

Date: 23 April 2008  
On behalf of: Planet Payment, Inc. (“the Company” or “Planet Payment”)  
Embargoed until: 0700hrs

## **Planet Payment Announces Preliminary 2007 Annual Results**

### **TOTAL REVENUE INCREASES 233%; REVENUE FROM CORE MULTI-CURRENCY PROCESSING SERVICES INCREASES 290%**

**Planet Payment, Inc. (LSE: AIM: PPT and PPTR), a leading international multi-currency payment and data processor, today announces its preliminary annual results for the period ended 31 December 2007.**

#### **Financial Highlights**

*All figures are in US dollars unless otherwise stated. Percentage changes shown are against the comparative period for 2006 unless otherwise stated.*

- Total revenue increased 233% to \$18.2m (2006: \$5.5m) led by new merchant deployments and growing processing volume with banking partners in Greater China and the United States.
- Gross Profit increased 221% to \$6.5m (2006: \$2m).
- Revenue from core multi-currency processing increased 290% to \$14.4m (2006: \$3.7m), representing 79% of total revenue.
- Transaction volume from core multi-currency processing services increased 273% to \$437.8m (2006: \$117.4 m).
- The Company’s operating costs as a percentage of revenue decreased to 105% from 245% in 2006. Operating expenses grew 43%. EBITDA loss for the year was \$8.2m, a 15% improvement (2006: \$9.7m). Net income loss for the year was \$13.4m (2006: \$11.6m).
- Total revenue in the second half of 2007 grew 168%, with revenue from core multi-currency processing services over the same period increasing 201%.
- Total revenue in the second half of 2007 was up 68% over first half of 2007, led by 100% growth of core multi-currency processing revenue in the United States and continued merchant adoption in Greater China
- Raised a total of \$18.3m, net of capital raising expenses, in 2007 comprised of \$5m Convertible Promissory Note and \$13.3m in Common Shares.

#### **Operational Highlights**

- Active merchant locations grew to 2,314 in 2007 (2006: 1,138 locations). Of these, 1,454 locations are using Planet Payment’s core multi-currency processing services comprising over 7,000 individual points of sale, based on estimates at 2007 year end.
- Expanded Asia-Pacific reach through agreement with Global Payments [NYSE:GPN] to offer Planet Payment’s Pay In Your Currency services in Malaysia and Taiwan; service launched in Q1 2008
- Broadened partnerships in Greater China through agreements signed with Agricultural Bank of China, one of China’s “big four” banks, Banco Nacional Ultramarino of Macau and through Hang Seng Bank, with Bank of Communications [HKG:3328], to offer our multi-currency processing services
- Enhanced product suite with our Asia-Pacific regional switch solution for integrated payment systems for the lodging, restaurant and retail sectors, with Agilysys and MICROS Financial Services

- Established wholly foreign owned Chinese subsidiary and expanded operational and sales support infrastructure with offices in Beijing and Shanghai
- Expanded processing infrastructure with additional co-location data centres in Hong Kong, Shanghai and Macau
- Registered with MasterCard and VISA as end-to-end processor with direct card scheme interfaces; Certified with JCB, American Express and Diner's Club to offer processing to select partner banks and financial institutions
- Continued merchant adoption of our multi-currency processing services through our U.S. banking partners

### **Current Trading Highlights**

- Total revenue for the first quarter of 2008 is estimated to have grown 70% as compared to the first quarter of 2007. Revenue from core multi-currency processing services in the first quarter of 2008 increased by an estimated 85% as compared to first quarter 2007 but was down 14% as compared to the fourth quarter 2007 due to reduced international business travel in Greater China during February around the Chinese New Year.
- Core multi-currency transaction volume totalled \$129.0m in the first quarter of 2008, an increase of 75% as compared to Q1 2007.
- As of month-end March 2008, there were 2,525 active merchant locations, an increase of 9% since December 2007, processing at over 8,300 individual points of sale. An additional 750 merchant locations, primarily in Malaysia and Taiwan, were signed and set up in our system, with processing to commence in the second quarter of 2008.
- April 22, 2008 announcement of acquisition of assets of former I-Pay e-commerce business.

