

DIGITAL RIVER INC /DE
Form 10-K/A
March 09, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A**

(Mark One)

- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008**
- OR**
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission File Number: 000-24643

DIGITAL RIVER, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
*(State or other jurisdiction of
Incorporation or organization)*

41-1901640
*(I.R.S. Employer
Identification No.)*

**9625 WEST 76TH STREET
EDEN PRAIRIE, MINNESOTA 55344**
(Address of principal executive offices)

(952) 253-1234
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Name of each Exchange on which registered:
Common Stock \$0.01 par value Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by checkmark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicated by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes ☒ No ☐

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of June 30, 2008, there were 36,959,613 shares of Digital River, Inc. common stock, issued and outstanding. As of such date, based on the closing sales price as quoted by The Nasdaq Global Select Market, 36,352,219 shares of common stock, having an aggregate market value of approximately \$1,402,469,000 were held by non-affiliates. For purposes of the above statement only, all directors and executive officers of the registrant are assumed to be affiliates.

The number of shares of common stock outstanding at February 2, 2009 was 37,034,913 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the Registrant's definitive Proxy Statement for the 2009 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K to the extent stated herein.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A amends the Company's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on February 19, 2009. We are amending Item 15 solely to correct a clerical error in the Consolidated Statement of Cash Flows.

In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by our principal executive officer and principal financial officer are filed as exhibits to this Form 10-K/A under Item 15 of Part IV hereof.

This Amendment No. 1 does not reflect events occurring after the original filing date of the 2008 10-K or otherwise modify or update the disclosures set forth in the 2008 10-K, including the financial statements and notes to financial statements set forth in the 2008 10-K.

DIGITAL RIVER, INC.
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For the Year Ended December 31, 2008

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) *Financial Statements.*

The consolidated financial statements required by this item are submitted in a separate section beginning on page 6 of this report.

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(2) *Financial Statement Schedules.*

All schedules for which provision is made in the applicable accounting regulations of the SEC have been omitted as not required or not applicable, or the information required has been included elsewhere by reference in the financial statements and related notes, except for Schedule II, which is included with this Form 10-K, as filed with the SEC.

(3) *Exhibits.*

Exhibit Number	Description of Document
3.1(2)	Amended and Restated Certificate of Incorporation of the Registrant, as currently in effect.
3.2(4)	Amended and Restated Bylaws of the Registrant, as currently in effect.
4.1(5)	Specimen Stock Certificate.
4.2(9)	Indenture dated as of June 1, 2004, between Digital River, Inc. and Wells Fargo Bank, N.A. as trustee, including therein the form of the Note.
10.1(5)	Form of Indemnity Agreement between Registrant and each of its directors and executive officers.
10.3(5)	Consent to Assignment and Assumption of Lease dated April 22, 1998, by and between CSM Investors, Inc., IntraNet Integration Group, Inc. and Registrant.
10.4(3)	Assignment of Lease dated April 21, 1998, by and between Intranet Integration Group, Inc. and Registrant.
10.5(3)	Lease Agreement dated January 18, 2000, between Property Reserve, Inc. and Registrant.
10.6(4)	First Amendment of Lease dated January 31, 2001, to that certain Lease dated April 24, 1996, between CSM Investors, Inc. and Registrant (as assignee of Intranet Integration Group, Inc.).
10.7(6)	1998 Stock Option Plan, as amended and superseded by Exhibit 10.18.*
10.8(7)	

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1999 Stock Option Plan, formerly known as the 1999 Non-Officer Stock Option Plan, as amended and superseded by Exhibit 10.18.*

10.9(6) 2000 Employee Stock Purchase Plan, as amended, and offering.*

10.11(8) Second Amendment of Lease dated April 22, 2002, to that certain Lease dated April 24, 1996, between CSM Investors, Inc. and Registrant (as assignee of Intranet Integration Group, Inc.) as amended.

10.12(8) Second Amendment of Lease dated April 28, 2003, to that certain Lease dated January 18, 2000, between Property Reserve Inc. and Registrant.

10.15(9) Registration Rights Agreement dated as of June 1, 2004, between Digital River, Inc. and the initial purchasers of Senior Convertible Notes due January 1, 2024.

