 30, 2011. 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 $1.1 million, or 12%, to $10.2 million for the nine months ended September 30, 2011 from $9.1 million for the nine months ended September 30, 2010. The increase was primarily due to increased transaction volume in the Canadian market from the nine months of 2010 to the nine months of 2011.

***Cost of revenue***

| | Nine months ended September 30, | | Variance | |
|---|---|---|---|---|
| | 2011 | 2010 | Amount | Percent |
| Payment processing services fees | $8,273,579 | $7,423,046 | $850,533 | 11% |
| Processing and service costs | 6,758,294 | 5,175,096 | 1,583,198 | 31 |
| Total cost of revenue | $15,031,873 | $12,598,142 | $2,433,731 | 19 |

*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 $0.9 million, or 11%, to $8.3 million for the nine months ended September 30, 2011 from $7.4 million for the nine months ended September 30, 2010 is as a result of the increase in payment processing services revenue, coupled with pricing mix of services for the first nine months of 2011.

*Processing and service costs*

Processing and service costs increased $1.6 million, or 31%, to $6.8 million for the nine months ended September 30, 2011 from $5.2 million for the nine months ended September 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 $0.4 million to support the growth in our existing business and the launches into new markets, and an increase in depreciation and amortization expense of $0.5 million primarily related to software development additions.

***Selling, general and administrative expenses***

| | Nine months ended September 30, | | Variance | |
|---|---|---|---|---|
| | 2011 | 2010 | Amount | Percent |
| Selling, general and administrative expenses | $13,580,381 | $10,354,051 | $3,226,330 | 31% |

Selling, general and administrative expenses increased $3.2 million, or 31%, to $13.6 million for the nine months ended September 30, 2011 from $10.4 million for the nine months ended September 30, 2010. The increase in selling, general and administrative expenses was primarily the result of increased salary, compensation and related benefit costs of $1.7 million primarily due to general headcount additions to support the growth in our existing business, the launches into new markets and increased bonus compensation, $0.9 million in various selling, general and administrative expenses due to headcount additions and overall growth in the business, and recovery of $0.6 million of doubtful accounts in the first half of 2010, which reduced the selling, general and administrative expenses for the nine months ended September 30, 2010.

***Other (expense) income, net***

| | Nine months ended September 30, | | Variance | |
|---|---|---|---|---|
| | 2011 | 2010 | Amount | Percent |
| Interest expense | $(307,796) | $(906,286) | $598,490 | * |
| Interest income | 804 | 142 | 662 | * |
| Other income, net | 98,682 | — | 98,682 | * |
| Total other expense, net | $(208,310) | $(906,144) | $697,834 | * |

* Percentages not meaningful.

Total other expense, net, decreased $0.7 million, to $0.2 million for the nine months ended September 30, 2011 from a non-operating expense of $0.9 million for the nine months ended September 30, 2010. The decrease was primarily due to recording nine months of interest expense on our convertible debt for the nine months ended September 30, 2010 compared to four months of interest expense for the nine months ended September 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***

| | Nine months ended September 30, | |
|---|---|---|
| | 2010 | 2011 |
| Cash (used in) provided by operating activities | $(260,708) | $2,243,402 |
| Cash used in investing activities | (2,212,870) | (1,446,538) |
| Cash (used in) provided by financing activities | (135,985) | 33,135 |

***Operating activities***

Cash provided by operating activities during the nine months ended September 30, 2011 was $2.2 million, comprising $3.1 million cash generated by operations and a net decrease in our operating assets and liabilities of $0.9 million. This net decrease in our operating assets and liabilities of $0.9 million primarily consisted of a $2.8 million increase in accounts receivable and other current assets, driven by an increase in activity in our multi-currency processing services business during the period, offset by a $1.9 million increase in accounts payable and accrued expenses. Cash generated by operations of $3.1 million was inclusive of net income of $0.6 million and total net non-cash charges of $2.5 million. Significant non-cash adjustments to net income primarily included: (i) depreciation and amortization expense of $1.8 million, (ii) non-cash interest expense on convertible and term debt of $0.3 million, (iii) stock option expense of $0.4 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 nine months ended September 30, 2010 was $0.3 million, comprising $0.2 million cash used in operations and a net decrease in our operating assets and liabilities of $0.1 million. This net decrease in our operating assets and liabilities of $0.1 million consisted of (i) $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 an increase in due to merchants of $0.6 million due to increased transaction volume in our ACH business. Cash used in operations of $0.3 million was inclusive of a net loss of $2.8 million, offset by total non-cash charges of $2.7 million. Significant non-cash adjustments to net loss primarily included: (i) depreciation and amortization expense of $1.2 million, (ii) non-cash interest expense on convertible and term debt of $0.9 million and (iii) stock option expense of $0.6 million.

