

DIGITAL RIVER INC /DE
Form 10-K
February 27, 2014

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(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, 2013.

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.)

**10380 BREN ROAD WEST
MINNETONKA, MINNESOTA**

(Address of principal executive offices)

55343

(Zip Code)

(952) 253-1234

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock \$0.01 par value

Name of Exchange on which registered

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

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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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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, 2013, there were 34,251,416 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, 33,349,773 shares of common stock, having an aggregate market value of approximately \$625,975,000 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 1, 2014 was 33,086,354 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the Registrant's definitive Proxy Statement for the 2014 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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CAUTIONARY STATEMENT

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact, regarding our strategy, future operations, financial position, estimated revenue, projected costs, projected savings, prospects, plans, opportunities and objectives constitute "forward-looking statements." The words "may," "will," "expect," "plan," "anticipate," "believe," "estimate," "potential," or "continue" and similar types of expressions identify forward-looking statements, although not all such statements contain these identifying words. These forward-looking statements are based upon information that is currently available to us and/or management's current expectations, speak only as of the date hereof, and are subject to risks and uncertainties. We expressly disclaim any obligation, except as required by law, or undertaking to update or revise any forward-looking statements contained or incorporated by reference herein to reflect any change or expectations with regard thereto or to reflect any change in events, conditions, or circumstances on which any such forward-looking statement is based, in whole or in part. Our actual results may differ materially from the results discussed in or implied by such forward-looking statements. We are subject to a number of risks, some of which may be similar to those of other companies of similar size in our industry, including rapid technological changes, competition, customer concentration, failure to successfully integrate acquisitions, adverse government regulations, failure to manage international activities, income we may not realize from our Microsoft relationship and loss of key individuals. Risks that may affect our operating results include, but are not limited to, those discussed in Part I Item 1A, titled "Risk Factors." Readers should carefully review the risk factors described in this document and in other documents that we file from time to time with the Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS.

Overview

Digital River is a leading provider of global Commerce-as-a-Service (CaaS) solutions. We provide commerce, payments and marketing solutions to business-to-business (B2B) and business-to-consumer (B2C) digital product and cloud service companies as well as branded manufacturers across a variety of vertical markets through our multi-tenant technology, platform and service offerings. Our customers range in size from small to mid-sized companies to multi-national enterprises that serve a wide variety of markets, including, software, consumer electronics, computer games, publishing, travel, music, video games, electronic toys, housewares, medical equipment, power tools and direct-selling, among others.

We offer our customers a broad range of solutions to quickly and cost effectively establish, manage and grow commerce sales channels via Internet-connected devices. We have invested substantial resources to develop our solutions, services, infrastructure and platforms, and to mitigate the risks our customers may encounter when conducting global commerce.

Commerce

Our Commerce-as-a-Service suite includes our commerce experience, tools and capabilities; Commerce Business Infrastructure (CBI), which we believe is a competitive differentiator; and marketing services. Our solutions allow our customers to focus on promoting and marketing their products and brands worldwide while leveraging our technology and global infrastructure investments to facilitate the purchase of products or services through e-commerce stores. We generate a significant proportion of our revenue based on the difference between the selling price and our wholesale purchase price, which can be expressed on a revenue-share basis, meaning that we earn as margin a percentage of the selling price of each product sold through our commerce solution. We believe this

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model aligns our interests with those of our clients. In addition, we also offer our customers transaction-based models and hybrid combinations of revenue share and transaction models.

Commerce experience, tools and capabilities: With our commerce experience, tools and capabilities we create and manage world-class commerce sites and online experiences that include all of the classic components of a commerce operation, such as responsive and adaptive design, development and hosting of commerce stores, in-application and in-product commerce experiences, shopping carts, store merchandising and optimization, digital product or license key delivery via download, physical product fulfillment, subscription management, e-marketing services, international payment processing services, web store optimization, web analytics and reporting.

When shoppers decide to purchase a customer's product or service online, they are transferred to a commerce store and/or shopping cart operated by us using our multi-tenant commerce platform. Once on our system, shoppers can browse for products and make purchases using connected devices such as PCs, tablet computers, smartphones and other similar devices. After a purchase is made, we deliver the product or license key digitally via download over the Internet, enable access to the product via a time- or usage-based subscription model or transmit instructions to a third party partner for physical fulfillment of the order.