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**Exhibit
Number**

Description of Document

10.16(13)	Summary of Compensation Program for Non-Employee Directors.
10.17(14)	Second Amended and Restated Symantec Online Store Agreement, by and among Symantec Corporation, Symantec Limited, Digital River, Inc. and Digital River Ireland Limited effective April 1, 2006
10.18(10)	1998 Equity Incentive Plan (formerly known as 1998 Stock Option Plan).*
10.19(13)	Amended and Restated Employment Agreement for Joel A. Ronning.*
10.20(13)	Change of Control and Severance Agreement for Thomas M. Donnelly.*
10.21(11)	Form of Amendment to Non-Qualified Stock Option Agreement.*
10.22(12)	Inducement Equity Incentive Plan.*
10.23(15)	2007 Equity Incentive Plan.*
10.24(13)	Change of Control and Severance Agreement for Kevin L. Crudden.*
12.1(16)	Computation of Ratio of Earnings to Fixed Charges.
21.1(16)	Subsidiaries of Digital River, Inc.
23.1++	Consent of Independent Registered Public Accounting Firm, dated February 19, 2009.
24.1(16)	Power of Attorney, pursuant to which amendments to this Annual Report on Form 10-K may be filed, is included on the signature pages of this Annual Report on Form 10-K.
31.1++	Certification of Digital River, Inc. s Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2++	Certification of Digital River, Inc. s Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32++	Certification of Digital River, Inc. s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

++ Filed herewith.

* Management contract or compensatory plan.

Confidential treatment has been requested for portions of this agreement, which portions have been filed separately with the SEC.

- (1) Incorporated by reference from the Company s Current Report on Form 8-K filed on May 4, 2004.
- (2) Incorporated by reference from the Company s Current Report on Form 8-K filed on June 1, 2006.
- (3) Incorporated by reference from the Company s Annual Report on Form 10-K for the year ended December 31, 1999, filed on March 30, 2000.
- (4) Incorporated by reference from the Company s Annual Report on Form 10-K for the year ended December 31, 2000, filed on March 27, 2001.
- (5) Incorporated by reference from the Company s Registration Statement on Form S-1 (File No. 333-56787), declared effective on August 11, 1998.
- (6)

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Incorporated by reference from the Company's Registration Statement on Form S-8 (File No. 333-105864) filed on June 5, 2003.

- (7) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed on August 14, 2003.
- (8) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, filed on May 15, 2003.
- (9) Incorporated by reference from the Company's Current Report on Form 8-K filed on July 13, 2004.
- (10) Incorporated by reference from the Company's Current Report on Form 8-K filed on May 31, 2005.

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- (11) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, filed on August 9, 2005.
- (12) Incorporated by reference from the Company's Current Report on Form 8-K filed on December 20, 2005.
- (13) Incorporated by reference from the Company's Current Report on Form 8-K filed on March 10, 2008.
- (14) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 1, 2007.
- (15) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed on February 29, 2008.
- (16) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2008, filed on February 19, 2009.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Digital River, Inc.

We have audited the accompanying consolidated balance sheets of Digital River, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digital River, Inc. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth herein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Digital River, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 19, 2009

Table of Contents**DIGITAL RIVER, INC.****Consolidated Balance Sheets**

	December 31, 2008	December 31, 2007
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 490,335	\$ 381,788
Short-term investments	10,000	315,636
Accounts receivable, net of allowance of \$2,457 and \$2,489	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 of accumulated amortization of \$66,345 and \$59,493	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

LIABILITIES AND STOCKHOLDERS EQUITY

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 costs	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

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY:

Preferred Stock, \$.01 par value; 5,000,000 shares authorized; no shares issued or outstanding

Common Stock, \$.01 par value; 120,000,000 shares authorized; 43,225,401 and 42,502,019 shares issued

Treasury stock at cost; 6,211,477 and 1,952,884 shares

Additional paid-in capital

Retained earnings

Accumulated other comprehensive income

Total stockholders' equity

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

432	425
(216,163)	(77,707)
623,778	597,128
189,096	125,501
4,930	30,933
602,073	676,280
\$ 1,070,252	\$ 1,127,744