***Investing activities***

Cash used in investing activities for the nine months ended September 30, 2010 and 2011 was $2.2 million and $1.4 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 nine months ended September 30, 2010 and 2011 was not meaningful.

## SALES OF EQUITY SECURITIES

During the three months ended September 30, 2011, the Company issued 23,422 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 $0.87 per share.

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 September 30, 2011 has previously been disclosed and is 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 September 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 the correct presentation of its multi-currency revenue is 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 unaudited consolidated financial statements for the nine months ended September 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 nine months ended September 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 the nine months ended September 30, 2010 the reduction in revenue and the corresponding reduction in cost of revenue is $22.2 million.

The previously issued unaudited Consolidated Financial Statements for the nine months ended September 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 nine months ended September 30, 2010 are included in the financial statements appended to this Report.

As a result of the reconsideration of the Company's revenue presentation, the Company delayed the announcement of its results for the six months ended June 30, 2011beyond the deadlines required by the rules of the AIM market of the London Stock Exchange, plc ("AIM") and the OTCQX tier of OTC Markets Group, Inc. ("OTCQX"). In accordance with UK practice, the Company therefore requested AIM to temporarily suspend trading in the Company's shares on September 29, 2011 and the Company was temporarily removed the Company from OTCQX on October 1, 2011. The suspension was lifted and trading on AIM and OTCQX was restored on October 26, 2011, upon issue of the required financial statements.

## EXHIBITS

Exhibit A: Consolidated Financial Statements (unaudited) as of December 31, 2010 and September 30, 2011 and for the nine months ended September 30, 2010 and 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 signification 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 nine months ended September 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 September 30, 2011 and for the nine months ended September 30, 2010 and 2011.

## Index to condensed consolidated financial statements

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

| | December 31, 2010 | September 30, 2011 |
|---|---|---|
| **Current assets:** | | |
| Cash and cash equivalents | $5,182,499 | $6,012,498 |
| Restricted cash | 2,060,357 | 1,908,651 |
| Accounts receivable, net of allowances of $1.4 million as of December 31, 2010 and September 30, 2011 | 3,326,111 | 4,331,803 |
| Prepaid expenses and current other assets | 638,953 | 2,350,513 |
| Total current assets | 11,207,920 | 14,603,465 |
| **Other assets:** | | |
| Restricted cash | 750,000 | 622,766 |
| Property and equipment, net | 1,384,310 | 1,216,227 |
| Software development costs, net | 4,635,799 | 4,929,934 |
| Intangible assets, net | 945,681 | 839,357 |
| Security deposits and other assets | 245,281 | 210,807 |
| Total other assets | 7,961,071 | 7,819,091 |
| **Total assets** | $19,168,991 | $22,422,556 |
| **Liabilities and stockholders' equity** | | |
| **Current liabilities:** | | |
| Accounts payable | $591,461 | $418,437 |
| Accrued expenses | 495,457 | 2,572,914 |
| Due to merchants | 2,294,252 | 2,134,397 |
| Current portion of term debt and capital leases | 917,834 | 263,043 |
| Total current liabilities | 4,299,004 | 5,388,791 |
| **Long-term liabilities:** | | |
| Long-term portion of capital leases | 213,351 | 234,600 |
| Convertible debt | 8,979,926 | — |
| Total long-term liabilities | 9,193,277 | 234,600 |
| **Total liabilities** | 13,492,281 | 5,623,391 |
| **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 September 30, 2011; $8,975,000 aggregate liquidation preference | 22,438 | 22,438 |
| Common stock—70,000,000 and 80,0000,000 shares authorized, $0.01 par value, 46,068,496 and 51,714,051 issued and outstanding as of December 31, 2010 and September 30, 2011, respectively | 460,684 | 517,140 |
| Additional paid-in capital | 83,459,133 | 93,926,548 |
| Warrants | 1,607,723 | 1,622,651 |
| Accumulated other comprehensive loss | (27,600) | (44,255) |
| Accumulated deficit | (79,845,668) | (79,245,357) |
| Total stockholders' equity | 5,676,710 | 16,799,165 |
| **Total liabilities and stockholders' equity** | $19,168,991 | $22,422,556 |