### **Commenting on the results, Philip Beck, Chairman of Planet Group, Inc., said:**

*“The Company’s strong growth during 2007 reflects the continued adoption of our proprietary processing platform. Fuelled by favourable global market trends, a broader portfolio of innovative payment solutions and a robust pipeline of merchant rollouts, we look forward to continued significant growth in 2008.”*

Copies of the Company's Annual Report and Accounts for 2007 will be sent to shareholders in May together with the Notice of the 2008 Annual Meeting, which is to be held on Friday June 20, 2007 in New York. Copies of this announcement are available at the Company's head office at 670 Long Beach Boulevard, Long Beach, New York 11561, USA and on the Company’s website at [www.planetpayment.co.uk](http://www.planetpayment.co.uk). Copies of the Annual Report and Accounts will also be available on request and through the Annual Reports service.

### **Enquiries:**

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

Philip D. Beck, Chairman & CEO

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

At Redleaf on April 23, 2007

#### **Redleaf Communications Ltd (in the UK)**

Emma Kane / Samantha Robbins / Henry Columbine

[planet@redleafpr.com](mailto:planet@redleafpr.com)

Tel: +44 20 7822 0200

#### **ICR, Inc. (in the USA)**

Brian Prenoveau, CFA / Ashley Ammon MacFarlane

Tel: +1 203 682 8200

#### **Canaccord Adams Limited**

Mark Williams

Tel +44 20 7050 6500

## About Planet Payment®

- Planet Payment's Common Shares trade on AIM under the symbols PPT for unrestricted Common Shares and PPTR for Reg S Common Shares.
- Planet Payment enables processors, acquiring banks and their merchants to accept, process and reconcile credit card transactions in multiple currencies, allowing cardholders to view prices and settle transactions in their native currency. The *Pay in Your Currency* service is a component of Planet Payment's suite of multi-currency processing solutions, which include a multi-currency pricing e-commerce service and a Dynamic Currency Conversion service. Planet Payment also recently launched BuyVoice™, a mobile payment and commerce solution, which allows merchants to accept payments and sell product to customers using any mobile or landline phone.
- Planet Payment is headquartered in Long Beach, New York and has offices in Atlanta, Beijing, Bermuda, New Castle, Delaware, London, Hong Kong, Shanghai and Singapore.

*Forward-Looking Statements.* Information contained in this announcement 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 the acquired business, which is the subject of the acquisition (including development plans and objectives relating to Planet Payment's and such acquired business) are forward-looking statements. Such forward-looking statements are based on a number of assumptions regarding Planet Payment's present and future business strategies, the assets acquired, contracts assumed and personnel hired and the environment in which Planet Payment expects to operate in future, which assumptions may or may not be fulfilled in practice. 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 risk that implementation, adoption and offering of the service by processors, acquirers, merchants and others may take longer than anticipated, or may not occur at all, regulatory changes, particularly in China and changes in card association regulations and practices; general economic risk and volume of international travel and commerce and others. Additional risks may arise with respect to the acquired assets and assumed contracts of which Planet Payment is not fully aware at this time. These forward-looking statements speak only as to the date of this announcement 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 announcement to reflect any changes in its expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

## **CHAIRMAN & CEO REPORT**

I am pleased to announce our results for the year ended December 31, 2007. Fuelled by the rapid growth of international travel, credit-card usage and cross-border e-commerce, throughout this past year we have continued to execute on our strategies to maximise the potential of our technology platform. Our strong results, principally attributed to efforts with our existing banking partners in Greater China and the United States, are reflected in the 233% increase in revenue to \$18.2 m and 273% increase in transaction volume from our core multi-currency processing services, as compared to 2006.

We continue to experience and anticipate further adoption of our outsourced payment processing services by banks that have historically developed and supported such services in-house. Our single, currency neutral platform is designed to quickly support the needs of these customers, delivering timely and cost-effective data processing and reporting solutions. In 2007, the Company extended its network of acquiring banks and processors to include several new customers in the United States, Greater China, as well as in Malaysia and Taiwan, where service commenced in the first quarter of 2008. We also added to our product set and helped advance integrated payment technology services in Greater China with the integration to additional point-of-sale providers.

