

Digital River, Inc.

Second Quarter Results

(Unaudited, in thousands)

Subject to reclassification

Condensed Consolidated Balance Sheets

	As of	
	June 30,	December 31,
	2009	2008
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 350,389	\$ 490,335
Short-term investments	-	10,000
Accounts receivable, net	48,343	53,216
Deferred income taxes	7,613	7,613
Prepaid expenses and other	33,019	42,522
Total current assets	439,364	603,686
Property and equipment, net	52,620	41,733
Goodwill	271,719	273,788
Intangible assets, net	28,324	32,222
Long-term investments	94,637	93,213
Deferred income taxes	23,643	24,824
Other assets	2,461	786
Total assets	\$ 912,768	\$ 1,070,252
<u>Liabilities and stockholders' equity</u>		
Current liabilities		
Convertible senior notes	\$ -	\$ 186,195
Accounts payable	185,518	184,361
Accrued payroll	12,325	14,841
Deferred revenue	15,962	13,651
Accrued acquisition liabilities	73	3,278
Other accrued liabilities	27,477	41,336
Total current liabilities	241,355	443,662
Non-current liabilities		
Convertible senior notes	8,805	8,805
Other liabilities	15,871	15,712
Total non-current liabilities	24,676	24,517
Total liabilities	266,031	468,179
Stockholders' equity		
Common stock	448	432
Treasury stock	(216,674)	(216,163)
Additional paid-in capital	635,132	623,778
Retained earnings	217,456	189,096
Accumulated other comprehensive income	10,375	4,930
Stockholders' equity	646,737	602,073
Total liabilities and stockholders' equity	\$ 912,768	\$ 1,070,252

Digital River, Inc.

Second Quarter Results

(Unaudited, in thousands, except per share amounts)

Subject to reclassification

Condensed Consolidated Statement of Income

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Revenue	\$ 96,564	\$ 98,374	\$ 199,495	\$ 202,008
Costs and expenses:				
Direct cost of services	3,951	4,469	7,893	8,644
Network and infrastructure	10,963	10,396	21,276	20,584
Sales and marketing	39,189	39,247	77,636	78,977
Product research and development	13,136	13,074	25,471	25,744
General and administrative	9,832	10,834	18,961	21,078
Depreciation and amortization	4,629	3,957	8,473	7,791
Amortization of acquisition-related intangibles	1,916	2,170	3,919	4,346
Total costs and expenses	83,616	84,147	163,629	167,164
Income from operations	12,948	14,227	35,866	34,844
Interest income	762	4,298	1,951	10,544
Other income (expense), net	1,075	(1,653)	(273)	(2,402)
Income before income tax expense	14,785	16,872	37,544	42,986
Income tax expense	3,016	3,653	9,184	11,484
Net income	\$ 11,769	\$ 13,219	\$ 28,360	\$ 31,502
Net income per share - basic	\$ 0.32	\$ 0.36	\$ 0.77	\$ 0.84
Net income per share - diluted	\$ 0.31	\$ 0.33	\$ 0.76	\$ 0.76
Shares used in per share calculation - basic	36,856	36,594	36,794	37,562
Shares used in per share calculation - diluted	37,781	41,647	37,361	42,556

Calculation of GAAP Diluted Net Income Per Share

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
GAAP net income	\$ 11,769	\$ 13,219	\$ 28,360	\$ 31,502
Add back debt interest expense and issuance cost amortization, net of tax benefit	21	435	42	869
Adjusted net income for GAAP EPS calculation	\$ 11,790	\$ 13,654	\$ 28,402	\$ 32,371
Net income per share - diluted	\$ 0.31	\$ 0.33	\$ 0.76	\$ 0.76
Shares used in per share calculation - diluted	37,781	41,647	37,361	42,556

Digital River, Inc.