The accompanying notes are an integral part of these financial statements

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

| | Nine months ended September 30, | |
|---|---|---|
| | **2010** | **2011** |
| **Revenue:** | | |
| Net revenue | $21,026,680 | $29,527,135 |
| **Operating expenses:** | | |
| Cost of revenue: | | |
| Payment processing services fees | 7,423,046 | 8,273,579 |
| Processing and service costs | 5,175,096 | 6,758,294 |
| Total cost of revenue | 12,598,142 | 15,031,873 |
| Selling, general and administrative expenses | 10,354,051 | 13,580,381 |
| Total operating expenses | 22,952,193 | 28,612,254 |
| (Loss) income from operations | (1,925,513) | 914,881 |
| **Other (expense) income:** | | |
| Interest expense | (906,286) | (307,796) |
| Interest income | 142 | 804 |
| Other income, net (Notes 6 and 7) | — | 98,682 |
| Total other expense, net | (906,144) | (208,310) |
| (Loss) income before provision for income taxes | (2,831,657) | 706,571 |
| Provision for income taxes | — | 106,260 |
| Net (loss) income | $(2,831,657) | $600,311 |
| Basic net (loss) income per share applicable to common stockholders | $(0.07) | $0.01 |
| Diluted net (loss) income per share applicable to common stockholders | $(0.07) | $0.01 |
| Weighted average common stock outstanding (basic) | 39,316,392 | 48,834,130 |
| Weighted average common stock outstanding (diluted) | 39,316,392 | 51,593,111 |

The accompanying notes are an integral part of these financial statements

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

| | Nine months ended September 30, | |
|---|---|---|
| | 2010 | 2011 |
| **Cash flows from operating activities:** | | |
| Net (loss) income | $(2,831,657) | $600,311 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Stock option expense | 555,120 | 420,226 |
| Depreciation and amortization expense | 1,212,387 | 1,837,147 |
| (Recovery) provision for doubtful accounts | (36,703) | 75,384 |
| Non-cash interest expense on convertible debt | 604,484 | 254,636 |
| Non-cash interest expense on term debt | 252,750 | — |
| Warrant expense | 87,608 | 14,928 |
| Common stock issued for payment of account payable | — | 20,000 |
| Derecognition of note payable | — | (700,000) |
| 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 | 68,334 | 151,706 |
| Increase in accounts receivables, prepaid expenses and other current assets | (741,438) | (2,792,636) |
| Decrease in security deposits | 36,470 | 34,474 |
| (Decrease) increase in accounts payable and accrued expenses | (44,070) | 1,889,505 |
| Increase (decrease) in due to merchants | 561,973 | (159,855) |
| Other | 14,034 | (3,742) |
| Net cash (used in) provided by operating activities | (260,708) | 2,243,402 |
| **Cash flows from investing activities:** | | |
| (Increase) decrease in restricted cash | (499,926) | 127,234 |
| Purchase of property and equipment | (352,964) | (80,935) |
| Capitalized software development | (1,338,878) | (1,431,347) |
| Purchase of intangible assets | (21,102) | (61,490) |
| Net cash used in investing activities | (2,212,870) | (1,446,538) |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of common stock | — | 247,764 |
| Principal payments on capital lease obligations | (135,985) | (214,629) |
| Net cash (used in) provided by financing activities | (135,985) | 33,135 |
| Effect of exchange rate changes on cash and cash equivalents(*) | — | — |
| Net (decrease) increase in cash and cash equivalents | (2,609,563) | 829,999 |
| Beginning of period | 3,752,423 | 5,182,499 |
| End of period | $1,142,860 | $6,012,498 |
| **Supplemental disclosure:** | | |
| Cash paid for: | | |
| Interest | $49,052 | $53,160 |
| Income taxes | — | $106,260 |
| Non-cash investing and financing activities: | | |
| Convertible debt converted to common stock | $— | $8,979,926 |
| Assets acquired under capital leases | 223,481 | 283,103 |
| Derecognition of note payable | — | 700,000 |
| Prepayment fee on conversion of convertible debt | — | 601,318 |