Demand for our multi-currency payment solutions is expected to continue to increase due to forecasted high growth rates of international travel, particularly to Asia-Pacific, with the near-term opportunity being the Beijing Olympics. Strong, cross-border e-commerce growth, with a majority of Internet usage occurring outside of the U.S., bodes well for our multi-currency pricing solutions for card-not-present merchants.

Opportunity with our banking partners and their merchants in the US continues, where the weak dollar makes shopping in America an attractive discount opportunity for international shoppers and tourists. In fact, our multi-currency processing in North America experienced the highest rate of revenue and transaction volume growth in the second half of 2007 (100% increase in revenue over first half 2007 results), amongst the regions in which the Company operates, driven largely by the efforts of U.S. e-commerce merchants to target higher-growth markets outside the US.

Consequently, while the Asia-Pacific market offers much promise, opportunity also abounds closer to home, particularly in the multi-currency e-commerce area. Yesterday's announcement of our acquisition of the assets of the former iPay e-commerce processing business, comprising an e-commerce platform which we plan to integrate to our platform and "internationalize" for both our U.S. and international customers is intended to bolster our ability to take advantage of these market trends.

### **REVIEW OF ACTIVITIES IN 2007**

During 2007, we made significant progress with our previously outlined objectives.

In March, Planet Payment formed a new subsidiary, Planet Payment IT Services (Shanghai) Ltd., (a Wholly Foreign Owned Enterprise – "WFOE") and secured a license to operate in China. This subsidiary enables us to provide direct support to Chinese credit card acquirers in their activities with merchants located in China. Continued merchant adoption through our existing partners resulted in over 1,250 active merchant locations comprising over 2,900 points of sale across Hong Kong, China and Macau by year end.

Throughout the year, we broadened our partnerships in Greater China through agreements signed with Agricultural Bank of China, one of China's state-owned "big four" banks, Banco Nacional Ultramarino of Macau and through Hang Seng Bank, with Bank of Communications. In November, the Company entered into a new agreement with Global Payments Asia Pacific to offer Planet Payment's "Pay In Your Currency" services to their merchants in Malaysia and Taiwan.

Our change of name to Planet Payment, Inc. completed in June aligned the Company's legal name with the brand identity it has established through its operations, products and services, and better reflects the nature of

the Company's business. Our brand identity was further supported by an enhanced website, including new sites targeted at the Asia-Pacific and European markets.

## **ENHANCEMENTS TO OUR PROCESSING INFRASTRUCTURE**

In 2007, we made great strides in broadening our product set and expanding the flexibility of our global technology platform.

In March, we completed registration as a non-member processor by both Visa and MasterCard, an effort initiated by the acquisition of the Bermuda processing assets in November 2006. With this certification, we can, for select bank customers and merchants, maintain direct control of the entire transaction process path from the merchant's point-of-sale device through card-scheme submission. The direct card association interfaces provide us with increased flexibility in deploying new payment solutions both within and beyond our core-multi-currency processing offerings, in order to better meet our partners' strategic needs around the world.

We also completed web-based interfaces to JCB, American Express and Diner's Club card associations, broadening our supported card types and providing increased operational efficiencies to our networks of acquiring partners and payment technology providers. Through these interfaces, Planet Payment can route transactions to the appropriate card scheme or bank, while processing eligible cross currency transactions through its own platform.

Our market leading, Asia-Pacific regional switch, launched in August, advances the deployment of integrated payment systems for Asia-Pacific merchants in the lodging, restaurant and retail segments. Now through our certified interfaces with Agilysis and MICROS Financial Services, merchants in this region, who previously were limited to using terminals running independently from their property management systems, are able to enjoy the same operational efficiencies and offer similar customer-service features as they do in other regions. Adoption of this technology was launched in August with the Sands Group for its prestigious Venetian Macao Resort Hotel.

The Company utilized its service-oriented architecture (SOA) and a new state-of-the-art Web service-based interface to power gateways in Asia Pacific and the United States. The SOA/Web services approach will facilitate broader and much more rapid merchant adoption of our services. SOA also allows reusability of applications to enhance operating and development efficiencies. Our integration with leading point-of-sale providers was also expanded by the certification of more than fifteen terminal applications with our international banks and processors.