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**DIGITAL RIVER, INC.****Consolidated Statements of Income**

	For the Years Ended December 31		
	2008	2007	2006
	(In thousands except per share data)		
Revenue	\$ 394,226	\$ 349,275	\$ 307,632
Costs and expenses			
Direct cost of services	16,417	10,243	7,709
Network and infrastructure	41,040	32,309	29,250
Sales and marketing	150,118	134,401	113,462
Product research and development	51,184	39,179	32,341
General and administrative	39,525	38,937	34,158
Depreciation and amortization	15,980	12,706	10,983
Amortization of acquisition-related intangibles	8,391	7,586	12,134
Total costs and expenses	322,655	275,361	240,037
Income from operations	71,571	73,914	67,595
Interest Income	18,019	32,167	22,836
Other expense, net	(3,319)	(3,006)	(949)
Income before income tax expense	86,271	103,075	89,482
Income tax expense	22,676	32,261	28,672
Net income	\$ 63,595	\$ 70,814	\$ 60,810
Net income per share basic	\$ 1.72	\$ 1.75	\$ 1.58
Net income per share diluted	\$ 1.55	\$ 1.58	\$ 1.40
Shares used in per-share calculation basic	37,016	40,444	38,593
Shares used in per-share calculation diluted	42,106	45,914	44,642

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**DIGITAL RIVER, INC.****Consolidated Statements of Stockholders' Equity**

	Common Stock		Treasury	Additional	Deferred	Accumulated	Retained	Total	
	Shares	Amount	Stock	Paid-In	Compensation	Comprehensive	Earnings	Stockholders'	Comprehensive
				Capital	(In thousands)	Income	(Accumulated	Equity	Income
						(Loss)	Deficit)		(Loss)
NCE, December 31,	35,034	\$ 355	\$ (13,586)	\$ 329,327	\$ (1,990)	\$ (2,431)	\$ (6,123)	\$ 305,552	\$ 54,687
Income							60,810	60,810	60,810
Classification of deferred									
compensation balance upon									
adoption of SFAS 123(R)				(1,990)	1,990				
Realized gain on									
investments						576		576	
Translation gain									
on common stock	4,000	40		172,740		13,463		13,463	13,463
Issued for								172,780	
acquisition	28		(12)	1,184				1,172	
Exercise of stock options	1,220	12		21,106				21,118	
Share-based compensation	113	1		13,903				13,904	
Withheld in restricted									
investing	(8)		(426)					(426)	
Benefit of stock-based									
compensation				12,700				12,700	
on stock issued									
under the Employee Stock									
Ownership Plan	71	1		2,110				2,111	
NCE, December 31,	40,458	\$ 409	\$ (14,024)	\$ 551,080	\$	\$ 11,608	\$ 54,687	\$ 603,760	\$ 74,687
Income							70,814	70,814	70,814
Realized gain on									
investments						1,006		1,006	1,006
Translation gain									
on common						18,319		18,319	18,319
Issued for	(1,372)		(62,968)					(62,968)	
acquisition	44	1	(189)	2,337				2,149	
Exercise of stock options	1,220	12		13,498				13,510	

based compensation				13,742					13,742	
ected stock issued										
equity incentive										
net of forfeitures	135	2		(2)						
ithheld in restricted										
esting	(11)		(526)						(526)	
enefit of stock-based										
nsation				13,990					13,990	
on stock issued										
the Employee Stock										
se Plan	76	1		2,483					2,484	
NCE, December 31,										
	40,550	\$ 425	\$ (77,707)	\$ 597,128	\$	\$ 30,933	\$ 125,501	\$ 676,280	\$ 90	
come							63,595	63,595	63	
ized loss on										
ments						(10,822)		(10,822)	(10	
n currency										
tion loss						(15,181)		(15,181)	(15	
hase of common										
	(4,239)		(137,858)					(137,858)		
se of stock options	426	4		7,167				7,171		
based compensation				12,548				12,548		
ected stock issued										
equity incentive										
net of forfeitures	186	2		(2)						
ithheld in restricted										
esting	(19)		(598)					(598)		
enefit of stock-based										
nsation				4,223				4,223		
on stock issued										
the Employee Stock										
se Plan	112	1		2,714				2,715		
NCE, December 31,										
	37,016	\$ 432	\$ (216,163)	\$ 623,778	\$	\$ 4,930	\$ 189,096	\$ 602,073	\$ 37	

