

**Digital River, Inc.**

Third Quarter Results

(Unaudited, in thousands)

Subject to reclassification

**Condensed Consolidated Balance Sheets**

	As of	
	September 30,	December 31,
	2009	2008
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 396,421	\$ 490,335
Short-term investments	14,939	10,000
Accounts receivable, net	51,574	53,216
Deferred income taxes	7,654	7,613
Prepaid expenses and other	16,000	42,522
Total current assets	486,588	603,686
Property and equipment, net	54,420	41,733
Goodwill	278,682	273,788
Intangible assets, net	27,697	32,222
Long-term investments	94,335	93,213
Deferred income taxes	23,063	24,824
Other assets	2,459	786
<b>Total assets</b>	<b>\$ 967,244</b>	<b>\$ 1,070,252</b>
<u>Liabilities and stockholders' equity</u>		
Current liabilities		
Convertible senior notes	\$ -	\$ 186,195
Accounts payable	196,969	184,361
Accrued payroll	14,968	14,841
Deferred revenue	17,693	13,651
Accrued acquisition liabilities	43	3,278
Other accrued liabilities	37,365	41,336
Total current liabilities	267,038	443,662
Non-current liabilities		
Convertible senior notes	8,805	8,805
Other liabilities	15,001	15,712
Total non-current liabilities	23,806	24,517
Total liabilities	290,844	468,179
Stockholders' equity		
Common stock	448	432
Treasury stock	(216,738)	(216,163)
Additional paid-in capital	641,811	623,778
Retained earnings	228,499	189,096
Accumulated other comprehensive income	22,380	4,930
Stockholders' equity	676,400	602,073
<b>Total liabilities and stockholders' equity</b>	<b>\$ 967,244</b>	<b>\$ 1,070,252</b>

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**Condensed Consolidated Statement of Income**

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenue	\$ 99,419	\$ 96,301	\$ 298,914	\$ 298,309
Costs and expenses (exclusive of depreciation and amortization expense shown separately below):				
Direct cost of services	4,582	3,913	12,475	12,557
Network and infrastructure	11,786	10,552	33,062	31,136
Sales and marketing	38,073	35,419	115,709	114,396
Product research and development	14,134	12,993	39,605	38,737
General and administrative	9,319	9,861	28,280	30,939
Depreciation and amortization	5,162	4,047	13,635	11,838
Amortization of acquisition-related intangibles	1,800	2,001	5,719	6,347
Total costs and expenses	84,856	78,786	248,485	245,950
<b>Income from operations</b>	<b>14,563</b>	<b>17,515</b>	<b>50,429</b>	<b>52,359</b>
Interest income	557	4,513	2,508	15,057
Other income (expense), net	264	(1,387)	(9)	(3,789)
<b>Income before income tax expense</b>	<b>15,384</b>	<b>20,641</b>	<b>52,928</b>	<b>63,627</b>
Income tax expense	4,341	5,007	13,525	16,491
<b>Net income</b>	<b>\$ 11,043</b>	<b>\$ 15,634</b>	<b>\$ 39,403</b>	<b>\$ 47,136</b>
<b>Net income per share - basic</b>	<b>\$ 0.30</b>	<b>\$ 0.43</b>	<b>\$ 1.07</b>	<b>\$ 1.27</b>
<b>Net income per share - diluted</b>	<b>\$ 0.29</b>	<b>\$ 0.39</b>	<b>\$ 1.05</b>	<b>\$ 1.15</b>
Shares used in per share calculation - basic	37,151	36,495	36,899	37,186
Shares used in per share calculation - diluted	38,093	41,620	37,599	42,203

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
GAAP net income	\$ 11,043	\$ 15,634	\$ 39,403	\$ 47,136
Add back debt interest expense and issuance cost amortization, net of tax benefit	21	435	63	1,304
<b>Adjusted net income for GAAP EPS calculation</b>	<b>\$ 11,064</b>	<b>\$ 16,069</b>	<b>\$ 39,466</b>	<b>\$ 48,440</b>
<b>Net income per share - diluted</b>	<b>\$ 0.29</b>	<b>\$ 0.39</b>	<b>\$ 1.05</b>	<b>\$ 1.15</b>
Shares used in per share calculation - diluted	38,093	41,620	37,599	42,203

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**Condensed Consolidated Statements of Cash Flows**