We also completed end-to-end EMV chip certification on our processing platform, which enables us to process "smart cards" and modified our technology to support Chinese language and characters. These development efforts are further evidence of the flexibility of our processing platform and our ability to nimbly meet the different operational needs of our new acquiring partners.

The Company continues to make security and protection of cardholder data a priority. During 2007, the Company again successfully completed its annual examination under Statement of Auditing Standards No. 70, Service Organizations ("SAS70") Type II and obtained re-certification of compliance with the Payment Card Industry (PCI) security requirements.

## **PERSONNEL AND FACILITIES UPGRADE**

We continued to invest during the year in our human resources and infrastructure assets in order to provide our customers with first class support. By year-end, we grew our staff to over 90 employees, with over 55% of our team dedicated to supporting our technology development efforts. The majority of this staff increase occurred in Asia-Pacific, in order to support the needs of our expanding portfolio of acquirers and merchants in that region.

Further, the Company expanded our processing infrastructure by establishing new co-location data centres in Hong Kong, Shanghai and Macau. These centres improve our operational efficiencies in these regions, provide additional redundancy and offer increased processing capacity.

In support of our Chinese subsidiary and its growing business development opportunities, the Company opened new offices in Shanghai and Beijing in March. Our Hong Kong office relocation in August to a larger facility in the Wan Chai district is yet another example of our continued commitment to Greater China and the growing Asia Pacific markets. Our Atlanta and Bermuda technology personnel also moved into new office space, designed to deliver enhanced productivity and allow for future expansion by the Company.

## **CORPORATE FINANCE**

The Company raised \$18.3m, net of capital raising expenses, during 2007. These proceeds were used to fund ongoing working capital requirements. In February 2007, we completed a \$7.5m private placing, (after capital raising expenses), led by experienced investors in the payment processing industry - Camden Partners, a U.S. private equity firm, and Richard Kiphart, former non-executive Chairman of the Board of Concorde EFS (acquired by First Data Corporation). The financing comprised a \$5m Convertible Promissory Note and a \$2.6m investment in Common Shares. In October and November 2007, we completed the private placing of Common Shares totalling approximately \$10.8m (after capital raising expenses).

As a result of the addition of the convertible debt financing noted above, total liabilities increased 91% as of year-end 2007, compared to year-end 2006. Excluding the convertible debt financing, total liabilities increased 4%. The Company ended 2007 with approximately \$8.8m in cash and short-term investments.

We ended 2007 with approximately \$2.2 m of stockholders' equity, compared to \$0.38m at year-end 2006.

In April, the Company completed the process of having its unrestricted Common Shares, trading under ticker symbol PPT, admitted to trading by means of Depository Interests, through the CREST settlement system. Participation in CREST simplifies the process of trading the Company's shares and enables the PPT, unrestricted Common Shares to be traded and settled wholly electronically, without the need for issuing paper share certificates.

## **FINANCIAL OVERVIEW**

*All figures are in US dollars unless otherwise stated. Percentage changes shown are against the comparative period for 2006 unless otherwise stated.*

Total revenue increased 233% to approximately \$18.2m (2006: \$5.5m) led by new merchant deployments with banking partners in Greater China and the United States. Core multi-currency processing revenue continued to grow and to make up a larger contribution of total revenue (79% in 2007 vs. 68% in 2006). Processing of multi-currency transactions gives rise to cross-currency conversion fee revenue for the Company ("core" services excludes those where the Company only receives referral revenue). Transaction volume from core multi-currency processing services increased 273% to \$437.8m (2006: \$117.4m). Consequently, revenue from core multi-currency processing increased 290% to \$14.4m (2006: \$3.7m).

Total revenue for the second half of 2007 grew 168% to \$11.4m as compared to the second half of 2006 (H2 2006: \$4.3m) and 68% as compared to the first half of 2007 (H1 2007: \$6.8 m), as operations in Greater China continued to expand and U.S. multi-currency processing revenue showed growth 100% over the first half of the year.

Core multi-currency processing services transaction volume for the second half of 2007 increased 176% in Greater China and 232% in the U.S. as compared to the second half of 2006. For 2007, core multi-currency processing services transaction volume attributable to each region was as follows: Greater China 85% (2006:

78%), North America 14% (2006: 17%) and Europe 1% (2006: 4%). Revenue from core multi-currency processing services increased 200% in the second half of 2007 to \$8.8m, as compared to \$2.9m in the second half of 2006 and 55% as compared to first half of 2007 (H1: \$5.7m).