(*) For the nine months ended September 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—80,000,000 shares authorized | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Shares issued** | **Shares par value** | **Issued** | **Par value** | **Additional paid-In capital** | **Warrants** | **Accumulated other comprehensive loss** | **Accumulated deficit** | **Total stockholders’ equity** | **Comprehensive income** |
| **Balance—December 31, 2010** | 2,243,750 | $22,438 | 46,068,496 | $460,684 | $83,459,133 | $1,607,723 | $(27,600) | $(79,845,668) | $5,676,710 | |
| Stock issued | — | — | 4,484,776 | 44,848 | 9,811,033 | — | — | — | 9,855,881 | |
| Restricted stock | — | — | 915,000 | 9,150 | — | — | — | — | 9,150 | |
| Warrants exercised | — | — | 15,206 | 152 | (152) | — | — | — | — | |
| Options exercised | — | — | 230,573 | 2,306 | 236,308 | — | — | — | 238,614 | |
| Warrant expense | — | — | — | — | — | 14,928 | — | — | 14,928 | |
| Stock option expense | — | — | — | — | 420,226 | — | — | — | 420,226 | |
| Cumulative translation adjustment | — | — | — | — | — | — | (16,655) | — | (16,655) | $(16,655) |
| Net income | — | — | — | — | — | — | — | 600,311 | 600,311 | 600,311 |
| Comprehensive income | | | | | | | | | | $583,656 |
| **Balance—September 30, 2011** | 2,243,750 | $22,438 | 51,714,051 | $517,140 | $93,926,548 | $1,622,651 | $(44,255) | $(79,245,357) | $16,799,165 | |

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") together with its wholly owned subsidiaries is a provider of international payment processing and multi-currency processing services. The Company provides its services to over 25,000 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."

***Basis of presentation***

The condensed 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 December 31, 2010 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by 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 nine months ended September 30, 2011, the Company evaluated subsequent events through December 15, 2011, the date on which these interim financial statements were available to be issued. There were no events or transactions occurring during this subsequent reporting period that require recognition or disclosure in the consolidated financial statements.

***Unaudited consolidated interim financial information***

The accompanying unaudited consolidated interim financial statements as of September 30, 2011 and for the nine months ended September 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 nine months ended September 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, the Company's management determined that it had not properly recorded certain capital leases and certain amounts due to merchants and corrected the presentation of restricted cash.

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 for the nine months ended September 30, 2010 should be restated. For further information refer to the Report filed with OTCQX on October 26, 2011for the restated annual consolidated financial statements as of December 31, 2009 and 2010 and for the years ended December 31, 2008, 2009 and 2010.

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 Operations and Balance Sheet to conform to the SEC format for public filers. The "As Previously Reported" lines within the table below conform to the SEC format for public filers and therefore reflects the condensation of the previously reported line item for the nine months ended September 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 nine months ended September 30, 2010.

| | Nine Months Ended September 30, 2010 | |
|---|---|---|
| | As Previously Reported | As Adjusted |
| Net revenue | $43,225,609 | $21,026,680(1) |
| Cost of revenue: | | |
| Payment processing services fees | 29,491,668 | 7,423,046(1)(3) |
| Processing and service costs | — | 5,175,096(2) |
| Total cost of revenue | 29,491,668 | 12,598,142 |
| Selling, general and administrative expenses | 15,556,572 | 10,354,051(2)(3) |
| Total operating expenses | 45,048,240 | 22,952,193 |
| Loss from operations | (1,822,631) | (1,925,513) |
| Other (expense) income: | | |
| Interest expense | (878,862) | (906,286)(3) |
| Interest income | 142 | 142 |
| Total other expense, net | (878,720) | (906,144) |
| Net loss | $(2,701,351) | $(2,831,657) |
| Basic and diluted net loss per share applicable to common stockholders | $(0.07) | $(0.07) |

(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. The nine months ended September 30, 2010 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 the nine months ended September 30, 2010, the reduction in revenue and the corresponding reduction in cost of revenue is $22.2 million. 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 $5.2 million, for the nine months ended September 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) The Company recorded various other inconsequential correcting adjustments affecting Interest expense and SG&A line items by $27,000 and payment processing service fee by $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, 2010.

| | As of December 31, 2010 | |
|---|---|---|
| | As Previously Reported | As Adjusted |
| **Assets line items affected:** | | |
| Restricted cash (current) | $2,810,357 | $2,060,357(4) |
| Total current assets | 11,957,920 | 11,207,920 |
| Restricted cash (non-current) | — | 750,000(4) |
| Property and equipment, net | 1,127,768 | 1,384,310(5)(8) |
| Software development costs, net | 4,769,157 | 4,635,799(6)(8) |
| Total other assets | 7,087,887 | 7,961,071 |
| Total assets | 19,045,807 | 19,168,991 |
| **Liability line items affected:** | | |
| Current portion of term debt and capital leases | 808,288 | 917,834(7) |
| Total current liabilities | 4,189,458 | 4,299,004 |
| Long-term of term debt and capital leases | 125,053 | 213,351(9) |
| Total long-term liabilities | 9,104,979 | 9,193,277 |
| Total liabilities | 13,294,437 | 13,492,281 |
| Accumulated deficit | (79,771,008) | (79,845,668) |
| Total stockholders' equity | 5,751,370 | 5,676,710 |

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

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

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

(7) Represents a correction of $0.1 million liability related to the current portion of capital leases noted in note (5) above.

