

**Digital River, Inc.**  
Third Quarter Results  
(Unaudited, in thousands)  
Subject to reclassification

**Condensed Consolidated Balance Sheets**

	As of	
	September 30, 2008	December 31, 2007
<u>Assets:</u>		
Current assets		
Cash and cash equivalents	\$ 345,249	\$ 381,788
Short-term investments	149,907	315,636
Accounts receivable, net	54,699	64,914
Deferred income taxes	2,784	7,899
Prepaid expenses and other	17,438	4,577
Total current assets	570,077	774,814
Property and equipment, net	34,235	31,102
Goodwill	278,732	261,885
Intangible assets, net	35,454	32,382
Long-term investments	109,008	-
Deferred income taxes	15,606	15,606
Other assets	6,631	11,955
<b>Total assets</b>	<b>\$ 1,049,743</b>	<b>\$ 1,127,744</b>
<u>Liabilities and stockholders' equity:</u>		
Current liabilities		
Convertible senior notes	\$ 195,000	\$ -
Accounts payable	181,033	180,386
Accrued payroll	17,345	12,704
Deferred revenue	12,289	10,384
Accrued acquisition liabilities	4,500	399
Other accrued liabilities	31,491	41,229
Total current liabilities	441,658	245,102
Non-current liabilities		
Convertible senior notes	-	195,000
Other liabilities	11,377	11,362
Total non-current liabilities	11,377	206,362
Total liabilities	453,035	451,464
Stockholders' equity		
Common stock	433	425
Treasury stock at cost	(215,952)	(77,707)
Additional paid-in capital	617,087	597,128
Retained earnings	172,637	125,501
Accumulated other comprehensive income	22,503	30,933
Stockholders' equity	596,708	676,280
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,049,743</b>	<b>\$ 1,127,744</b>

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**Condensed Consolidated Statement of Income**

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenue	\$ 96,301	\$ 82,539	\$ 298,309	\$ 252,397
Costs and expenses:				
Direct cost of services	3,913	3,009	12,557	7,998
Network and infrastructure	10,552	7,983	31,136	22,812
Sales and marketing	35,419	32,945	114,396	99,927
Product research and development	12,993	10,170	38,737	27,057
General and administrative	9,861	9,055	30,939	28,711
Depreciation and amortization	4,047	3,120	11,838	9,269
Amortization of acquisition-related intangibles	2,001	1,611	6,347	5,964
Total costs and expenses	78,786	67,893	245,950	201,738
<b>Income from operations</b>	<b>17,515</b>	<b>14,646</b>	<b>52,359</b>	<b>50,659</b>
Interest income	4,513	7,831	15,057	23,977
Other expense, net	(1,387)	(303)	(3,789)	(1,449)
<b>Income before income tax expense</b>	<b>20,641</b>	<b>22,174</b>	<b>63,627</b>	<b>73,187</b>
Income tax expense	5,007	6,875	16,491	22,689
<b>Net income</b>	<b>\$ 15,634</b>	<b>\$ 15,299</b>	<b>\$ 47,136</b>	<b>\$ 50,498</b>
<b>Net income per share - basic</b>	<b>\$ 0.43</b>	<b>\$ 0.38</b>	<b>\$ 1.27</b>	<b>\$ 1.25</b>
<b>Net income per share - diluted</b>	<b>\$ 0.39</b>	<b>\$ 0.35</b>	<b>\$ 1.15</b>	<b>\$ 1.12</b>
Shares used in per share calculation - basic	36,495	40,078	37,186	40,555
Shares used in per share calculation - diluted	41,620	45,386	42,203	46,099

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
GAAP net income	\$ 15,634	\$ 15,299	\$ 47,136	\$ 50,498
Add back debt interest expense and issuance cost amortization, net of tax benefit	435	434	1,304	1,304
<b>Adjusted net income for GAAP EPS calculation</b>	<b>\$ 16,069</b>	<b>\$ 15,733</b>	<b>\$ 48,440</b>	<b>\$ 51,802</b>
<b>Net income per share - diluted</b>	<b>\$ 0.39</b>	<b>\$ 0.35</b>	<b>\$ 1.15</b>	<b>\$ 1.12</b>
Shares used in per share calculation - diluted	41,620	45,386	42,203	46,099

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**Condensed Consolidated Statements of Cash Flows**