Gross profit rose 221% to \$6.5m (2006: \$2.0m). Gross margin percentage was 36% for 2007 as compared to 37% for 2006. The drop in margin was a result of a larger proportion of revenue coming from Planet Payment's core multi-currency processing activities versus referral commissions (which have no direct cost of sales). Excluding the referral revenue, the gross profit percentage improved from 26% in 2006 to 31% in 2007.

The Company's operating costs as a percentage of revenue decreased to 105% from 245% in 2006. EBITDA loss for the year (excluding non-cash charges as described below) was \$8.2m, a 15% improvement (2006: \$9.7m). Operating expenses grew 43% to \$19.1m in 2007 (2006: \$13.4m). Operating expenses include an allowance for doubtful accounts of \$1.3m due to certain receivables being subject to litigation.

Operating expenses excluding the above noted allowance, depreciation and amortization expense (\$2.0m), and non-cash stock-related compensation expense arising from SFAS 123R (\$1.2m) ("cash operating expense"), totaled \$14.7m, a 26% increase over 2006. Cash operating expense essentially stayed flat in the second half of 2007 increasing only 1% over the first half of 2007.

The increase in cash operating expenses is attributable to the expansion of operations in Greater China, including the formation of our Chinese subsidiary and offices in Shanghai and Beijing, a full year of public company-related expenses, and inclusion of operating costs following the acquisition of the processing platform in Bermuda in November 2006.

Cash compensation expense totaled \$7.8m, an increase of 26% over 2006 (H2 2007 actually decreased 3% over H1 2007), representing 53% of total cash operating expenses. Headcount grew from 71 in December 2006 to 90 in December 2007, of which over 40% of the growth was attributable to personnel in the Asia Pacific Region. Other cash operating expense (i.e. excluding cash compensation expense) increased 26% over 2006.

These cost increases led to a net loss of approximately \$13.4m (2006 Loss: \$11.6m). Pro forma net loss, excluding non-cash charges such as the receivable allowance, depreciation and amortization, non-cash stock-related expense due to SAS 123R and a one-time non-cash charge related to the February 2007 convertible debt financing, improved by 11% over 2006.

The Company provides certain non-GAAP financial measures in this statement, in order to provide investors with additional perspective of underlying business trends and results. These non-GAAP key business indicators, which include EBITDA and pro-forma net loss, transaction volumes, annualized revenue run rates, merchant locations and points of sale, should not be considered replacements for and should be read in conjunction with the GAAP financial measures.

## **CURRENT TRADING AND OUTLOOK**

We made further progress in expanding our customer base with the January 2008 announcement of an agreement with the Bank of East Asia, the largest independent local bank in Hong Kong and one of the first foreign banks to be authorized to operate in Mainland China. In late March, the Company broadened our existing relationship with Global Payments to offer our multi-currency processing services to Hong Kong & Shanghai Banking Corporation's ("HSBC") merchants in the People's Republic of China; scheduled to be launched prior to the 2008 Beijing Olympics (subject to regulatory approvals).

With the direct integration between MICROS Financial Services, a division of MICROS-Fidelio Asia-Pacific, and Planet Payment's processing platform completed in February 2008, we continued to broaden our network of leading point-of-sale providers. Through this partnership, the companies will deploy end-to-end integrated

payment solutions to merchants utilizing MICROS point-of-sale applications in the lodging, restaurant and retail sectors, with an initial focus on the Asia-Pacific region.

Total revenue for the first quarter of 2008 is estimated to have grown over 70% as compared to first quarter of 2007. Revenue from core multi-currency processing services in the first quarter 2008 increased by an estimated 85% as compared first quarter 2007, but was down 14% as compared to the fourth quarter 2007 due to reduced international business travel in Greater China during February around the Chinese New Year. First quarter is historically the slowest quarter of the year, while fourth quarter is the most active. Core multi-currency transaction volume totalled \$129.0m in Q1 2008, an increase of 75% as compared to Q1 2007.