	Nine months ended September 30,	
	2009	2008
<b>Operating Activities:</b>		
Net income	\$ 39,403	\$ 47,136
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of acquisition-related intangibles	5,719	6,347
Change in accounts receivable allowance, net of acquisitions	216	632
Depreciation and amortization	13,635	11,838
Stock-based compensation expense	13,256	10,161
Excess tax benefits from stock-based compensation	(615)	(1,685)
Deferred and other income taxes	2,466	6,927
Change in operating assets and liabilities (net of acquisitions):		
Accounts receivable	2,141	10,204
Prepaid and other assets	20,601	(7,819)
Accounts payable	10,219	1,310
Deferred revenue	3,833	1,789
Income tax payable	1,900	(10,289)
Other accrued liabilities	(6,568)	39
<b>Net cash provided by operating activities</b>	<b>106,206</b>	<b>76,590</b>
<b>Investing Activities:</b>		
Purchases of investments	(17,279)	(460,549)
Sales of investments	17,600	516,108
Cash paid for acquisitions, net of cash received	(4,445)	(22,221)
Purchases of equipment and capitalized software	(26,143)	(15,169)
<b>Net cash (used in)/provided by investing activities</b>	<b>(30,267)</b>	<b>18,169</b>
<b>Financing Activities:</b>		
Cash paid for convertible senior notes	(186,660)	-
Exercise of stock options	9,133	6,841
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	(575)	(387)
Excess tax benefits from stock-based compensation	615	1,685
<b>Net cash used in financing activities</b>	<b>(176,151)</b>	<b>(128,273)</b>
Effect of exchange rate changes on cash	6,298	(3,025)
<b>Net decrease in cash and cash equivalents</b>	<b>(93,914)</b>	<b>(36,539)</b>
Cash and cash equivalents, beginning of period	490,335	381,788
<b>Cash and cash equivalents, end of period</b>	<b>\$ 396,421</b>	<b>\$ 345,249</b>
Cash paid for interest on convertible senior notes	\$ 1,274	\$ 2,438

**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, 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
<b>Non-GAAP net income</b>	<b>\$ 22,864</b>	<b>\$ 16,461</b>	<b>\$ 19,173</b>	<b>\$ 19,765</b>	<b>\$ 78,263</b>
<b>Non-GAAP net income per share - diluted</b>	<b>\$ 0.53</b>	<b>\$ 0.40</b>	<b>\$ 0.46</b>	<b>\$ 0.48</b>	<b>\$ 1.86</b>
Shares used in per share calculation - diluted	43,506	41,647	41,620	41,395	42,106

	Three months ended			Nine months ended
	March 31, 2009	June 30, 2009	September 30, 2009	September 30, 2009
GAAP pre-tax income	\$ 22,759	\$ 14,785	\$ 15,384	\$ 52,928
Add back: amortization of acquisition-related intangibles	2,003	1,916	1,800	5,719
Add back: stock-based compensation expense	3,711	4,887	4,658	13,256
Non-GAAP pre-tax income	28,473	21,588	21,842	71,903
Income tax expense @ 27%	7,688	5,828	5,897	19,413
<b>Non-GAAP net income</b>	<b>\$ 20,785</b>	<b>\$ 15,760</b>	<b>\$ 15,945</b>	<b>\$ 52,490</b>
<b>Non-GAAP net income per share - diluted</b>	<b>\$ 0.56</b>	<b>\$ 0.42</b>	<b>\$ 0.42</b>	<b>\$ 1.40</b>
Shares used in per share calculation - diluted	37,227	37,781	38,093	37,599

**Breakdown of stock-based compensation expense**

	Three months ended			Nine months ended
	March 31, 2009	June 30, 2009	September 30, 2009	September 30, 2009
Direct cost of services	\$ 169	\$ 172	\$ 160	\$ 501
Network and infrastructure	113	207	215	535
Sales and marketing	1,517	1,643	1,704	4,864
Product research and development	456	622	670	1,748
General and administrative	1,456	2,243	1,909	5,608
<b>Total</b>	<b>\$ 3,711</b>	<b>\$ 4,887</b>	<b>\$ 4,658</b>	<b>\$ 13,256</b>

**Non-GAAP Guidance Reconciliation**

	Q4 - 2009 Guidance	
	Low	High
Expected GAAP net income per share - diluted	\$ 0.18	\$ 0.22
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	<b>\$ 0.30</b>	<b>\$ 0.34</b>