	<u>Nine months ended September 30,</u>	
	<u>2008</u>	<u>2007</u>
<u>Operating Activities:</u>		
Net income	\$ 47,136	\$ 50,498
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of acquisition-related intangibles	6,347	5,964
Change in accounts receivable allowance, net of acquisitions	632	628
Depreciation and amortization	11,838	9,269
Stock-based compensation expense	10,161	10,536
Excess tax benefits from stock-based compensation	(1,685)	(11,297)
Deferred and other income taxes	6,927	17,337
Change in operating assets and liabilities (net of acquisitions):		
Accounts receivable	10,204	(8,373)
Prepaid and other assets	(7,819)	(1,652)
Accounts payable	1,310	810
Deferred revenue	1,789	1,782
Income tax payable	(10,289)	3,314
Other accrued liabilities	39	5,912
<b>Net cash provided by operating activities</b>	<b><u>76,590</u></b>	<b><u>84,728</u></b>
<u>Investing Activities:</u>		
Purchases of investments	(460,549)	(228,342)
Sales of investments	516,108	197,645
Cash paid for acquisitions, net of cash received	(22,221)	(30,573)
Purchases of equipment and capitalized software	(15,169)	(9,752)
<b>Net cash provided by/(used for) investing activities</b>	<b><u>18,169</u></b>	<b><u>(71,022)</u></b>
<u>Financing Activities:</u>		
Exercise of stock options	6,841	11,244
Sales of common stock under employee stock purchase plan	1,446	1,244
Repurchase of common stock	(137,858)	(62,968)
Repurchase of restricted stock to satisfy tax withholding obligation	(387)	(382)
Excess tax benefits from stock-based compensation	1,685	11,297
<b>Net cash used for financing activities</b>	<b><u>(128,273)</u></b>	<b><u>(39,565)</u></b>
Effect of exchange rate changes on cash	(3,025)	6,716
<b>Net decrease in cash and cash equivalents</b>	<b><u>(36,539)</u></b>	<b><u>(19,143)</u></b>
Cash and cash equivalents, beginning of period	381,788	390,243
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 345,249</u></b>	<b><u>\$ 371,100</u></b>
Cash paid for interest on Convertible Senior Notes	<u>\$ 2,438</u>	<u>\$ 2,438</u>

**Digital River, Inc.**

## 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 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
<b>Non-GAAP net income</b>	<b>\$ 26,448</b>	<b>\$ 19,171</b>	<b>\$ 19,853</b>	<b>\$ 25,343</b>	<b>\$ 90,815</b>
<b>Non-GAAP net income per share - diluted</b>	<b>\$ 0.57</b>	<b>\$ 0.41</b>	<b>\$ 0.44</b>	<b>\$ 0.56</b>	<b>\$ 1.98</b>

Shares used in per share calculation - diluted	46,348	46,637	45,386	45,401	45,914
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	Three months ended			Nine months ended
	March 31, 2008	June 30, 2008	September 30, 2008	September 30, 2008
GAAP pre-tax income	\$ 26,114	\$ 16,872	\$ 20,641	\$ 63,627
Add back: amortization of acquisition-related intangibles	2,176	2,170	2,001	6,347
Add back: stock-based compensation expense	3,031	3,507	3,623	10,161
Non-GAAP pre-tax income	31,321	22,549	26,265	80,135
Income tax expense @ 27%	8,457	6,088	7,092	21,637
<b>Non-GAAP net income</b>	<b>\$ 22,864</b>	<b>\$ 16,461</b>	<b>\$ 19,173</b>	<b>\$ 58,498</b>
<b>Non-GAAP net income per share - diluted</b>	<b>\$ 0.53</b>	<b>\$ 0.40</b>	<b>\$ 0.46</b>	<b>\$ 1.39</b>
Shares used in per share calculation - diluted	43,506	41,647	41,620	42,203

**Breakdown of stock-based compensation expense**

	Three months ended			Nine months ended
	March 31, 2008	June 30, 2008	September 30, 2008	September 30, 2008
Direct cost of services	\$ 192	\$ 247	\$ 220	\$ 659
Network and infrastructure	32	31	60	123
Sales and marketing	1,102	1,283	1,403	3,788
Product research and development	262	336	371	969
General and administrative	1,443	1,610	1,569	4,622
<b>Total</b>	<b>\$ 3,031</b>	<b>\$ 3,507</b>	<b>\$ 3,623</b>	<b>\$ 10,161</b>

**Non-GAAP Guidance Reconciliation**

	Q4 - 2008 Guidance		FY - 2008 Guidance	
	Low	High	Low	High
Expected GAAP net income per share - diluted	\$ 0.34	\$ 0.39	\$ 1.49	\$ 1.53
Add back amortization of acquisition-related costs	0.05	0.05	0.20	0.20
Add back stock-based compensation expense	0.09	0.09	0.33	0.33
Tax variability	(0.04)	(0.04)	(0.16)	(0.16)
Deduct impact of convertible senior notes	(0.01)	(0.01)	(0.04)	(0.04)
<b>Expected non-GAAP diluted net income per share</b>	<b>\$ 0.43</b>	<b>\$ 0.48</b>	<b>\$ 1.82</b>	<b>\$ 1.86</b>