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

(9) Represents a correction of $0.1 million liability related to the long-term portion of capital leases noted in note (5) 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 nine months ended September 30, 2010.

| | Nine Months Ended September 30, 2010 | | |
|---|---|---|---|
| | **As Previously Reported** | **As Adjusted** | **Footnotes** |
| **Cash flow statement line items affected:** | | | |
| Net loss | $(2,701,351) | $(2,831,657) | |
| Net cash used in operating activities | (1,234,531) | (260,708) | (10)(11)(12)(13)(16) |
| Net cash used in investing activities | (1,933,020) | (2,212,870) | (12)(14) |
| Proceeds from issuance of common stock | 400,775 | — | (10) |
| Principal payments on capital lease obligations | — | (135,985) | (15)(16) |
| Net cash provided by financing activities | 557,988 | (135,985) | (10)(15)(16)(17) |

(10) 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.

(11) Represents the correction of a previously overstated due to merchants liability of $0.8 million.

(12) Represents the correction to reclassify $0.5 million of long-term restricted cash from an operating activity to an investing activity.

(13) Represents the correction of a previously overstated settlement asset of $0.9 million.

(14) Represents the correction of previously recording assets acquired under capital lease of $0.2 million as a purchase of property and equipment to a non-cash investing activity.

(15) Represents the amount of principal payment on capital leases that was not previously recorded as a financing activity.

(16) Represents a correction to reclassify $0.1 million from Principal payments on capital lease obligations to Depreciation and amortization expense in relation to the items within note (14) above.

(17) 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 $0.2 million for the nine months ended September 30, 2010. Subsequently there is no "Proceeds from loan payable" line within the cash Flow statement.

## 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.

***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 nine months ended September 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 September 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 three to 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 $4.9 million as of December 31, 2010 and September 30, 2011, respectively. Amortization expense totaled $0.7 million and $1.2 million for the nine months ended September 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 September 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 September 30, 2011, the Company's uninsured cash balances totaled $3.8 million and $5.3 million, respectively. The Company maintains an allowance for uncollectible accounts receivable based on expected collectability and performs ongoing credit evaluations of customers' financial condition.

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

| | As of December 31, 2010 | As of September 30, 2011 |
|---|---|---|
| Customer A | 33% | 43% |
| Customer B (*) | 22 | 16 |

(*) 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:

| | Nine months ended September 30, | |
|---|---|---|
| | **2010** | **2011** |
| Customer A | 30% | 29% |
| Customer C | | 10% |

***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 includes 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:

| | Nine months ended September 30, | |
|---|---|---|
| | **2010** | **2011** |
| ***Numerator:*** | | |
| Net (loss) income | $(2,831,657) | $600,311 |
| Amounts allocated to participating preferred stockholders under the two-class method | — | (72,491) |
| Net (loss) income applicable to common stockholders (basic and dilutive) | $(2,831,657) | $527,820 |
| ***Denominator:*** | | |
| Weighted average common stock outstanding (basic) | 39,316,392 | 48,834,130 |

| | | |
|---|---|---|
| Common equivalent shares from options and warrants to purchase common stock | — | 2,758,981 |
| Weighted average common stock outstanding (diluted) | 39,316,392 | 51,593,111 |
| Basic net (loss) income per share applicable to common stockholders | $(0.07) | $0.01 |
| Diluted net (loss) income per share applicable to common stockholders | $(0.07) | $0.01 |

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:

| | Nine months ended September 30, | |
|---|---|---|
| | 2010 | 2011 |
| Stock options | 7,231,781 | 958,876 |
| Warrants | 3,800,435 | 182,539 |
| Convertible debt | 4,049,776 | 1,759,582 |
| Convertible preferred stock | 6,851,144 | 6,851,144 |
| Total antidilutive securities | 21,933,136 | 9,752,141 |

***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:

| | Nine months ended September 30, | |
|---|---|---|
| | 2010 | 2011 |
| Processing and service costs | $194,293 | $107,503 |
| Selling, general and administrative expenses | 448,435 | 327,651 |
| Total stock-based expense | $642,728 | $435,154 |

The following summarizes stock-based expense recognized by type:

| | Nine months ended September 30, | |
|---|---|---|
| | 2010 | 2011 |
| Stock options | $555,120 | $420,226 |
| Warrants(1) | 87,608 | 14,928 |
| Total stock-based expense | $642,728 | $435,154 |

(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 September 30, 2011 | |
|---|---|---|
| | **Unamortized stock-based expense** | **Weighted average remaining amortization period (in years)** |
| Stock options | $965,243 | 1.76 |
| 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 intends to retain any future earnings for use in its business.

