

Digital River, Inc.

Second Quarter Results

(Unaudited, in thousands)

Subject to reclassification

Condensed Consolidated Balance Sheets

	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 311,787	\$ 392,704
Short-term investments	36,739	15,228
Accounts receivable, net	37,603	50,657
Deferred income taxes	9,895	9,901
Prepaid expenses and other	12,500	14,899
Total current assets	408,524	483,389
Property and equipment, net	52,438	54,343
Goodwill	264,340	279,538
Intangible assets, net	26,724	25,605
Long-term investments	105,526	119,581
Deferred income taxes	22,600	22,416
Other assets	766	770
Total assets	\$ 880,918	\$ 985,642
<u>Liabilities and stockholders' equity</u>		
Current liabilities		
Accounts payable	\$ 131,557	\$ 192,301
Accrued payroll	12,149	16,131
Deferred revenue	16,909	17,879
Accrued acquisition liabilities	615	2,001
Other accrued liabilities	27,052	38,801
Total current liabilities	188,282	267,113
Non-current liabilities		
Convertible senior notes	8,805	8,805
Other liabilities	17,954	15,505
Total non-current liabilities	26,759	24,310
Total liabilities	215,041	291,423
Stockholders' equity		
Common stock	460	449
Treasury stock	(219,999)	(216,880)
Additional paid-in capital	665,773	653,956
Retained earnings	243,354	238,867
Accumulated other comprehensive income (loss)	(23,711)	17,827
Stockholders' equity	665,877	694,219
Total liabilities and stockholders' equity	\$ 880,918	\$ 985,642

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Condensed Consolidated Statements of Operations

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenue	\$ 81,832	\$ 96,564	\$ 180,558	\$ 199,495
Costs and expenses:				
Direct cost of services	4,356	3,951	8,993	7,893
Network and infrastructure	12,118	10,963	23,550	21,276
Sales and marketing	36,159	39,189	77,209	77,636
Product research and development	16,221	13,136	31,910	25,471
General and administrative	10,766	9,832	21,595	18,961
Depreciation and amortization	6,095	4,629	11,576	8,473
Amortization of acquisition-related intangibles	1,612	1,916	3,093	3,919
Total costs and expenses	87,327	83,616	177,926	163,629
Income (loss) from operations	(5,495)	12,948	2,632	35,866
Interest income	608	762	1,372	1,951
Other income (expense), net	-	1,075	785	(5,481)
Income (loss) before income taxes	(4,887)	14,785	4,789	32,336
Income tax expense (benefit)	(2,407)	3,016	302	7,247
Net income (loss)	\$ (2,480)	\$ 11,769	\$ 4,487	\$ 25,089
Net income (loss) per share - basic	\$ (0.07)	\$ 0.32	\$ 0.12	\$ 0.68
Net income (loss) per share - diluted	\$ (0.07)	\$ 0.31	\$ 0.12	\$ 0.67
Shares used in per share calculation - basic	37,577	36,856	37,548	36,794
Shares used in per share calculation - diluted	37,577	37,781	38,345	37,361

Calculation of GAAP Diluted Net Income (Loss) Per Share

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
GAAP net income (loss)	\$ (2,480)	\$ 11,769	\$ 4,487	\$ 25,089
Add back debt interest expense and issuance cost amortization, net of tax benefit	-	21	42	42
Adjusted net income (loss) for GAAP EPS calculation	\$ (2,480)	\$ 11,790	\$ 4,529	\$ 25,131
Net income (loss) per share - diluted	\$ (0.07)	\$ 0.31	\$ 0.12	\$ 0.67
Shares used in per share calculation - diluted	37,577	37,781	38,345	37,361

Digital River, Inc.

