

**Digital River, Inc.**

First Quarter Results

(Unaudited, in thousands)

Subject to reclassification

**Condensed Consolidated Balance Sheets**

	As of	
	March 31,	December 31,
	2010	2009
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 378,925	\$ 392,704
Short-term investments	15,168	15,228
Accounts receivable, net	44,972	50,657
Deferred income taxes	9,899	9,901
Prepaid expenses and other	17,004	14,899
Total current assets	<u>465,968</u>	<u>483,389</u>
Property and equipment, net	52,164	54,343
Goodwill	271,542	279,538
Intangible assets, net	24,004	25,605
Long-term investments	117,635	119,581
Deferred income taxes	22,373	22,416
Other assets	761	770
<b>Total assets</b>	<b><u>\$ 954,447</u></b>	<b><u>\$ 985,642</u></b>
<u>Liabilities and stockholders' equity</u>		
Current liabilities		
Accounts payable	\$ 170,119	\$ 192,301
Accrued payroll	12,309	16,131
Deferred revenue	18,041	17,879
Accrued acquisition liabilities	1,601	2,001
Other accrued liabilities	39,512	38,801
Total current liabilities	<u>241,582</u>	<u>267,113</u>
Non-current liabilities		
Convertible senior notes	8,805	8,805
Other liabilities	16,006	15,505
Total non-current liabilities	<u>24,811</u>	<u>24,310</u>
Total liabilities	<u>266,393</u>	<u>291,423</u>
Stockholders' equity		
Common stock	460	449
Treasury stock	(219,776)	(216,880)
Additional paid-in capital	658,975	653,956
Retained earnings	245,834	238,867
Accumulated other comprehensive income	2,561	17,827
Stockholders' equity	<u>688,054</u>	<u>694,219</u>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 954,447</u></b>	<b><u>\$ 985,642</u></b>

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**Condensed Consolidated Statements of Income**

	Three months ended	
	March 31,	
	2010	2009
Revenue	\$ 98,726	\$ 102,931
Costs and expenses:		
Direct cost of services	4,637	3,942
Network and infrastructure	11,432	10,313
Sales and marketing	41,050	38,447
Product research and development	15,689	12,335
General and administrative	10,829	9,129
Depreciation and amortization	5,481	3,844
Amortization of acquisition-related intangibles	1,481	2,003
Total costs and expenses	90,599	80,013
<b>Income from operations</b>	<b>8,127</b>	<b>22,918</b>
Interest income	764	1,189
Other income (expense), net	785	(6,556)
<b>Income before income tax expense</b>	<b>9,676</b>	<b>17,551</b>
Income tax expense	2,709	4,231
<b>Net income</b>	<b>\$ 6,967</b>	<b>\$ 13,320</b>
<b>Net income per share - basic</b>	<b>\$ 0.19</b>	<b>\$ 0.36</b>
<b>Net income per share - diluted</b>	<b>\$ 0.18</b>	<b>\$ 0.36</b>
Shares used in per share calculation - basic	37,416	36,706
Shares used in per share calculation - diluted	38,220	37,227

**Calculation of GAAP Diluted Net Income Per Share**

	Three months ended	
	March 31,	
	2010	2009
GAAP net income	\$ 6,967	\$ 13,320
Add back debt interest expense and issuance cost amortization, net of tax benefit	21	21
<b>Adjusted net income for GAAP EPS calculation</b>	<b>\$ 6,988</b>	<b>\$ 13,341</b>
<b>Net income per share - diluted</b>	<b>\$ 0.18</b>	<b>\$ 0.36</b>
Shares used in per share calculation - diluted	38,220	37,227

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## GAAP to non-GAAP Reconciliations

(Unaudited, in thousands, except per share amounts)