Commerce business infrastructure (CBI): Our CBI is the underpinning for our Commerce-as-a-Service suite and our payments solution. We believe it is unique and differentiated, enabling us to manage the complexity of global commerce on behalf of our customers. It includes our merchant-of-record and seller-of-record capabilities, our fraud screening and management capabilities, our order management, business intelligence analytics, customer support services and our integration services capabilities as well as our local business entities, which enable us to have on-the-ground experts, strong localization capabilities and local payment methods and banking relationships; and it enables us to manage legal compliance requirements and export controls and management.

We have invested substantial resources to develop our CBI as part of our multi-tenant SaaS commerce and marketing platform and business processes. We provide access and use of our platform to our clients as a service as opposed to selling the software to be operated on our customers' own in-house computer hardware.

Payments

Our Payments solutions offer our customers a global payments footprint, including a full range of domestic and international payment solutions, 180 global payment methods, 170 international currencies and 50 connections to local banks from across the globe. The payments services we provide ourselves or through third parties include transaction processing, global payment methods, fraud management, cloud-based billing, mobile payments services, and other payment optimization services. Our online payments solutions are designed to help our customers maximize credit card and transaction authorization rates, reduce online shopping cart abandonment, ease entry into new geographies and protect transactions from fraud on a global basis. Our payments offerings can function as independent online payment solutions and as fully integrated components of Digital River's enterprise commerce solution.

Marketing

In addition to the services we provide that facilitate the completion of an online transaction, we also offer services designed to help our clients acquire customers more effectively, sell to those customers more often and more efficiently, and increase the lifetime value and retention of each

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customer. The e-marketing services we provide are supported through several channels. Our performance marketing services include:

marketForce: Our marketForce digital marketing agency includes a global team of marketers that offer managed direct response e-marketing services. Digital River's e-marketing experts offer managed services that span email and affiliate marketing management, search engine marketing, site optimization, multi-variate testing, mass dynamic personalization and contextual advertising.

oneNetworkDirect: Through our large oneNetworkDirect affiliate network, we provide our customers access to a new sales channel, which can help grow their online businesses. Customers can offer any part of their product catalogs to our network of online channel partners, including online retailers and affiliates. This increases the exposure these products receive and can result in higher sales volumes.

BlueHornet Email Marketing: Our BlueHornet™ enterprise email marketing service provides traditional as well as social and mobile email marketing capabilities. BlueHornet offers email marketing technology, a service model including account management by expert email marketers, and proactive inbox deliverability management.

We view our operations and manage our business as one reportable segment, providing solutions to companies that want to sell their products and services online.

We were incorporated in Delaware in February 1994. Our headquarters are located at 10380 Bren Road West, Minnetonka, Minnesota and our telephone number is +1 952-253-1234.

General information about us can be found at www.digitalriver.com under the "Company/Investor Relations" link or follow the Company on Twitter at twitter.com/digitalriverinc. Our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments or exhibits to those reports, are available free of charge through our website as soon as reasonably practicable after we file such reports with the Securities and Exchange Commission.

Industry Background

Growth of the Internet and E-Commerce.

E-Commerce sales continue to grow. According to eMarketer, global B2C ecommerce sales topped \$1 trillion in 2012, 21% over 2011, and 2013 was projected to reach nearly \$1.3 trillion, an 18% increase over 2012. We believe there are a number of factors that are contributing to the continued growth of e-commerce: (i) adoption of the Internet continues to increase globally aided by accessibility through mobile devices; (ii) broadband technology is increasingly being used to deliver Internet service enabling the delivery of richer content as well as larger files to consumers; (iii) Internet users are becoming increasingly comfortable with the process of buying products online; (iv) the functionality of online stores continues to improve, offering a broader assortment of payment options with more promotion alternatives; (v) businesses are placing more emphasis on their online channel, reaching a larger audience at comparatively lower costs than other methods; and (vi) concerns about conflicts between online and traditional sales channels continue to subside.

Increased Cross-Border E-Commerce.

Once a company establishes a commerce store, it is immediately accessible to Internet users around the world. Web pages must be presented and customer service inquiries handled in multiple languages, and a variety of currencies and payment options must be accepted. The appropriate taxes must be collected and paid, payment fraud risk mitigated, fulfillment provided, and assurances made that products are not shipped to banned locations. These and other requirements of a global commerce

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system make it an expensive and potentially risky undertaking for any business. These factors also make a comprehensive CaaS offering, such as that provided by Digital River, an alternative option.