Merchant locations continued to show growth. Active merchant locations at the end of March 2008 grew 7% to 2,479 locations from the end of December 2007 (2,314 locations). It is estimated that at the end of March 2008, Planet Payment's services were processed through nearly 8,000 individual points of sale, at merchant locations using our services. Furthermore, an additional 750 merchant locations, primarily in Malaysia and Taiwan, were signed and enrolled in our system, with processing to commence in the second quarter of 2008.

Fuelled by favourable global market trends, a broader portfolio of innovative payment solutions and a robust pipeline of merchant rollouts, we look forward to continued significant growth in 2008.

Philip Beck

*Chairman and Chief Executive Officer*

**PLANET PAYMENT, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2007 AND 2006**

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,824,739	\$ 1,860,186
Investment securities at fair value	\$6,000,000	-
Accounts receivable, net	831,277	388,155
Prepaid expenses	113,649	211,415
Other current assets	<u>667,156</u>	<u>261,302</u>
Total current assets	<u>10,436,821</u>	<u>2,721,058</u>
PROPERTY AND EQUIPMENT, net	<u>2,583,171</u>	<u>2,346,984</u>
<b>OTHER ASSETS:</b>		
Intangible assets, net	744,791	1,310,970
Goodwill	66,668	66,668
Security deposits	<u>202,217</u>	<u>150,828</u>
Total other assets	<u>1,013,676</u>	<u>1,528,466</u>
<b>TOTAL</b>	<u><b>\$ 14,033,668</b></u>	<u><b>\$ 6,596,508</b></u>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 1,616,141	\$ 1,284,319
Current maturities of long term debt	865,143	875,263
Due to affiliates	<u>7,430</u>	<u>58,592</u>
Total current liabilities	2,488,714	2,218,174
<b>LONG TERM LIABILITIES</b>		
Long-term debt-less current maturities	4,000,000	4,000,000
Convertible debt	<u>5,371,517</u>	<u>-</u>
Total long term liabilities	9,371,517	4,000,000
Total liabilities	<u>11,860,231</u>	<u>6,218,174</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
 <b>STOCKHOLDERS' EQUITY:</b>		
Convertible preferred stock—4,000,000 shares authorized, \$0.01 par value:		
Series A—2,243,750 issued and outstanding in 2007 and 2006;		
\$8,975,000 aggregate liquidation preference	22,438	22,438
Common stock—70,000,000 shares authorized, \$0.01 par value,		
26,375,518 and 20,386,834, respectively, issued and outstanding	263,755	203,868
Warrants	1,368,573	1,237,260
Additional paid-in capital	61,959,686	46,977,589
Accumulated deficit	<u>(61,441,015)</u>	<u>(48,062,821)</u>
Total stockholders' equity	<u>2,173,437</u>	<u>378,334</u>
<b>TOTAL</b>	<u><b>\$ 14,033,668</b></u>	<u><b>\$ 6,596,508</b></u>

See notes to consolidated financial statements

**PLANET PAYMENT, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>REVENUE:</b>		
Multicurrency processing revenue	\$ 15,722,763	\$ 4,438,830
Processing revenue	2,400,023	979,388
Professional services revenue	<u>93,650</u>	<u>51,800</u>
Total revenue	<u>18,216,436</u>	<u>5,470,018</u>
<b>COST OF SALES:</b>		
Multicurrency processing cost of sales	9,357,086	2,613,810
Processing cost of sales	2,295,897	787,893
Professional services cost of sales	<u>71,550</u>	<u>43,564</u>
Total cost of sales	<u>11,724,534</u>	<u>3,445,267</u>
<b>GROSS PROFIT</b>	<u>6,491,903</u>	<u>2,024,751</u>
<b>OPERATING EXPENSES :</b>		
Compensation and benefits	8,983,977	6,940,799
Professional fees	2,891,700	2,082,572
Other	1,987,367	1,032,827
Depreciation and amortization	1,957,650	943,485
Technology	1,260,979	889,553
Travel and entertainment	1,053,101	816,598
Facilities	<u>986,276</u>	<u>669,493</u>
Total operating expenses	<u>19,121,051</u>	<u>13,375,327</u>
<b>LOSS FROM OPERATIONS</b>	<u>(12,629,148)</u>	<u>(11,350,576)</u>
<b>OTHER INCOME (EXPENSE):</b>		
Interest income	156,800	142,373
Interest expense	<u>(902,227)</u>	<u>(388,699)</u>
Total other expense	<u>(745,427)</u>	<u>(246,326)</u>
<b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>	(13,374,576)	(11,596,902)
<b>PROVISION FOR INCOME TAXES</b>	<u>3,618</u>	<u>2,453</u>
<b>NET LOSS</b>	<u>\$ (13,378,194)</u>	<u>\$ (11,599,355)</u>

