

Digital River, Inc.

Second Quarter Results
(Unaudited, in thousands)
Subject to reclassification

Condensed Consolidated Balance Sheets

	As of	
	June 30,	December 31,
	2008	2007
<u>Assets:</u>		
Current assets		
Cash and cash equivalents	\$ 276,927	\$ 381,788
Short-term investments	201,297	315,636
Accounts receivable, net	54,606	64,914
Deferred income taxes	2,808	7,899
Prepaid expenses and other	17,124	4,577
Total current assets	552,762	774,814
Property and equipment, net	32,971	31,102
Goodwill	280,908	261,885
Intangible assets, net	37,169	32,382
Long-term investments	109,108	-
Deferred income taxes	15,606	15,606
Other assets	6,654	11,955
Total assets	\$ 1,035,178	\$ 1,127,744
<u>Liabilities and stockholders' equity:</u>		
Current liabilities		
Convertible senior notes	\$ 195,000	\$ -
Accounts payable	174,064	180,386
Accrued payroll	12,167	12,704
Deferred revenue	12,597	10,384
Accrued acquisition liabilities	7	399
Other accrued liabilities	33,996	41,229
Total current liabilities	427,831	245,102
Non-current liabilities		
Convertible senior notes	-	195,000
Other liabilities	10,279	11,362
Total non-current liabilities	10,279	206,362
Total liabilities	438,110	451,464
Stockholders' equity		
Common stock	432	425
Treasury stock at cost	(215,944)	(77,707)
Additional paid-in capital	610,378	597,128
Retained earnings	157,003	125,501
Accumulated other comprehensive income	45,199	30,933
Stockholders' equity	597,068	676,280
Total liabilities and stockholders' equity	\$ 1,035,178	\$ 1,127,744

Digital River, Inc.

Second Quarter Results

(Unaudited, in thousands, except per share amounts)

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Condensed Consolidated Statement of Income

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Revenue	\$ 98,374	\$ 78,227	\$ 202,008	\$ 169,858
Costs and expenses:				
Direct cost of services	4,469	2,426	8,644	4,989
Network and infrastructure	10,396	7,334	20,584	14,829
Sales and marketing	39,247	32,793	78,977	66,982
Product research and development	13,074	8,235	25,744	16,887
General and administrative	10,834	9,543	21,078	19,656
Depreciation and amortization	3,957	3,291	7,791	6,149
Amortization of acquisition-related intangibles	2,170	1,607	4,346	4,353
Total costs and expenses	84,147	65,229	167,164	133,845
Income from operations	14,227	12,998	34,844	36,013
Interest income	4,298	8,264	10,544	16,146
Other expense, net	(1,653)	(257)	(2,402)	(1,146)
Income before income tax expense	16,872	21,005	42,986	51,013
Income tax expense	3,653	6,512	11,484	15,814
Net income	\$ 13,219	\$ 14,493	\$ 31,502	\$ 35,199
Net income per share - basic	\$ 0.36	\$ 0.35	\$ 0.84	\$ 0.86
Net income per share - diluted	\$ 0.33	\$ 0.32	\$ 0.76	\$ 0.78
Shares used in per share calculation - basic	36,594	41,169	37,562	40,823
Shares used in per share calculation - diluted	41,647	46,637	42,556	46,488

Calculation of GAAP Diluted Net Income Per Share

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
GAAP net income	\$ 13,219	\$ 14,493	\$ 31,502	\$ 35,199
Add back debt interest expense and issuance cost amortization, net of tax benefit	435	435	869	870
Adjusted net income for GAAP EPS calculation	\$ 13,654	\$ 14,928	\$ 32,371	\$ 36,069
Net income per share - diluted	\$ 0.33	\$ 0.32	\$ 0.76	\$ 0.78
Shares used in per share calculation - diluted	41,647	46,637	42,556	46,488

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Condensed Consolidated Statements of Cash Flows

	Six months ended June 30,	
	2008	2007
<u>Operating Activities:</u>		
Net income	\$ 31,502	\$ 35,199
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of acquisition-related intangibles	4,346	4,353
Change in accounts receivable allowance, net of acquisitions	603	570
Depreciation and amortization	7,791	6,149
Stock-based compensation expense	6,538	7,125
Excess tax benefits from stock-based compensation	(1,001)	(10,027)
Deferred and other income taxes	5,934	11,383
Change in operating assets and liabilities (net of acquisitions):		
Accounts receivable	12,495	6,515
Prepaid and other assets	(6,876)	(1,417)
Accounts payable	(12,582)	(15,997)
Deferred revenue	1,867	298
Income tax payable	(10,548)	2,861
Other accrued liabilities	(50)	1,068
Net cash provided by operating activities	40,019	48,080
<u>Investing Activities:</u>		
Purchases of investments	(227,625)	(173,092)
Sales of investments	232,650	137,395
Cash paid for acquisitions, net of cash received	(17,352)	(8,540)
Purchases of equipment and capitalized software	(9,532)	(6,577)
Net cash used for investing activities	(21,859)	(50,814)
<u>Financing Activities:</u>		
Exercise of stock options	4,439	7,703
Sales of common stock under employee stock purchase plan	1,446	1,244
Repurchase of common stock	(137,858)	-
Repurchase of restricted stock to satisfy tax withholding obligation	(379)	(377)
Excess tax benefits from stock-based compensation	1,001	10,027
Net cash (used for)/ provided by financing activities	(131,351)	18,597
Effect of exchange rate changes on cash	8,330	3,009
Net (decrease)/ increase in cash and cash equivalents	(104,861)	18,872
Cash and cash equivalents, beginning of period	381,788	390,243
Cash and cash equivalents, end of period	\$ 276,927	\$ 409,115
Cash paid for interest on Convertible Senior Notes	\$ 1,219	\$ 1,219

Digital River, Inc.