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**DIGITAL RIVER, INC.****Consolidated Statements of Cash Flows**

	For the Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
OPERATING ACTIVITIES:			
Net income	\$ 63,595	\$ 70,814	\$ 60,810
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of acquisition-related intangibles	8,391	7,586	12,134
Change in accounts receivable allowance, net of acquisitions	434	(174)	1,215
Depreciation and amortization	15,980	12,706	10,983
Stock-based compensation expense related to stock-based compensation plans	12,548	13,742	13,904
Excess tax benefits from stock-based compensation	(4,390)	(12,030)	(8,980)
Deferred income taxes and other	4,971	27,522	19,583
Change in operating assets and liabilities (net of acquisitions):			
Accounts receivable	11,332	(6,863)	(14,678)
Prepaid and other assets	(26,505)	1,325	(1,293)
Accounts payable	6,531	32,181	3,701
Deferred revenue	3,235	3,046	811
Income tax payable	(5,366)	(7,076)	8,126
Accrued payroll and other accrued liabilities	4,478	3,609	11,190
Net cash provided by operating activities	95,234	146,388	117,506
INVESTING ACTIVITIES:			
Purchases of investments	(480,917)	(436,806)	(193,609)
Sales of investments	676,108	358,470	179,296
Cash paid for acquisitions, net of cash received	(23,465)	(31,625)	(37,800)
Purchases of equipment and capitalized software	(26,898)	(18,722)	(15,907)
Net cash provided by/(used for) investing activities	144,828	(128,683)	(68,020)
FINANCING ACTIVITIES:			
Proceeds from sales of common stock			172,780
Exercise of stock options	7,171	13,510	21,118
Sales of common stock under employee stock purchase plan	2,715	2,483	2,109
Repurchase of common stock	(137,858)	(62,968)	
Repurchase of restricted stock to satisfy tax withholding obligation	(598)	(528)	(426)
Excess tax benefits from stock-based compensation	4,390	12,030	8,980
Net cash (used for)/provided by financing activities	(124,180)	(35,473)	204,561
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(7,335)	9,313	4,426

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	108,547	(8,455)	258,473
CASH AND CASH EQUIVALENTS, beginning of year	381,788	390,243	131,770
CASH AND CASH EQUIVALENTS, end of year	\$ 490,335	\$ 381,788	\$ 390,243
SUPPLEMENTAL DISCLOSURES:			
Cash paid for interest on Convertible Senior Notes	\$ 2,438	\$ 2,438	\$ 2,438
Cash paid for income taxes	\$ 20,503	\$ 8,232	\$ 2,006
Noncash investing and financing activities:			
Common stock issued in acquisitions and earn-outs	\$	\$ 2,150	\$ 1,172

The accompanying notes are an integral part of these consolidated financial statements.

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DIGITAL RIVER, INC.

**Notes to Consolidated Financial Statements
December 31, 2008 and 2007**

1. Nature of Operations and Summary of Significant Accounting Policies

We provide outsourced e-commerce solutions globally to a wide variety of companies primarily in the software, consumer electronics, computer game and video game markets. We were incorporated in 1994 and began building and operating online stores for our clients in 1996. We generate revenue primarily based on the sales of products made in those stores, and in addition, offer services designed to increase traffic to our clients' online stores and to improve the sales effectiveness of those stores.

Principles of Consolidation and Classification

The consolidated financial statements include the accounts of Digital River, Inc. and our wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in accordance with the United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation

Substantially all of our foreign subsidiaries use the local currency of their respective countries as their functional currency. Assets and liabilities are translated at exchange rates prevailing at the balance sheet dates. Revenues, costs and expenses are translated into U.S. dollars at average exchange rates for the period. Gains and losses resulting from translation are recorded as a component of equity. Gains and losses resulting from foreign currency transactions are recognized as other (expense), net.