See notes to consolidated financial statements

## PLANET PAYMENT, INC.

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Audited</b>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (13,378,194)	\$ 11,599,355)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash compensation expense	1,190,334	723,333
Depreciation and amortization expense	1,957,650	943,486
Allowance for bad debts	1,276,400	
Warrants issued as payment of accounts payable	133,864	53,428
Interest expense of beneficial conversion adjustment	181,819	
Interest expense accrued on convertible debt	371,517	10,133
Interest expense accrued on long term debt	348,184	
Changes in Assets and Liabilities:		
(Increase) / decrease in receivables and prepaid expenses	(1,621,756)	229,243
Increase in other current assets	(405,854)	(183,070)
Increase in security deposits	(51,389)	(73,151)
Increase / (decrease) in accounts payable and accrued expenses	(6,108)	32,631
Decrease in due to customers		(147,764)
Decrease in due to affiliates	<u>(51,161)</u>	<u>(60,339)</u>
Net cash used in operating activities	<u>(10,054,694)</u>	<u>(10,071,425)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in Restricted cash		20,000
Purchase of investments	(6,000,000)	
Purchase of property and equipment	(997,019)	(493,571)
Purchase of intangible assets	<u>(632,516)</u>	<u>(989)</u>
Net cash used in investing activities	<u>(7,629,535)</u>	<u>(474,560)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	13,262,755	10,921,327
Proceeds from convertible debt	5,000,000	
Equity issued to pay accrued interest	349,508	
Repayment of convertible debt		(512,709)
Repayment of long term debt	(20,375)	(570,375)
Issuance of warrants	<u>55,000</u>	<u>611</u>
Net cash provided by financing activities	<u>18,646,888</u>	<u>9,838,854</u>
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	<u>1,894</u>	<u>(3,581)</u>
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	964,552	(710,712)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>1,860,186</u>	<u>2,570,898</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 2,824,739</u>	<u>\$ 1,860,186</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	<u>\$</u>	<u>\$ 40,644</u>
Income taxes paid	<u>\$ 2,643</u>	<u>\$ 2,203</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Preferred stock converted to common stock	<u>\$ -</u>	<u>\$ 17,175</u>
Convertible debt converted to common stock	<u>\$ -</u>	<u>\$ 340,182</u>
Common stock issued to purchase assets of subsidiary	<u>\$ -</u>	<u>\$ 750,000</u>

See notes to consolidated financial statements

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Business Description**—Planet Payment, Inc. (the “Company”) was incorporated in the State of Delaware in October 1999 as Planet Group, Inc. and changed its name to Planet Payment, Inc. on June 18, 2007. The Company enables banks and their merchants to accept and process credit card transactions in multiple currencies, thereby providing localized pricing to foreign customers. The Company’s processing solution integrates with banks, processors, gateways and point-of-sale solution providers to provide the key elements of a dynamic currency conversion and multi-currency processing solution that is designed to be fully compliant with card association regulations. On March 20, 2006, the Company’s common shares were admitted to trading on the London Stock Exchange’s AIM market.

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

**Principles of Consolidation**—The consolidated financial statements include the accounts of the Company, a wholly owned U.S. subsidiary, a 70% owned U.S. subsidiary and seven wholly owned foreign subsidiaries located in Bermuda, British Virgin Islands, Hong Kong, Ireland, Isle of Man, The People’s Republic of China and Singapore, as well as a 51% joint venture in the UK. All inter-company accounts and transactions are eliminated on consolidation.