Growing Interest in Direct-to-Consumer Channels.

Increasingly, companies are selling their products directly to buyers via online sales channels. This is due to the growing number of consumers shifting their purchases away from traditional brick-and-mortar stores to online channels; increased competition for shelf space in the traditional retail channels; as well as the recognition that direct sales channels can co-exist with traditional sales channels. In addition, manufacturers want to establish direct relationships with consumers. Direct relationships provide manufacturers data and information that can be used to better serve consumers by guiding the development of products and services as well as creating behavioral or personalized online marketing campaigns relevant to a consumer's interests.

Increased Proliferation of Devices

As the number of internet-connected devices continues to grow, driven primarily by the accelerating adoption of mobile devices, so do consumers increasing expectations of their shopping experience on those devices. Consumers are increasingly expecting a seamless and consistent shopping experience across channels and devices and that trend is extending to purchases made for business as well. Buyers expect to make purchases for their jobs as quickly and efficiently as they do for their personal use. Therefore, organizations are focused on optimizing their commerce application portfolios, consolidating the B2B and B2C applications with a single underlying platform serving B2B and B2C customers' needs.

Opportunities for Outsourced Commerce Technology Solutions

We believe the market for outsourced commerce will continue to grow as there are advantages to outsourced commerce that will continue to make it an attractive alternative to building and maintaining this capability in-house. These advantages include: (i) eliminating the substantial up-front and ongoing costs of computer hardware, network infrastructure, specialized application software and training and support; (ii) reducing the time it takes to get online channels live and productive; (iii) shifting the ongoing technology, financial, personal information security protections, regulatory and compliance risks to a proven service provider; (iv) leveraging the direct marketing expertise of an e-commerce service provider to accelerate growth of an online business; and (v) allowing businesses to focus on their specific core competencies.

Advantages of Multi-Tenant Technology

Multi-tenant technology is becoming an increasingly strategic choice for many companies. First, it enables scale out of the box, globally. Second, it has the flexibility to support changing business needs and enable engagement at all touchpoints. Third, there's a very clear total cost of ownership value proposition associated with a multi-tenant model. Companies that don't have the staff and equipment costs required to operate in-house solutions benefit directly from the regular upgrades provided by the multi-tenant provider. The regular upgrades, which are made at no cost to the client, provide frequent innovation that other on-premise or alternative solutions do not offer. Finally, and perhaps most importantly, multi-tenant solutions offer speed to market. Multi-tenant solutions can launch an online store in less than 90 days, compared to many on-premise solutions, which typically take more than 18 months to deploy. Speed to market is a key differentiator for a Multi-tenant solution because it provides companies with the ability to generate online revenue more quickly.

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Shift from Physical to Electronic Delivery of Digital Products.

Consumers have grown increasingly comfortable with the electronic delivery of digital products, such as software, ticketing, e-books, computer games, video games, music and video. This shift from physical to electronic delivery is being driven by benefits to both buyers and sellers of these products. For buyers, downloaded products are immediately available for use and a wider variety of products are available than can be found in most retail stores. For sellers, electronic delivery eliminates inventory-stocking requirements, shipping, handling, storage and inventory-carrying costs as well as the risk of product obsolescence.

The Digital River Solution

Our solution combines a robust multi-tenant CaaS commerce technology platform, our CBI and a suite of marketing services to help businesses grow their online revenue worldwide and avoid the costs and risks of running an integrated global commerce operation in-house. We offer comprehensive commerce, payments and marketing solutions that operate seamlessly as part of our customers' commerce sales channels. We provide services that facilitate commerce transactions, drive traffic to our customers' online stores, and enable increased conversion rates and sales through the offering of local payment methods. Our services include responsive and adaptive design, development and hosting of commerce stores, merchandising, order management, fraud prevention screening, processing of popular local online payment methods, transacting in global currencies, export controls and management, tax compliance and management, digital product delivery via download, integration with third-party agencies for physical product fulfillment, multi-lingual customer service, subscription management, online marketing services, including email marketing, paid search program management, website optimization, web analytics and reporting, among other programs. We also provide our customers with increased product visibility and sales opportunities through our large network of affiliates.

