

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

Condensed Consolidated Balance Sheets

	As of	
	December 31, 2007	December 31, 2006
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 381,788	\$ 390,243
Short-term investments	315,636	235,699
Accounts receivable, net	64,914	52,392
Deferred income taxes	7,899	19,687
Prepaid expenses and other	4,577	6,025
Total current assets	<u>774,814</u>	<u>704,046</u>
Property and equipment, net	31,102	24,079
Goodwill	261,885	243,799
Intangible assets, net	32,382	21,106
Deferred income taxes	15,606	1,276
Other assets	11,955	11,957
Total assets	<u>\$ 1,127,744</u>	<u>\$ 1,006,263</u>
<u>Liabilities and stockholders' equity</u>		
Current liabilities		
Accounts payable	\$ 180,386	\$ 141,386
Accrued payroll	12,704	12,097
Deferred revenue	10,384	7,040
Accrued acquisition liabilities	399	5,654
Other accrued liabilities	41,229	39,982
Total current liabilities	<u>245,102</u>	<u>206,159</u>
Non-current liabilities		
Convertible senior notes	195,000	195,000
Other liabilities	11,362	1,345
Total non-current liabilities	<u>206,362</u>	<u>196,345</u>
Total liabilities	<u>451,464</u>	<u>402,504</u>
Stockholders' equity		
Common stock	405	404
Additional paid-in capital	576,529	546,758
Retained earnings	68,413	44,989
Accumulated other comprehensive income	30,933	11,608
Stockholders' equity	<u>676,280</u>	<u>603,759</u>
Total liabilities and stockholders' equity	<u>\$ 1,127,744</u>	<u>\$ 1,006,263</u>

Digital River, Inc.

Fourth Quarter Results

(Unaudited, in thousands, except per share amounts)

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Condensed Consolidated Statements of Operations

	Three months ended December 31,		Twelve months ended December 31,	
	2007	2006	2007	2006
Revenue	\$ 96,878	\$ 83,004	\$ 349,275	\$ 307,632
Costs and expenses:				
Direct cost of services	2,245	2,020	10,243	7,709
Network and infrastructure	9,497	7,748	32,309	29,250
Sales and marketing	34,474	30,444	134,401	113,462
Product research and development	12,122	8,913	39,179	32,341
General and administrative	10,226	9,607	38,937	34,158
Depreciation and amortization	3,437	3,312	12,706	10,983
Amortization of acquisition-related intangibles	1,622	2,943	7,586	12,134
Total costs and expenses	73,623	64,987	275,361	240,037
Income from operations	23,255	18,017	73,914	67,595
Interest income	8,191	7,191	32,167	22,836
Other expense, net	(1,558)	(435)	(3,006)	(949)
Income before income tax expense	29,888	24,773	103,075	89,482
Income tax expense	9,572	8,417	32,261	28,672
Net income	\$ 20,316	\$ 16,356	\$ 70,814	\$ 60,810
Net income per share - basic	\$ 0.51	\$ 0.41	\$ 1.75	\$ 1.58
Net income per share - diluted	\$ 0.46	\$ 0.36	\$ 1.58	\$ 1.40
Shares used in per share calculation - basic	40,164	40,024	40,444	38,593
Shares used in per share calculation - diluted	45,401	46,138	45,914	44,642

Calculation of GAAP Diluted Net Income Per Share

	Three months ended December 31,		Twelve months ended December 31,	
	2007	2006	2007	2006
GAAP net income	\$ 20,316	\$ 16,356	\$ 70,814	\$ 60,810
Add back debt interest expense and issuance cost amortization, net of tax benefit	435	434	1,739	1,739
Adjusted net income for GAAP EPS calculation	\$ 20,751	\$ 16,790	\$ 72,553	\$ 62,549
Net income per share - diluted	\$ 0.46	\$ 0.36	\$ 1.58	\$ 1.40
Shares used in per share calculation - diluted	45,401	46,138	45,914	44,642

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Condensed Consolidated Statements of Cash Flows

	Twelve months ended December 31,	
	2007	2006
<u>Operating Activities:</u>		
Net income	\$ 70,814	\$ 60,810
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of acquisition-related intangibles	7,586	12,134
Change in accounts receivable allowance, net of acquisitions	(174)	1,215
Depreciation and amortization	12,706	10,983
Stock-based compensation expense	13,742	13,904
Excess tax benefits from stock-based compensation	(12,030)	(8,980)
Deferred and other income taxes	27,522	19,583
Change in operating assets and liabilities (net of acquisitions):		
Accounts receivable	(6,863)	(14,678)
Prepaid and other assets	1,325	(1,293)
Accounts payable	32,181	3,701
Deferred revenue	3,046	811
Income tax payable	(7,076)	8,126
Other accrued liabilities	3,609	11,190
Net cash provided by operating activities	146,388	117,506
<u>Investing Activities:</u>		
Purchases of investments	(436,806)	(193,609)
Sales of investments	358,470	179,296
Cash paid for acquisitions, net of cash received	(31,625)	(37,800)
Purchases of equipment and capitalized software	(18,722)	(15,907)
Net cash used in investing activities	(128,683)	(68,020)
<u>Financing Activities:</u>		
Proceeds from sales of common stock	-	172,780
Exercise of stock options	13,510	21,118
Sales of common stock under employee stock purchase plan	2,483	2,109
Repurchase of common stock	(62,968)	-
Repurchase of restricted stock to satisfy tax withholding obligation	(528)	(426)
Excess tax benefits from stock-based compensation	12,030	8,980
Net cash (used in)/ provided by financing activities	(35,473)	204,561
Effect of exchange rate changes on cash	9,313	4,426
Net (decrease)/ increase in cash and cash equivalents	(8,455)	258,473
Cash and cash equivalents, beginning of period	390,243	131,770
Cash and cash equivalents, end of period	\$ 381,788	\$ 390,243
Cash paid for interest on Convertible Senior Notes	\$ 2,438	\$ 2,438

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
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	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 @ 31%	11,231	8,141	8,431	10,762	38,565
Non-GAAP net income	\$ 24,999	\$ 18,120	\$ 18,765	\$ 23,954	\$ 85,838
Non-GAAP net income per share - diluted	\$ 0.54	\$ 0.39	\$ 0.41	\$ 0.53	\$ 1.87

Shares used in per share calculation - diluted	46,348	46,637	45,386	45,401	45,914
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Breakdown of stock-based compensation expense

	Three months ended				Twelve months ended
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	December 31, 2007
Direct cost of services	\$ 195	\$ 225	\$ 223	\$ 164	\$ 807
Network and infrastructure	72	61	58	79	270
Sales and marketing	1,268	1,350	1,230	1,180	5,028
Product research and development	552	466	391	327	1,736
General and administrative	1,389	1,547	1,509	1,456	5,901
Total	\$ 3,476	\$ 3,649	\$ 3,411	\$ 3,206	\$ 13,742

Non-GAAP Guidance Reconciliation

	Q1 - 2008 Guidance	FY - 2008 Guidance
Expected GAAP net income per share - diluted	\$ 0.40	\$ 1.58
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	<u>\$ 0.48</u>	<u>\$ 1.88</u>