**Foreign Currency Translation**—Assets and liabilities of foreign subsidiaries other than those in highly inflationary economies are translated at current exchange rates with the related translation adjustments reported as a separate component of stockholders’ equity. These amounts are immaterial for all periods presented and have not been reported separately. Income statement accounts are translated at the average exchange rate during the period. In highly inflationary economies where the U.S. dollar is considered the functional currency, monetary assets and liabilities are translated at current exchange rates with the related adjustment included in net income. Nonmonetary assets and liabilities are translated at historical exchange rates.

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

**Investment Securities:** Investment securities consist of auction rate securities with auction reset periods less than 12 months, classified as available-for-sale securities and stated at fair value based on market price from independent sources, with unrealized gains and losses excluded from earnings, and reported as a separate component of stockholders equity in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 115, “Accounting for Certain Investments in Debt and Equity Securities”. Available-for-sale investments are evaluated for other than temporary impairment on an ongoing basis.

**Accounts Receivable**—The Company evaluates the collectability of its accounts receivable based on a combination of factors. In cases where the Company is aware of circumstances that may impair a specific customer’s ability to meet its financial obligations, an allowance is recorded against amounts due thereby reducing the net recognized receivable to the amount that the Company reasonably believes will be collected. For all other customers, the Company recognizes an allowance for doubtful accounts based on the length of time the receivables are past due, the current business environment and historical experience. As at December 31, 2007, the Company has included an allowance for doubtful accounts of approximately \$1.3 million due to certain receivables being subject to litigation. As at December 31, 2006, the Company had no reserves established, as they considered accounts receivable to be fully collectible.

**Other Current Assets**— Commencing in July 2006, certain payments made to Servebase have been applied to the purchase of software licenses for resale that are being recorded as other current assets.

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

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

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

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

License agreements	7 years
Patents	15 years
Trademarks	15 years

The Company performs an annual impairment test comparing the estimated fair value of the intangibles to its carrying value. No impairment was recorded for the years ended December 31, 2007 and 2006.

The Company follows AICPA Statement of Position 98/1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". The Company develops software that is used in providing processing services to customers. Software development costs are capitalized once technological feasibility of the software has been established. Costs incurred prior to establishing technological feasibility are expensed as incurred. Technological feasibility is established when the Company has completed all planning, designing, coding and testing activities that are necessary to determine that a product can be produced to meet its design specifications, including functions, features and technical performance requirements. Capitalization of costs ceases when the product is available for general use. Software development costs are amortized using the straight-line method over the estimated useful life of the software, which is generally five years.

**Goodwill** - Goodwill represents the excess purchase price over the fair value of net assets acquired from business acquisitions. The Company tests for impairment at least annually and will test for impairment more frequently if events or circumstances indicate that an asset may be impaired. The Company tests for impairment by comparing the fair value of goodwill, as determined by using a discounted cash flow method, with its carrying value. Any excess of carrying value over the fair value of the goodwill would be recognized as an impairment loss in continuing operations. No impairment was recorded for the years ended December 31, 2007 and 2006.

**Security Deposits** – Security deposits are primarily held by landlords to cover rental obligations or processing partners where the Company holds a share of underwriting risk.

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

the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

Transaction based fees are earned at the time the transaction is submitted for processing. Administrative fees revenue comprises fixed monthly amounts, which are recognized at the time charged to each customer. Fees arising from referral of business to third-party processors are recognized upon receipt.

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

**Income Taxes**—The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*, which requires the recognition of deferred income taxes for differences between the basis of assets and liabilities for financial statement and income tax purposes. Deferred tax assets and liabilities represent the future tax consequence for those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48") effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The effect of FIN 48 for the Company is not material for the year ended December 31, 2007.

**Fair Value of Financial Instruments**—SFAS No. 107, *Disclosure about Fair Value of Financial Instruments*, requires certain disclosures regarding the fair value of financial instruments. Cash and cash equivalents, receivables, debt, accounts payable, due to merchants, accrued expenses and amounts due to affiliates are reflected in the consolidated financial statements at fair value because of the short-term maturity of these instruments.

**Stock Incentive Plan**—The Company adopted SFAS 123R effective January 1, 2006. SFAS 123R requires compensation cost related to share-based payments to employees to be recognized in the financial statements based on their fair value. This method requires that the provisions of SFAS 123R be applied to new awards and awards modified, repurchased or cancelled after the effective date. See Note 11 for disclosure on the Company's stock incentive plan.