Benefits to Clients

Reduced Total Cost of Ownership and Risk

Utilizing the Digital River solution, our clients can have a global commerce presence without assuming the costs and risks of internal development. They can dramatically reduce or eliminate upfront and ongoing hardware, software, maintenance and support costs associated with developing, customizing, deploying, maintaining and upgrading an in-house global commerce solution. We help mitigate the risks associated with payment fraud, data security, tax compliance, and regulatory compliance. In addition, we offer our clients the benefits of our multi-tenant CaaS model, which includes the ability to leverage the ongoing investments we make in the latest technologies and commerce and payments functionality to help ensure they maintain pace with industry advances.

Revenue Growth

We have developed substantial expertise in helping our clients grow their online businesses and drive higher revenue. This includes (i) facilitating the acquisition of new customers, improving the retention of existing customers, and increasing the lifetime value of each customer; (ii) improving order close ratios, average order sizes and repeat purchases; (iii) extending their businesses into international markets with the help of our local experts, and supported by our global Commerce Business Infrastructure, data center networks, locally preferred payment methods and multi-currencies; (iv) expanding the reach and sales of their products through new online channels, including networks of retailers, affiliates, resellers and fulfillment partners, as well as through pre-built custom integrations into an ecosystem of third-party technology marketing, payments and fulfillment providers; (v) opening and managing business-to-business channels using a tool that automatically tracks and attributes

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business-to-business orders to channel partners and then pays them for completed sales; and (vi) mitigating the risk of fraudulent transactions.

Global Expansion

Backed by our Commerce Business Infrastructure and local experts in offices around the world, we provide the technology and services required to establish, grow and support international sales, both for U.S.-based clients seeking to reach customers overseas, and non-U.S.-based clients looking to access the U.S. and other markets. Our global capabilities include merchant and seller of record, localized content, local entities, proactive fraud management, full-service tax solutions, order management, international payment methods and currencies, cloud enablement, business intelligence, security and compliance, multi-lingual customer service, integration services and global fulfillment capabilities.

Commerce Expertise

Our global commerce-as-a-service offerings, payments solutions and marketing services help thousands of companies around the world grow their online revenue. These solutions are backed by a multi-billion dollar infrastructure, two decades of global commerce experience and teams of local experts in 30 offices around the world conducting business in nearly 200 countries.

Deployment Speed

Businesses can reduce the time required to develop a global commerce presence by utilizing our outsourced business model. Depending on the complexity of the implementation, a new client can have a commerce store live in a matter of weeks compared with months or longer if the company decides to build, test, deploy and integrate the commerce capability in-house. Once they are operational on our commerce platform, most clients can utilize our remote control toolset to make real-time store changes, allowing them to take advantage of business opportunities without technical assistance from Digital River.

Focus on Core Competency

By outsourcing their commerce, payments and marketing requirements to Digital River, customers can focus on developing, marketing and selling their products rather than devoting time and resources to building and maintaining a global commerce infrastructure. This allows our customers time to focus on what they know best while ensuring they have access to the latest technologies, tools and expertise for running a successful global commerce operation.

Benefits to Online Purchasers

Our solution emphasizes convenience for both business buyers and consumers. Via a connection to the Internet, shoppers can make online purchases in-product, in-app or in a commerce store via a PC or web-enabled mobile device, at anytime from anywhere in the world. Our global payment offering enables shoppers to make purchases using regionally preferred payment methods and international currencies. In the case of software, video games and other digital content, buyers can immediately download their purchase and, depending on file size, begin using it in a matter of minutes. In the case of physical products, our network of fulfillment partners offers choice and selection to maximize global reach and minimize shipping times. Search technology allows shoppers to browse our entire catalog to find the products they are looking for quickly and easily. Our channel lead management solution with its geo-location technology offers shoppers a list of preferred online retail partners as well as nearby brick-and-mortar retail stores along with driving directions, phone numbers and real-time inventory status. Our smartChannel solution enables business buyers to make purchases through portals where channel partners can view data about their sales performance and order commissions in near real-time.

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Strategy

Our mission is to drive our customers' revenues through our global commerce expertise. Our strategy for achieving this mission includes the following key components:

Advance our Technology Leadership

We believe our global technology platform and infrastructure afford us a competitive offering in the market for outsourced commerce solutions. We intend to continue to invest in and enhance our platform and infrastructure to (i) advance scalability, efficiency, reliability, security and performance; (ii) deliver innovation more quickly to the marketplace; (iii) offer our customers more flexible and configurable solutions that can be tailored to their business requirements; and (iv) strengthen client retention. These investments include: enhancing our database and data centers; leveraging the cloud and virtualization to scale our platform and infrastructure; and modularizing and opening up our software code base and offerings through an expanded API framework.