Second Quarter Results

(Unaudited, in thousands)

Subject to reclassification

Condensed Consolidated Statements of Cash Flows

	<u>Six months ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
<u>Operating Activities:</u>		
Net income	\$ 28,360	\$ 31,502
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of acquisition-related intangibles	3,919	4,346
Change in accounts receivable allowance, net of acquisitions	96	603
Depreciation and amortization	8,473	7,791
Stock-based compensation expense	8,598	6,538
Excess tax benefits from stock-based compensation	(144)	(1,001)
Deferred and other income taxes	2,184	5,934
Change in operating assets and liabilities (net of acquisitions):		
Accounts receivable	4,497	12,495
Prepaid and other assets	2,906	(6,876)
Accounts payable	1,301	(12,582)
Deferred revenue	2,299	1,867
Income tax payable	(1,567)	(10,548)
Other accrued liabilities	(14,406)	(50)
Net cash provided by operating activities	<u>46,516</u>	<u>40,019</u>
<u>Investing Activities:</u>		
Purchases of investments	(3,153)	(227,625)
Sales of investments	17,100	232,650
Cash paid for acquisitions, net of cash received	(3,187)	(17,352)
Purchases of equipment and capitalized software	(19,396)	(9,532)
Net cash used in investing activities	<u>(8,636)</u>	<u>(21,859)</u>
<u>Financing Activities:</u>		
Cash paid for convertible senior notes	(186,660)	-
Exercise of stock options	7,432	4,439
Sales of common stock under employee stock purchase plan	1,336	1,446
Repurchase of common stock	-	(137,858)
Repurchase of restricted stock to satisfy tax withholding obligation	(511)	(379)
Excess tax benefits from stock-based compensation	144	1,001
Net cash used in financing activities	<u>(178,259)</u>	<u>(131,351)</u>
Effect of exchange rate changes on cash	433	8,330
Net decrease in cash and cash equivalents	<u>(139,946)</u>	<u>(104,861)</u>
Cash and cash equivalents, beginning of period	490,335	381,788
Cash and cash equivalents, end of period	<u>\$ 350,389</u>	<u>\$ 276,927</u>
Cash paid for interest on convertible senior notes	<u>\$ 55</u>	<u>\$ 1,219</u>

Calculation of non-GAAP Diluted Net Income Per Share

	Three months ended				Twelve months ended
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	December 31, 2008
GAAP pre-tax income	\$ 26,114	\$ 16,872	\$ 20,641	\$ 22,644	\$ 86,271
Add back: amortization of acquisition-related intangibles	2,176	2,170	2,001	2,044	8,391
Add back: stock-based compensation expense	3,031	3,507	3,623	2,387	12,548
Non-GAAP pre-tax income	31,321	22,549	26,265	27,075	107,210
Income tax expense @ 27%	8,457	6,088	7,092	7,310	28,947
Non-GAAP net income	\$ 22,864	\$ 16,461	\$ 19,173	\$ 19,765	\$ 78,263
Non-GAAP net income per share - diluted	\$ 0.53	\$ 0.40	\$ 0.46	\$ 0.48	\$ 1.86

Shares used in per share calculation - diluted	43,506	41,647	41,620	41,395	42,106
--	--------	--------	--------	--------	--------

	Three months ended		Six months ended
	March 31, 2009	June 30, 2009	June 30, 2009
GAAP pre-tax income	\$ 22,759	\$ 14,785	\$ 37,544
Add back: amortization of acquisition-related intangibles	2,003	1,916	3,919
Add back: stock-based compensation expense	3,711	4,887	8,598
Non-GAAP pre-tax income	28,473	21,588	50,061
Income tax expense @ 27%	7,688	5,828	13,516
Non-GAAP net income	\$ 20,785	\$ 15,760	\$ 36,545
Non-GAAP net income per share - diluted	\$ 0.56	\$ 0.42	\$ 0.98
Shares used in per share calculation - diluted	37,227	37,781	37,361

Breakdown of stock-based compensation expense

	Three months ended		Six months ended
	March 31, 2009	June 30, 2009	June 30, 2009
Direct cost of services	\$ 169	\$ 172	\$ 341
Network and infrastructure	113	207	320
Sales and marketing	1,517	1,643	3,160
Product research and development	456	622	1,078
General and administrative	1,456	2,243	3,699
Total	\$ 3,711	\$ 4,887	\$ 8,598

Non-GAAP Guidance Reconciliation

	Q3 - 2009 Guidance	
	Low	High
Expected GAAP net income per share - diluted	\$ 0.26	\$ 0.29
Add back amortization of acquisition-related costs	0.05	0.05
Add back stock-based compensation expense	0.12	0.12
Tax variability	(0.05)	(0.05)
Expected non-GAAP diluted net income per share	\$ 0.38	\$ 0.41