

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

Condensed Consolidated Balance Sheets

	As of	
	June 30, 2007	December 31, 2006
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 409,115	\$ 390,243
Short-term investments	271,657	235,699
Accounts receivable, net	45,408	52,392
Deferred income taxes	19,591	19,687
Prepaid expenses and other	7,042	6,025
Total current assets	<u>752,813</u>	<u>704,046</u>
Property and equipment, net	24,879	24,079
Goodwill	239,772	243,799
Intangible assets, net	17,604	21,106
Deferred income taxes	17,403	1,276
Other assets	12,106	11,957
Total assets	<u><u>\$ 1,064,577</u></u>	<u><u>\$ 1,006,263</u></u>
<u>Liabilities and stockholders' equity</u>		
Current liabilities		
Accounts payable	\$ 126,991	\$ 141,386
Accrued payroll	9,238	12,097
Deferred revenue	7,425	7,040
Accrued acquisition liabilities	1,047	5,654
Other accrued liabilities	43,946	39,982
Total current liabilities	<u>188,647</u>	<u>206,159</u>
Non-current liabilities		
Convertible senior notes	195,000	195,000
Other liabilities	9,504	1,345
Total non-current liabilities	<u>204,504</u>	<u>196,345</u>
Total liabilities	<u>393,151</u>	<u>402,504</u>
Stockholders' equity		
Common stock	415	404
Additional paid-in capital	574,820	546,758
Retained earnings	80,081	44,989
Accumulated other comprehensive income	16,110	11,608
Stockholders' equity	<u>671,426</u>	<u>603,759</u>
Total liabilities and stockholders' equity	<u><u>\$ 1,064,577</u></u>	<u><u>\$ 1,006,263</u></u>

Digital River, Inc.

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Condensed Consolidated Statements of Operations

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenue	\$ 78,227	\$ 71,277	\$ 169,858	\$ 149,291
Costs and expenses:				
Direct cost of services	2,426	1,914	4,989	3,777
Network and infrastructure	7,334	6,298	14,829	13,741
Sales and marketing	32,793	27,628	66,982	54,567
Product research and development	8,235	7,488	16,887	15,090
General and administrative	9,543	8,247	19,656	16,497
Depreciation and amortization	3,291	2,475	6,149	4,728
Amortization of acquisition-related intangibles	1,607	3,038	4,353	5,878
Total costs and expenses	65,229	57,088	133,845	114,278
Income from operations	12,998	14,189	36,013	35,013
Other income, net	8,007	6,392	15,000	9,327
Income before income tax expense	21,005	20,581	51,013	44,340
Income tax expense	6,512	7,292	15,814	14,674
Net income	\$ 14,493	\$ 13,289	\$ 35,199	\$ 29,666
Net income per share - basic	\$ 0.35	\$ 0.34	\$ 0.86	\$ 0.79
Net income per share - diluted	\$ 0.32	\$ 0.30	\$ 0.78	\$ 0.70
Shares used in per share calculation - basic	41,169	39,452	40,823	37,386
Shares used in per share calculation - diluted	46,637	45,458	46,488	43,319

Calculation of GAAP Diluted Net Income Per Share

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
GAAP net income	\$ 14,493	\$ 13,289	\$ 35,199	\$ 29,666
Add back debt interest expense and issuance cost amortization, net of tax benefit	435	435	870	870
Adjusted net income for GAAP EPS calculation	\$ 14,928	\$ 13,724	\$ 36,069	\$ 30,536
Net income per share - diluted	\$ 0.32	\$ 0.30	\$ 0.78	\$ 0.70
Shares used in per share calculation - diluted	46,637	45,458	46,488	43,319

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Condensed Consolidated Statements of Cash Flows

	Six months ended June 30,	
	2007	2006
Operating Activities:		
Net income	\$ 35,199	\$ 29,666
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of acquisition-related intangibles	4,353	5,878
Change in accounts receivable allowance, net of acquisitions	570	126
Depreciation and amortization	6,149	4,728
Stock-based compensation expense	7,125	6,932
Excess tax benefits from stock-based compensation	(10,027)	(2,705)
Deferred and other income taxes	11,383	12,679
Change in operating assets and liabilities (net of acquisitions):		
Accounts receivable	6,515	(622)
Prepaid and other assets	(1,417)	(2,538)
Accounts payable	(15,997)	(14,263)
Deferred revenue	298	553
Income tax payable	2,861	919
Other accrued liabilities	1,068	2,624
Net cash provided by operating activities	<u>48,080</u>	<u>43,977</u>
Investing Activities:		
Purchases of investments	(173,092)	(103,413)
Sales of investments	137,395	86,913
Cash paid for acquisitions, net of cash received	(8,540)	(37,235)
Purchases of equipment and capitalized software	(6,577)	(9,162)
Net cash used in investing activities	<u>(50,814)</u>	<u>(62,897)</u>
Financing Activities:		
Proceeds from sales of common stock	-	172,700
Exercise of stock options	7,703	9,616
Sales of common stock under employee stock purchase plan	1,244	933
Repurchase of restricted stock to satisfy tax withholding obligation	(377)	-
Excess tax benefits from stock-based compensation	10,027	2,705
Net cash provided by financing activities	<u>18,597</u>	<u>185,954</u>
Effect of exchange rate changes on cash	3,009	1,645
Net increase in cash and cash equivalents	<u>18,872</u>	<u>168,679</u>
Cash and cash equivalents, beginning of period	390,243	131,770
Cash and cash equivalents, end of period	<u>\$ 409,115</u>	<u>\$ 300,449</u>
Cash paid for interest on Convertible Senior Notes	<u>\$ 1,219</u>	<u>\$ 1,219</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, 2006	June 30, 2006	September 30, 2006	December 31, 2006	December 31, 2006
GAAP pre-tax income	\$ 23,759	\$ 20,581	\$ 20,369	\$ 24,773	\$ 89,482
Add back: amortization of acquisition-related intangibles	2,840	3,038	3,313	2,943	12,134
Add back: stock-based compensation expense	3,413	3,519	3,456	3,516	13,904
Non-GAAP pre-tax income	30,012	27,138	27,138	31,232	115,520
Income tax expense @ 31%	9,304	8,413	8,413	9,682	35,812
Non-GAAP net income	\$ 20,708	\$ 18,725	\$ 18,725	\$ 21,550	\$ 79,708
Non-GAAP net income per share - diluted	\$ 0.50	\$ 0.41	\$ 0.41	\$ 0.47	\$ 1.79
Shares used in per share calculation - diluted	41,454	45,458	45,666	46,138	44,642

	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

Breakdown of stock-based compensation expense

	Three months ended		Six months ended
	March 31, 2007	June 30, 2007	June 30, 2007
Direct cost of services	\$ 195	\$ 225	\$ 420
Network and infrastructure	72	61	133
Sales and marketing	1,268	1,350	2,618
Product research and development	552	466	1,018
General and administrative	1,389	1,547	2,936
Total	\$ 3,476	\$ 3,649	\$ 7,125

Non-GAAP Guidance Reconciliation

	Q3 - 2007 Guidance	FY - 2007 Guidance
Expected GAAP net income per share - diluted	\$ 0.34	\$ 1.59
Add back amortization of acquisition-related costs	0.03	0.15
Add back stock-based compensation expense	0.08	0.31
Tax variability	(0.03)	(0.14)
Deduct impact of contingent convertible notes	(0.01)	(0.04)
Expected non-GAAP diluted net income per share	\$ 0.41	\$ 1.87