Second Quarter Results

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Condensed Consolidated Statements of Cash Flows

	<u>Six months ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
<u>Operating Activities:</u>		
Net income (loss)	\$ 4,487	\$ 25,089
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of acquisition-related intangibles	3,093	3,919
Change in accounts receivable allowance, net of acquisitions	1,769	96
Depreciation and amortization	11,576	8,473
Debt financing costs - write-off	-	5,208
Stock-based compensation expense	9,998	8,598
Excess tax benefits from stock-based compensation	(502)	(144)
Deferred and other income taxes	(231)	2,184
Change in operating assets and liabilities (net of acquisitions):		
Accounts receivable	8,347	4,497
Prepaid and other assets	1,555	2,906
Accounts payable	(49,686)	1,301
Deferred revenue	(14)	2,299
Income tax payable	2,680	(3,504)
Other accrued liabilities	(15,264)	(14,406)
Net cash provided by (used in) operating activities	<u>(22,192)</u>	<u>46,516</u>
<u>Investing Activities:</u>		
Purchases of investments	(33,155)	(3,153)
Sales of investments	20,150	17,100
Cash paid for acquisitions, net of cash received	(8,950)	(3,187)
Purchases of equipment and capitalized software	(10,291)	(19,396)
Net cash provided by (used in) investing activities	<u>(32,246)</u>	<u>(8,636)</u>
<u>Financing Activities:</u>		
Cash paid for convertible senior notes	-	(186,660)
Exercise of stock options	866	7,432
Sales of common stock under employee stock purchase plan	1,138	1,336
Repurchase of restricted stock to satisfy tax withholding obligation	(3,119)	(511)
Excess tax benefits from stock-based compensation	502	144
Net cash provided by (used in) financing activities	<u>(613)</u>	<u>(178,259)</u>
Effect of exchange rate changes on cash	(25,866)	433
Net increase (decrease) in cash and cash equivalents	<u>(80,917)</u>	<u>(139,946)</u>
Cash and cash equivalents, beginning of period	392,704	490,335
Cash and cash equivalents, end of period	<u>\$ 311,787</u>	<u>\$ 350,389</u>
	<u>\$ 55</u>	<u>\$ 1,219</u>
Cash paid for interest on convertible senior notes	\$ 55	\$ 1,219

Digital River, Inc.

GAAP to non-GAAP Reconciliations

(Unaudited, in thousands, except per share amounts)

Calculation of non-GAAP Diluted Net Income (Loss) Per Share

	Three months ended				Twelve months ended
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	December 31, 2009
GAAP pre-tax income (loss)	\$ 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 (loss)	28,473	21,588	21,842	20,932	92,835
Income tax expense @ 27%	7,688	5,828	5,897	5,652	25,065
Non-GAAP net income (loss)	\$ 20,785	\$ 15,760	\$ 15,945	\$ 15,280	\$ 67,770
Non-GAAP net income (loss) per share - diluted	\$ 0.56	\$ 0.42	\$ 0.42	\$ 0.40	\$ 1.80
Shares used in per share calculation - diluted	37,227	37,781	38,093	38,026	37,704

	Three months ended		Six months ended
	March 31, 2010	June 30, 2010	June 30, 2010
GAAP pre-tax income (loss)	\$ 9,676	\$ (4,887)	\$ 4,789
Add back amortization of acquisition-related intangibles	1,481	1,612	3,093
Add back stock-based compensation expense	4,476	5,522	9,998
Add back restructuring related costs	-	1,870	1,870
Non-GAAP pre-tax income (loss)	15,633	4,117	19,750
Income tax expense @ 27%	4,221	1,112	5,333
Non-GAAP net income (loss)	\$ 11,412	\$ 3,005	\$ 14,417
Non-GAAP net income (loss) per share - diluted	\$ 0.30	\$ 0.08	0.38
Shares used in per share calculation - diluted	38,220	38,351	38,345

Breakdown of stock-based compensation expense

	Three months ended		Six months ended
	March 31, 2010	June 30, 2010	June 30, 2010
Direct cost of services	\$ 138	\$ 161	\$ 299
Network and infrastructure	198	270	468
Sales and marketing	1,373	1,876	3,249
Product research and development	725	908	1,633
General and administrative	2,042	2,307	4,349
Total	\$ 4,476	\$ 5,522	\$ 9,998

Non-GAAP Guidance Reconciliation

	Q3 - 2010 Guidance
Expected GAAP net income (loss) per share - diluted	\$ (0.02)
Add back amortization of acquisition-related costs	0.05
Add back stock-based compensation expense	0.14
Add back restructuring related costs	0.01
Tax variability	(0.05)
Expected non-GAAP diluted net income (loss) per share	<u>\$ 0.13</u>