**Calculation of non-GAAP Diluted Net Income Per Share**

	Three months ended				Twelve
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	months ended December 31, 2009
GAAP pre-tax income	\$ 17,551	\$ 14,785	\$ 15,384	\$ 14,076	\$ 61,796
Add back: debt financing costs on convertible notes	5,208				5,208
Add back: amortization of acquisition-related intangibles	2,003	1,916	1,800	1,842	7,561
Add back: stock-based compensation expense	3,711	4,887	4,658	5,014	18,270
Non-GAAP pre-tax income	28,473	21,588	21,842	20,932	92,835
Income tax expense @ 27%	7,688	5,828	5,897	5,652	25,065
<b>Non-GAAP net income</b>	<b>\$ 20,785</b>	<b>\$ 15,760</b>	<b>\$ 15,945</b>	<b>\$ 15,280</b>	<b>\$ 67,770</b>
<b>Non-GAAP net income per share - diluted</b>	<b>\$ 0.56</b>	<b>\$ 0.42</b>	<b>\$ 0.42</b>	<b>\$ 0.40</b>	<b>\$ 1.80</b>
Shares used in per share calculation - diluted	37,227	37,781	38,093	38,026	37,704

	Three months ended
	March 31, 2010
GAAP pre-tax income	\$ 9,676
Add back: amortization of acquisition-related intangibles	1,481
Add back: stock-based compensation expense	4,476
Non-GAAP pre-tax income	15,633
Income tax expense @ 27%	4,221
<b>Non-GAAP net income</b>	<b>\$ 11,412</b>
<b>Non-GAAP net income per share - diluted</b>	<b>\$ 0.30</b>
Shares used in per share calculation - diluted	38,220

**Breakdown of stock-based compensation expense**

	Three months ended
	March 31, 2010
Direct cost of services	\$ 138
Network and infrastructure	198
Sales and marketing	1,373
Product research and development	725
General and administrative	2,042
<b>Total</b>	<b>\$ 4,476</b>

**Non-GAAP Guidance Reconciliation****Q2 - 2010 Guidance**

Expected GAAP net income per share - diluted	\$ (0.12)
Add back amortization of acquisition-related costs	0.05
Add back stock-based compensation expense	0.13
Add back one-time restructuring related charges	0.05
Tax variability	(0.06)
Expected non-GAAP diluted net income per share	<b>\$ 0.05</b>

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**Condensed Consolidated Statements of Cash Flows**

	Three months ended March 31,	
	2010	2009
<b>Operating Activities:</b>		
Net income	\$ 6,967	\$ 13,320
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of acquisition-related intangibles	1,481	2,003
Change in accounts receivable allowance, net of acquisitions	751	580
Depreciation and amortization	5,481	3,844
Debt financing costs - write-off	-	5,208
Stock-based compensation expense	4,476	3,711
Excess tax benefits from stock-based compensation	(442)	(96)
Deferred and other income taxes	108	1,555
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable	3,606	(10,607)
Prepaid and other assets	(2,420)	17,399
Accounts payable	(17,258)	23,129
Deferred revenue	526	2,191
Income tax payable	5,933	83
Other accrued liabilities	(7,467)	(7,729)
<b>Net cash provided by operating activities</b>	<b>1,742</b>	<b>54,591</b>
<b>Investing Activities:</b>		
Purchases of investments	(11,675)	(2,122)
Sales of investments	12,250	10,000
Cash paid for acquisitions, net of cash received	(333)	(3,017)
Purchases of equipment and capitalized software	(3,553)	(6,894)
<b>Net cash used in investing activities</b>	<b>(3,311)</b>	<b>(2,033)</b>
<b>Financing Activities:</b>		
Cash paid for convertible senior notes	-	(186,660)
Exercise of stock options	486	943
Repurchase of restricted stock to satisfy tax withholding obligation	(2,896)	(436)
Excess tax benefits from stock-based compensation	442	96
<b>Net cash used in financing activities</b>	<b>(1,968)</b>	<b>(186,057)</b>
Effect of exchange rate changes on cash	(10,242)	(8,973)
<b>Net decrease in cash and cash equivalents</b>	<b>(13,779)</b>	<b>(142,472)</b>
Cash and cash equivalents, beginning of period	392,704	490,335
<b>Cash and cash equivalents, end of period</b>	<b>\$ 378,925</b>	<b>\$ 347,863</b>
Cash paid for interest on convertible senior notes	\$ 55	\$ 1,219