*Vesting requirements*

Options granted to employees generally vest $^{1}/_{3}{}^{rd}$ 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 $^{1}/_{12}{}^{th}$ of the shares each month from the vesting commencement date. A director's initial grant vests and becomes exercisable as to $^{1}/_{3}{}^{rd}$ of the shares on the 12-month anniversary from the vesting commencement date and then $^{1}/_{36}{}^{th}$ 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:

| | Nine months ended September 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 | 1.58 - 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.

*Long term incentive restricted stock agreement assumptions and vesting requirements*

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. The 915,000 shares vest in four separate tranches, each with a different long-term performance goal. The awards will accelerate in full upon a sale or merger of the Company, if the consideration paid is at least $1 billion and there is a valuation or price equating to at least $15.00 per share. The performance goals for each tranche are outlined below:

- Tranche one (expires 12/31/2014): Performance condition award consisting of 305,000 shares that vest based upon the achievement of adjusted EBITDA (as will be defined in the Company's earnings releases for the relevant periods) per fully diluted share greater than or equal to $0.36 per share. The fair value of tranche one is $0.7 million.

- Tranche two (expires 12/31/2017): Performance condition award consisting of 47,000 shares that vest based upon the achievement of adjusted EBITDA (as will be defined in the Company's earnings releases for the relevant periods) per fully diluted share greater than or equal to $0.64 per share. The fair value of tranche two is $0.1 million.

- Tranche three (expires 12/31/2017): Performance condition award consisting of 469,000 shares that vest based upon the achievement of adjusted EBITDA (as will be defined in the Company's earnings releases for the relevant periods) per fully diluted share greater than or equal to $0.71 per share. The fair value of tranche three is $1.0 million.

- Tranche four (expires 12/31/2017): Market condition award consisting of 94,000 shares that vest based upon the fair market value of Planet Payment's stock being greater than or equal to $12.00 per share for 75 consecutive trading days in the United States. The fair value of tranche four is $5,600.

In accordance with ASC 718-10, the Company valued the performance condition and market condition awards using a Black-Scholes and binomial lattice models, respectively. The fair value of the performance condition awards are based upon the closing stock price of PPTR on the date of grant. The total fair value of all three tranches of the performance condition awards is $1.8 million, of which, no amounts have been expensed as it was not deemed probable that the performance conditions would be satisfied based on the financial assessment of September 30, 2011. The Company will reassess the probability of achieving each performance condition metric at each reporting period. The total fair value of the market condition award is $5,600. Given the inconsequential nature of the amount the Company recorded the entire expense in the third quarter of 2011. The expense related to the market condition award is not reversed even if the market conditions are not satisfied.

The fair value of the market condition award has been estimated on the grant date using a binomial lattice-based valuation pricing model with the following assumptions:

| | July 26, 2011 |
|---|---|
| Expected life (in years) | 5.3 |
| Expected volatility (percentage) | 31.68 |
| Risk-free interest rate (percentage) | 2.04 |
| Expected dividend yield | — |

For further information regarding our stock incentive plans, 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 May 2011, the Financial Accounting Standards Board (FASB) issued guidance resulting in common fair value measurement disclosure requirements between U.S. GAAP and International Financial Reporting Standards. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and disclosing information about fair value measurements. Some of the requirements clarify the FASB's intent about the application of existing fair value measurement requirements while other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective prospectively for interim and annual periods beginning after December 15, 2011, with no early adoption permitted. This standard will be effective for us beginning with the quarter ending March 31, 2012. We do not expect the adoption to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued an accounting pronouncement that provides new guidance on the presentation of comprehensive income (FASB ASC Topic 220) in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. Under the single-statement approach, entities must include the components of net income, a total for net income, the components of other comprehensive income and a total for comprehensive income. Under the two-statement approach, entities must report an income statement and, immediately following, a statement of other comprehensive income. Under either method, entities must display adjustments for items reclassified from other comprehensive income to net income in both net income and other comprehensive income. The provisions for this pronouncement are effective for the fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. This standard will be effective for us beginning with the quarter ending March 31, 2012. The adoption of this guidance is not expected to have an impact on our consolidated financial statements.