GAAP to non-GAAP Reconciliations

(Unaudited, in thousands, except per share amounts)

UTILIZING 31% INCOME TAX RATE**Calculation of non-GAAP Diluted Net Income Per Share**

	Three months ended		Six months ended
	March 31, 2007	June 30, 2007	June 30, 2007
GAAP pre-tax income	\$ 30,008	\$ 21,005	\$ 51,013
Add back: amortization of acquisition-related intangibles	2,746	1,607	4,353
Add back: stock-based compensation expense	3,476	3,649	7,125
Non-GAAP pre-tax income	36,230	26,261	62,491
Income tax expense @ 31%	11,231	8,141	19,372
Non-GAAP net income	\$ 24,999	\$ 18,120	\$ 43,119
Non-GAAP net income per share - diluted	\$ 0.54	\$ 0.39	\$ 0.93
Shares used in per share calculation - diluted	46,348	46,637	46,488

	Three months ended		Six months ended
	March 31, 2008	June 30, 2008	June 30, 2008
GAAP pre-tax income	\$ 26,114	\$ 16,872	\$ 42,986
Add back: amortization of acquisition-related intangibles	2,176	2,170	4,346
Add back: stock-based compensation expense	3,031	3,507	6,538
Non-GAAP pre-tax income	31,321	22,549	53,870
Income tax expense @ 31%	9,710	6,990	16,700
Non-GAAP net income	\$ 21,611	\$ 15,559	\$ 37,170
Non-GAAP net income per share - diluted	\$ 0.50	\$ 0.37	\$ 0.87
Shares used in per share calculation - diluted	43,506	41,647	42,556

Breakdown of stock-based compensation expense

	Three months ended		Six months ended
	March 31, 2008	June 30, 2008	June 30, 2008
Direct cost of services	\$ 192	\$ 247	\$ 439
Network and infrastructure	32	31	63
Sales and marketing	1,102	1,283	2,385
Product research and development	262	336	598
General and administrative	1,443	1,610	3,053
Total	\$ 3,031	\$ 3,507	\$ 6,538

Digital River, Inc.

GAAP to non-GAAP Reconciliations

(Unaudited, in thousands, except per share amounts)

UTILIZING 27% INCOME TAX RATE**Calculation of non-GAAP Diluted Net Income Per Share**

	Three months ended				Twelve months ended
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	December 31, 2007
GAAP pre-tax income	\$ 30,008	\$ 21,005	\$ 22,174	\$ 29,888	\$ 103,075
Add back: amortization of acquisition-related intangibles	2,746	1,607	1,611	1,622	7,586
Add back: stock-based compensation expense	3,476	3,649	3,411	3,206	13,742
Non-GAAP pre-tax income	36,230	26,261	27,196	34,716	124,403
Income tax expense @ 27%	9,782	7,090	7,343	9,373	33,588
Non-GAAP net income	\$ 26,448	\$ 19,171	\$ 19,853	\$ 25,343	\$ 90,815
Non-GAAP net income per share - diluted	\$ 0.57	\$ 0.41	\$ 0.44	\$ 0.56	\$ 1.98

Shares used in per share calculation - diluted	46,348	46,637	45,386	45,401	45,914
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	Three months ended		Six months ended
	March 31, 2008	June 30, 2008	June 30, 2008
GAAP pre-tax income	\$ 26,114	\$ 16,872	\$ 42,986
Add back: amortization of acquisition-related intangibles	2,176	2,170	4,346
Add back: stock-based compensation expense	3,031	3,507	6,538
Non-GAAP pre-tax income	31,321	22,549	53,870
Income tax expense @ 27%	8,457	6,088	14,545
Non-GAAP net income	\$ 22,864	\$ 16,461	\$ 39,325
Non-GAAP net income per share - diluted	\$ 0.53	\$ 0.40	\$ 0.92
Shares used in per share calculation - diluted	43,506	41,647	42,556

Breakdown of stock-based compensation expense

	Three months ended		Six months ended
	March 31, 2008	June 30, 2008	June 30, 2008
Direct cost of services	\$ 192	\$ 247	\$ 439
Network and infrastructure	32	31	63
Sales and marketing	1,102	1,283	2,385
Product research and development	262	336	598
General and administrative	1,443	1,610	3,053
Total	\$ 3,031	\$ 3,507	\$ 6,538

Non-GAAP Guidance Reconciliation

	Q3 - 2008 Guidance	FY - 2008 Guidance
Expected GAAP net income per share - diluted	\$ 0.37	\$ 1.63
Add back amortization of acquisition-related costs	0.05	0.20
Add back stock-based compensation expense	0.09	0.33
Tax variability	(0.03)	(0.12)
Deduct impact of convertible senior notes	(0.01)	(0.04)
Expected non-GAAP diluted net income per share	<u>\$ 0.47</u>	<u>\$ 2.00</u>