

Digital River, Inc.

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

Condensed Consolidated Balance Sheets

	As of	
	December 31,	December 31,
	2008	2007
<u>Assets:</u>		
Current assets		
Cash and cash equivalents	\$ 490,335	\$ 381,788
Short-term investments	10,000	315,636
Accounts receivable, net	53,216	64,914
Deferred income taxes	7,613	7,899
Prepaid expenses and other	42,522	4,577
Total current assets	603,686	774,814
Property and equipment, net	41,733	31,102
Goodwill	273,788	261,885
Intangible assets, net	32,222	32,382
Long-term investments	93,213	-
Deferred income taxes	24,824	15,606
Other assets	786	11,955
Total assets	\$ 1,070,252	\$ 1,127,744
<u>Liabilities and stockholders' equity:</u>		
Current liabilities		
Convertible senior notes	\$ 186,195	\$ -
Accounts payable	184,361	180,386
Accrued payroll	14,841	12,704
Deferred revenue	13,651	10,384
Accrued acquisition liabilities	3,278	399
Other accrued liabilities	41,336	41,229
Total current liabilities	443,662	245,102
Non-current liabilities		
Convertible senior notes	8,805	195,000
Other liabilities	15,712	11,362
Total non-current liabilities	24,517	206,362
Total liabilities	468,179	451,464
Stockholders' equity		
Common stock	432	425
Treasury stock at cost	(216,163)	(77,707)
Additional paid-in capital	623,778	597,128
Retained earnings	189,096	125,501
Accumulated other comprehensive income	4,930	30,933
Stockholders' equity	602,073	676,280
Total liabilities and stockholders' equity	\$ 1,070,252	\$ 1,127,744

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Condensed Consolidated Statement of Income

	Three months ended December 31,		Twelve months ended December 31,	
	2008	2007	2008	2007
Revenue	\$ 95,917	\$ 96,878	\$ 394,226	\$ 349,275
Costs and expenses:				
Direct cost of services	3,860	2,245	16,417	10,243
Network and infrastructure	9,904	9,497	41,040	32,309
Sales and marketing	35,722	34,474	150,118	134,401
Product research and development	12,447	12,122	51,184	39,179
General and administrative	8,586	10,226	39,525	38,937
Depreciation and amortization	4,142	3,437	15,980	12,706
Amortization of acquisition-related intangibles	2,044	1,622	8,391	7,586
Total costs and expenses	76,705	73,623	322,655	275,361
Income from operations	19,212	23,255	71,571	73,914
Interest income	2,962	8,191	18,019	32,167
Other income (expense), net	470	(1,558)	(3,319)	(3,006)
Income before income tax expense	22,644	29,888	86,271	103,075
Income tax expense	6,185	9,572	22,676	32,261
Net income	\$ 16,459	\$ 20,316	\$ 63,595	\$ 70,814
Net income per share - basic	\$ 0.45	\$ 0.51	\$ 1.72	\$ 1.75
Net income per share - diluted	\$ 0.41	\$ 0.46	\$ 1.55	\$ 1.58
Shares used in per share calculation - basic	36,560	40,164	37,016	40,444
Shares used in per share calculation - diluted	41,395	45,401	42,106	45,914

Calculation of GAAP Diluted Net Income Per Share

	Three months ended December 31,		Twelve months ended December 31,	
	2008	2007	2008	2007
GAAP net income	\$ 16,459	\$ 20,316	\$ 63,595	\$ 70,814
Add back debt interest expense and issuance cost amortization, net of tax benefit	435	435	1,739	1,739
Adjusted net income for GAAP EPS calculation	\$ 16,894	\$ 20,751	\$ 65,334	\$ 72,553
Net income per share - diluted	\$ 0.41	\$ 0.46	\$ 1.55	\$ 1.58
Shares used in per share calculation - diluted	41,395	45,401	42,106	45,914

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Fourth Quarter Results

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Condensed Consolidated Statements of Cash Flows

	<u>Twelve months ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
<u>Operating Activities:</u>		
Net income	\$ 63,595	\$ 70,814
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of acquisition-related intangibles	8,391	7,586
Change in accounts receivable allowance, net of acquisitions	434	(174)
Depreciation and amortization	15,980	12,706
Stock-based compensation expense	12,548	13,742
Excess tax benefits from stock-based compensation	(4,390)	(12,030)
Deferred and other income taxes	4,971	27,522
Change in operating assets and liabilities (net of acquisitions):		
Accounts receivable	11,332	(6,863)
Prepaid and other assets	(26,505)	1,325
Accounts payable	6,531	32,181
Deferred revenue	3,235	3,046
Income tax payable	(5,366)	(7,076)
Other accrued liabilities	4,478	3,609
Net cash provided by operating activities	<u>95,234</u>	<u>146,388</u>
<u>Investing Activities:</u>		
Purchases of investments	(480,917)	(436,806)
Sales of investments	676,108	358,470
Cash paid for acquisitions, net of cash received	(23,465)	(31,625)
Purchases of equipment and capitalized software	(26,898)	(18,722)
Net cash provided by/(used for) investing activities	<u>144,828</u>	<u>(128,683)</u>
<u>Financing Activities:</u>		
Exercise of stock options	7,171	13,510
Sales of common stock under employee stock purchase plan	2,715	2,483
Repurchase of common stock	(137,858)	(62,968)
Repurchase of restricted stock to satisfy tax withholding obligation	(598)	(528)
Excess tax benefits from stock-based compensation	4,390	12,030
Net cash used for financing activities	<u>(124,180)</u>	<u>(35,473)</u>
Effect of exchange rate changes on cash	(7,335)	9,313
Net increase (decrease) in cash and cash equivalents	<u>108,547</u>	<u>(8,455)</u>
Cash and cash equivalents, beginning of period	381,788	390,243
Cash and cash equivalents, end of period	<u>\$ 490,335</u>	<u>\$ 381,788</u>
Cash paid for interest on Convertible senior notes	\$ 2,438	\$ 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, 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

	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

Breakdown of stock-based compensation expense

	Three months ended				Twelve months ended
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	December 31, 2008
Direct cost of services	\$ 192	\$ 247	\$ 220	\$ 126	\$ 785
Network and infrastructure	32	31	60	69	192
Sales and marketing	1,102	1,283	1,403	774	4,562
Product research and development	262	336	371	289	1,258
General and administrative	1,443	1,610	1,569	1,129	5,751
Total	\$ 3,031	\$ 3,507	\$ 3,623	\$ 2,387	\$ 12,548

Non-GAAP Guidance Reconciliation

	Q1 - 2009 Guidance	
	Low	High
Expected GAAP net income per share - diluted	\$ 0.37	\$ 0.42
Add back amortization of acquisition-related costs	0.05	0.05
Add back stock-based compensation expense	0.10	0.10
Tax variability	(0.04)	(0.04)
Expected non-GAAP diluted net income per share	\$ 0.48	\$ 0.53