In September 2011, the FASB issued guidance to simplify the testing of goodwill for impairment. The amendments to this guidance permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in FASB ASC Topic 350, "Intangibles-*Goodwill and Other*" (ASC Topic 350). The more-likely-than-not threshold is defined as having a likelihood of more than fifty percent. Previous guidance under ASC Topic 350 required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments in this guidance, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. This standard will be effective for us beginning with the quarter ending March 31, 2012. The adoption of this guidance is not expected to have an impact on our consolidated financial statements.

## 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 September 30, 2011 |
|---|---|---|---|
| Equipment | 5 | $700,087 | $1,222,786 |
| Computer hardware | 5 | 2,128,112 | 1,954,155 |
| Furniture and fixtures | 5 - 7 | 178,080 | 193,323 |
| Leasehold improvements | 5 - 7 | 355,123 | 331,081 |
| | | 3,361,402 | 3,701,345 |
| Less: Accumulated depreciation and amortization | | (1,977,092) | (2,485,118) |
| Property and equipment, net | | $1,384,310 | $1,216,227 |

Property and equipment depreciation and amortization expense is as follows:

| | Nine months ended September 30, 2010 | Nine months ended September 30, 2011 |
|---|---|---|
| Depreciation and amortization expense | $355,857 | $517,021 |

## 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 September 30, 2011 | | | Amortization |
|---|---|---|---|---|---|---|---|
| | Gross book value | Accumulated amortization | Net book value | Gross book value | Accumulated amortization | Net book value | period (years) |
| Trademarks and patents | $661,379 | $(149,375) | $512,004 | $722,869 | $(187,086) | $535,783 | 15 |
| Customer contracts | 867,354 | (433,677) | 433,677 | 867,354 | (563,780) | 303,574 | 5 |
| Intangible assets, net | $1,528,733 | $(583,052) | $945,681 | $1,590,223 | $(750,866) | $839,357 | |

Amortization expense related to intangible assets is as follows:

| | Nine months ended September 30, 2010 | Nine months ended September 30, 2011 |
|---|---|---|
| Amortization expense | $151,091 | $167,814 |

## 6. Long and short-term debt

Long and short-term debt consisted of the following:

| | December 31, 2010 | September 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 | — |

| | | |
|---|---|---|
| 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 May 2016 | 431,185 | 497,643 |
| Total long and short-term debt and capital leases | 1,131,185 | 497,643 |
| Less current portion of debt and capital leases | (917,834) | (263,043) |
| Long-term portion of capital leases | $213,351 | $234,600 |

(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 and as of September 30, 2011 the statute of limitations had expired on the remaining $40,000. For the nine months ended September 30, 2011, the Company recorded other income due to the derecognition of the note payable in the amount of $0.7 million.

Interest expense by term debt component is as follows:

| | Nine months ended September 30, | |
|---|---|---|
| | 2010 | 2011 |
| Inter-Atlantic Fund L.P. note payable (non-cash) | $252,750 | $— |
| Capital leases | 48,677 | 53,160 |
| Total term debt interest expense | $301,427 | $53,160 |

## 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 nine months ended September 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:

| | **Nine months ended September 30,** | |
|---|---|---|
| | **2010** | **2011** |
| Convertible debt interest expense (non-cash) | $604,484 | $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 September 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 September 30, 2011, respectively.

***Contingent liabilities***

In instances where the Company is acting as the merchant acquirer, 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 of approximately $0.2 million 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 September 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:

| | Nine months ended September 30, | |
|---|---|---|
| | 2010 | 2011 |
| Rent | $355,528 | $365,291 |
| 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 September 30, 2011, 107,000 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 and restricted shares 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 September 30, 2011, 8.1 million shares and 11.1 million shares, respectively, were reserved for issuance under the Plan. As of September 30, 2011, 915,000 restricted shares have been issued (see below for details) and no options have been issued below fair value. As of September 30, 2011, 2.3 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.

