

Digital River, Inc.

Third Quarter Results

(Unaudited, in thousands)

Subject to reclassification

Condensed Consolidated Balance Sheets

	As of	
	September 30,	December 31,
	2007	2006
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 371,100	\$ 390,243
Short-term investments	267,352	235,699
Accounts receivable, net	64,549	52,392
Deferred income taxes	15,399	19,687
Prepaid expenses and other	7,583	6,025
Total current assets	725,983	704,046
Property and equipment, net	25,497	24,079
Goodwill	273,361	243,799
Intangible assets, net	15,992	21,106
Deferred income taxes	17,403	1,276
Other assets	12,018	11,957
Total assets	\$ 1,070,254	\$ 1,006,263
<u>Liabilities and stockholders' equity</u>		
Current liabilities		
Accounts payable	\$ 146,770	\$ 141,386
Accrued payroll	13,992	12,097
Deferred revenue	8,980	7,040
Accrued acquisition liabilities	1,255	5,654
Other accrued liabilities	52,605	39,982
Total current liabilities	223,602	206,159
Non-current liabilities		
Convertible senior notes	195,000	195,000
Other liabilities	10,125	1,345
Total non-current liabilities	205,125	196,345
Total liabilities	428,727	402,504
Stockholders' equity		
Common stock	403	404
Additional paid-in capital	567,837	546,758
Retained earnings	48,108	44,989
Accumulated other comprehensive income	25,179	11,608
Stockholders' equity	641,527	603,759
Total liabilities and stockholders' equity	\$ 1,070,254	\$ 1,006,263

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Condensed Consolidated Statements of Operations

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenue	\$ 82,539	\$ 75,337	\$ 252,397	\$ 224,628
Costs and expenses:				
Direct cost of services	3,009	1,912	7,998	5,689
Network and infrastructure	7,983	7,761	22,812	21,502
Sales and marketing	32,945	28,451	99,927	83,018
Product research and development	10,170	8,338	27,057	23,428
General and administrative	9,055	8,054	28,711	24,551
Depreciation and amortization	3,120	2,943	9,269	7,671
Amortization of acquisition-related intangibles	1,611	3,313	5,964	9,191
Total costs and expenses	67,893	60,772	201,738	175,050
Income from operations	14,646	14,565	50,659	49,578
Other income, net	7,528	5,804	22,528	15,131
Income before income tax expense	22,174	20,369	73,187	64,709
Income tax expense	6,875	5,581	22,689	20,255
Net income	\$ 15,299	\$ 14,788	\$ 50,498	\$ 44,454
Net income per share - basic	\$ 0.38	\$ 0.37	\$ 1.25	\$ 1.17
Net income per share - diluted	\$ 0.35	\$ 0.33	\$ 1.12	\$ 1.04
Shares used in per share calculation - basic	40,078	39,619	40,555	38,126
Shares used in per share calculation - diluted	45,386	45,666	46,099	44,107

Calculation of GAAP Diluted Net Income Per Share

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
GAAP net income	\$ 15,299	\$ 14,788	\$ 50,498	\$ 44,454
Add back debt interest expense and issuance cost amortization, net of tax benefit	434	435	1,304	1,305
Adjusted net income for GAAP EPS calculation	\$ 15,733	\$ 15,223	\$ 51,802	\$ 45,759
Net income per share - diluted	\$ 0.35	\$ 0.33	\$ 1.12	\$ 1.04
Shares used in per share calculation - diluted	45,386	45,666	46,099	44,107

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Condensed Consolidated Statements of Cash Flows

	<u>Nine months ended September 30,</u>	
	<u>2007</u>	<u>2006</u>
Operating Activities:		
Net income	\$ 50,498	\$ 44,454
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of acquisition-related intangibles	5,964	9,191
Change in accounts receivable allowance, net of acquisitions	628	426
Depreciation and amortization	9,269	7,671
Stock-based compensation expense	10,536	10,389
Excess tax benefits from stock-based compensation	(11,297)	(3,032)
Deferred and other income taxes	17,337	17,676
Change in operating assets and liabilities (net of acquisitions):		
Accounts receivable	(8,373)	(2,351)
Prepaid and other assets	(1,652)	(291)
Accounts payable	810	(7,028)
Deferred revenue	1,782	881
Income tax payable	3,314	1,022
Other accrued liabilities	5,912	5,679
Net cash provided by operating activities	<u>84,728</u>	<u>84,687</u>
Investing Activities:		
Purchases of investments	(228,342)	(135,911)
Sales of investments	197,645	116,446
Cash paid for acquisitions, net of cash received	(30,573)	(37,998)
Purchases of equipment and capitalized software	(9,752)	(12,825)
Net cash used in investing activities	<u>(71,022)</u>	<u>(70,288)</u>
Financing Activities:		
Proceeds from sales of common stock	-	172,700
Exercise of stock options	11,244	10,579
Sales of common stock under employee stock purchase plan	1,244	933
Repurchase of common stock	(62,968)	-
Repurchase of restricted stock to satisfy tax withholding obligation	(382)	-
Excess tax benefits from stock-based compensation	11,297	3,032
Net cash (used in)/ provided by financing activities	<u>(39,565)</u>	<u>187,244</u>
Effect of exchange rate changes on cash	6,716	2,263
Net (decrease)/ increase in cash and cash equivalents	<u>(19,143)</u>	<u>203,906</u>
Cash and cash equivalents, beginning of period	390,243	131,770
Cash and cash equivalents, end of period	<u>\$ 371,100</u>	<u>\$ 335,676</u>
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, 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	41,154	45,458	45,666	46,138	44,642

	Three months ended			Nine months ended
	March 31, 2007	June 30, 2007	September 30, 2007	September 30, 2007
GAAP pre-tax income	\$ 30,008	\$ 21,005	\$ 22,174	\$ 73,187
Add back: amortization of acquisition-related intangibles	2,746	1,607	1,611	5,964
Add back: stock-based compensation expense	3,476	3,649	3,411	10,536
Non-GAAP pre-tax income	36,230	26,261	27,196	89,687
Income tax expense @ 31%	11,231	8,141	8,431	27,803
Non-GAAP net income	\$ 24,999	\$ 18,120	\$ 18,765	\$ 61,884
Non-GAAP net income per share - diluted	\$ 0.54	\$ 0.39	\$ 0.41	\$ 1.34
Shares used in per share calculation - diluted	46,348	46,637	45,386	46,099

Breakdown of stock-based compensation expense

	Three months ended			Nine months ended
	March 31, 2007	June 30, 2007	September 30, 2007	September 30, 2007
Direct cost of services	\$ 195	\$ 225	\$ 223	\$ 643
Network and infrastructure	72	61	58	191
Sales and marketing	1,268	1,350	1,230	3,848
Product research and development	552	466	391	1,409
General and administrative	1,389	1,547	1,509	4,445
Total	\$ 3,476	\$ 3,649	\$ 3,411	\$ 10,536

Non-GAAP Guidance Reconciliation

	Q4 - 2007	FY - 2007
	Guidance	Guidance
Expected GAAP net income per share - diluted	\$ 0.45	\$ 1.57
Add back amortization of acquisition-related costs	0.05	0.18
Add back stock-based compensation expense	0.07	0.30
Tax variability	(0.03)	(0.15)
Deduct impact of contingent convertible notes	(0.01)	(0.03)
Expected non-GAAP diluted net income per share	\$ 0.53	\$ 1.87