We are exposed to market risk from changes in foreign currency exchange rates. Our primary risk is the effect of foreign currency exchange rate fluctuations on the U.S. dollar value of foreign currency denominated operating sales and expenses. At December 31, 2008, these exposures were mitigated through the use of foreign exchange forward contracts with maturities of approximately one week. The principal currency exposures being mitigated were the euro, British pound, Australian dollar, Swiss franc, Norwegian krone, Swedish krona and Canadian dollar. We also are exposed to foreign currency exchange risk as a result of changes in intercompany balance sheet accounts and other balance sheet items.

Our foreign currency forward contracts contain credit risk to the extent that our bank counterparties may be unable to meet the terms of the agreements. We minimize such risk by limiting our counterparties to major financial institutions of high credit quality.

Cash and Cash Equivalents

We consider all short-term, highly liquid investments, primarily high grade commercial paper and money market accounts, that are readily convertible into known amounts of cash and that have original or remaining maturities of

three months or less at the date of purchase to be cash equivalents. As of December 31, 2008 and 2007, cash balances of \$0.0 million and \$1.5 million, respectively, were held by banks or credit card processors to secure potential future credit card fees, fines and chargebacks or for other payments. In addition, at December 31, 2008 and 2007, \$0.3 million and \$0.4 million were restricted by letter of credit and agreements required by international tax jurisdictions as security for potential tax liabilities.

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)*****Short-Term Investments***

Our short-term investments consist of debt securities that are classified as available-for-sale and are carried on our balance sheet at their market value with cumulative unrealized gains or losses recorded as a component of accumulated other comprehensive income within stockholders' equity. We classify all of our available-for-sale securities as current assets, as these securities represent investments available for current corporate purposes.

Property and Equipment

Computer equipment, software and furniture are depreciated under the straight-line method using estimated useful lives of three to seven years and leasehold improvements are amortized over the shorter of the asset life or remaining length of the lease. Property and equipment at December 31 consisted of the following (in thousands):

	2008	2007
Computer hardware and software	\$ 78,660	\$ 60,977
Furniture, fixtures and leasehold improvements	15,475	13,077
Total property and equipment	\$ 94,135	\$ 74,054
Accumulated depreciation	(52,402)	(42,952)
Net property and equipment	\$ 41,733	\$ 31,102

Purchased Intangible Assets

Through both domestic and international acquisitions, we have continued to expand our global online businesses. Tangible net assets for our acquisitions were valued at their respective carrying amounts as we believe these amounts approximated their current fair values at the respective acquisition dates. The valuation of identifiable intangible assets acquired reflects management's estimates based on, among other factors, use of established valuation methods. Such assets consist of customer lists and user base, trademarks and trade names, developed technologies and other acquired intangible assets, including contractual agreements. Identifiable intangible assets are amortized using the straight-line method over the estimated useful lives, generally three to ten years. We believe the straight-line method of amortization best represents the distribution of the economic value of the identifiable intangible assets acquired to date. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. The purchase prices of the acquisitions described in Note 4 below exceeded the estimated fair value of the respective related identifiable intangible and tangible assets because we believe these acquisitions will assist with our strategy of establishing and expanding our global online marketplace.

Long-Lived Assets

We review all long-lived assets, including intangible assets with definite lives, for impairment in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived

Assets (SFAS 144). Under SFAS 144, impairment losses are recorded whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. For long-lived assets used in operations, impairment losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted cash flows. We measure the impairment loss based on the difference between the carrying amount and estimated fair value. An impairment loss is recognized when estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. As part of our evaluation, we consider certain non-financial data as indicators of impairment such as changes in the operating

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DIGITAL RIVER, INC.

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environment and business strategy, competitive information, market trends and operating performance. When an impairment loss is identified, the carrying amount of the asset is reduced to its estimated fair value. There were no significant impairments of long-lived assets, including definite-lived intangible assets, recorded in 2008, 2007 or 2006.

Other Assets

The following table summarizes our other assets as of December 31 (in thousands):

	2008	2007
Unamortized debt financing costs	\$ 224	\$ 5,298
Cost of investment		6,000
Other	562	657