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

| | Number of options | Weighted-average exercise price | Weighted-average remaining contractual life (years) | Aggregate intrinsic value |
|---|---|---|---|---|
| Outstanding as of December 31, 2010 | 7,301,883 | $2.25 | 6.67 | $275,523 |
| Options granted | 924,500 | 2.19 | | |
| Options exercised | (230,573) | 1.07 | | |
| Options cancelled | (115,891) | 3.12 | | |
| Options forfeited | (35,125) | 1.91 | | |
| Outstanding as of September 30, 2011 | 7,844,794 | 2.27 | 6.52 | 3,927,264 |
| Options exercisable as of September 30, 2011 | 6,080,047 | 2.33 | 6.09 | 2,772,092 |
| Vested and expected to vest as of September 30, 2011 | 7,844,794 | 2.27 | 6.52 | 3,927,264 |

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

| | Nine months ended September 30, | |
|---|---|---|
| | 2010 | 2011 |
| Weighted-average grant date fair value for options granted during the period | $0.78 | $0.80 |
| Total fair value of options vested during the period | 128,129 | 365,783 |
| Total intrinsic value of options exercised during the period | 23,268 | 266,012 |

The exercise prices range from $0.60 to $4.40 for stock options outstanding and exercisable as of September 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 $0.91 and $2.71 of PPTR as reported on AIM on September 30, 2010 and 2011, respectively.

***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. As of September 30, 2011 none of the long term incentive restricted stock awards have been earned.

## 12. Warrants

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

A summary of warrant activity during the nine months ended September 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 | 2,119,312 | $1.64 | 3.40 | $399,733 |
| Warrants granted | 3,981 | 0.25 | | |
| Warrants exercised | — | — | | |
| Warrants cancelled | — | — | | |
| Warrants forfeited | — | — | | |
| Outstanding as of September 30, 2011 | 2,123,293 | 1.64 | 3.00 | 2,788,752 |
| Warrants exercisable as of September 30, 2011 | 2,123,293 | 1.64 | 3.00 | 2,788,752 |
| Vested and expected to vest as of September 30, 2011 | 2,123,293 | 1.64 | 3.00 | 2,788,752 |

| | Nine months ended September 30, 2010 | Nine months ended September 30, 2011 |
|---|---|---|
| Weighted average grant date fair value for warrants granted during the period | $1.44 | $2.83 |
| Total fair value of warrants vested during the period | 30,255 | 11,254 |
| 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 September 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 $0.91 and $2.71 of PPTR as reported on AIM on September 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 allocates resources based on net revenue and gross profit of each segment. For purposes of analyzing segments, gross profit of the multi-currency processing services segment is equal to net revenue, while the gross profit for the payment processing services segment includes net revenue of the segment less the cost of revenue component "processing services fees", which may include interchange and card network fees and assessment. Net revenue and gross profit by geographical region is based upon where the transaction originated. Lastly, the Company does not evaluate performance or allocate resources using segment asset data. Long-lived assets are primarily located in North America and as of December 31, 2010 and September 30, 2011 long-lived asset amounts are $7.0 million and $7.0 million, respectively.

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

| | Nine months ended September 30, | |
|---|---|---|
| | **2010** | **2011** |
| **Net Revenue:** | | |
| APAC | $10,251,603 | $13,354,312 |
| North America | 1,592,787 | 2,994,155 |
| CEMEA | 29,326 | 2,937,927 |
| Total multi-currency processing services revenue | 11,873,716 | 19,286,394 |
| Payment processing services revenue | 9,152,964 | 10,240,741 |
| Net revenue | $21,026,680 | $29,527,135 |
| **Gross Profit:** | | |
| APAC | $10,251,603 | $13,354,312 |
| North America | 1,592,787 | 2,994,155 |
| CEMEA | 29,326 | 2,937,927 |
| Total multi-currency processing services gross profit | 11,873,716 | 19,286,394 |
| Payment processing services gross profit | 1,729,918 | 1,967,162 |
| Total gross profit | $13,603,634 | $21,253,556 |

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:

| | Nine months ended September 30, | |
|---|---|---|
| | 2010 | 2011 |
| **Multi-currency processing services revenue:** | | |
| APAC: | | |
| Customer A | 61% | 64% |
| Customer D | | |
| Customer E | 12% | 13% |
| North America: | | |
| Customer F | 26% | 11% |
| Customer G | 17% | 52% |
| Customer H | 40% | 23% |
| CEMEA: | | |
| Customer C | | 100% |

**PLANET PAYMENT, INC.**

**QUARTERLY REPORT**

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

**CERTIFICATIONS**

I, Philip D Beck, certify that:

1. I have reviewed this Quarterly Report for the quarter ended September 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: December 15, 2011

Philip D. Beck, CEO

I, Robert Cox, certify that:

1. I have reviewed this Quarterly Report for the quarter ended September 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: December 15, 2011

Robert Cox, CFO

1. I have reviewed this Quarterly Report for the quarter ended September 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: December 15, 2011

Graham N. Arad, SVP & General Counsel