By leveraging our infrastructure, we can improve our ability to provide low-cost, high-value services while continuing to deploy the latest technologies. Additionally, we plan to continue investing in our infrastructure to enable our clients to further penetrate international markets, enhance their relationships with their customers, better manage the return-on-investment across all their online marketing activities, and successfully adopt new monetization models such as subscriptions, SaaS, trial programs and volume licensing programs.

Grow our Commerce Revenue.

Retain and Expand Existing Commerce Relationships. We have focused our efforts on retaining and growing our existing commerce relationships. We currently provide commerce services for thousands of enterprise and small to mid-sized companies around the world, representing a range of markets including software, consumer electronics, computer games, publishing, travel, music, video games, electronic toys, housewares, medical equipment, power tools and direct-selling, among others.

Target New Sources of Commerce Revenue in Select High Growth Markets. A significant element of our strategy involves winning new commerce customers. This includes expanding our commerce business beyond software into new digital content and cloud service verticals, such as publishing; as well as continuing to broaden our base of branded manufacturing clients beyond consumer electronics. With retail shelf space diminishing and traditional stores continuing to consolidate, as well as more consumers opting to make their purchases online vs. in a brick-and-mortar store, branded manufacturers are increasingly looking to establish direct customer relationships. We believe we can attract new commerce clients and gain additional business with existing clients by investing in our infrastructure, modularizing our platform to deliver more configurable solutions and services, expanding the range of services we offer, and extending our commerce footprint in international geographies. This includes services to enhance the commerce transaction as well as additional online marketing services. We have and will continue to help our customers expand their commerce operations and grow their online revenue by entering new geographies; deploying new monetization models, including in-product, in-store and subscription solutions, across multiple devices such as smartphones, tablet computers and PCs; establishing business-to-business solutions for their business buyers and channel partners; and providing advanced e-marketing services to increase customer acquisition, close ratios and lifetime value.

Grow our Payments Revenue. We plan to sustain the rapid growth in our Payments business by expanding into new geographies, increasing our network of channel partners and value added resellers, creating an engaged community of developers and integrators, and developing additional offerings. In 2013, we expanded into mobile Point of Sale and began offering our

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channel partners a mobile app and magnetic stripe reader to sell to their customers. We plan to expand our relationships with financial institutions and banks to white label our online payments and mobile offerings, and with direct selling companies, fund raising organizations and branded manufacturers seeking to equip their growing sales forces and bridging the gap between traditional point of sale and card-not-present solutions.

Drive Operating Efficiency. We intend to continue to drive efficiencies in our business model to increase our overall competitiveness and position us to deliver improved margins over time. This includes making our technology more self-service, aligning our resources around our core commerce, payments and marketing businesses; divesting of non-core assets; evolving our procurement function; and revamping our pricing model. We believe these actions will create financial capacity that will enable us to make incremental investments in areas that will drive continued growth of the company while also improving operating margins.

Services

We provide a broad range of services to our customers, including adaptive and responsive design, development and hosting of commerce stores, merchandising, order management, fraud prevention screening, popular localized online payment methods, export controls and management, tax compliance and management, digital product delivery via download, integration with third-party agencies for physical product fulfillment, multi-lingual customer service, subscription management, online marketing services, including email marketing, paid search program management, website optimization, and web analytics and reporting, among other programs.

For many of our clients, the commerce, marketing and payments solution we provide is critical to their businesses and therefore we operate global data centers that perform and scale for continuous commerce operation in a high-demand environment. We operate multiple data centers globally in collocated space, which feature fully redundant high-speed connections to the Internet, server capacity to handle unpredictable spikes in traffic and transactions, 24/7 security and monitoring, back-up electric generators and dedicated power supplies.

Multi-Tenant SaaS Platform: Our multi-tenant SaaS platform offers seamless scalability, lower total cost of ownership and the benefit of automatic upgrades. It includes a self-service API framework supporting millions of calls per day, self-service administration tools for monitoring performance, integration with public or private clouds as well as data architecture, governance and technology.

Commerce Experience: Our set of commerce experience capabilities allows customers to create and manage world-class commerce sites. Our commerce experience services include: a shopping cart optimized for conversion, flexible web content management system with responsive design, robust catalog, searchandizing, merchandising and promotion abilities, experience optimization for local consumers, recommendation and personalization tools, A/B testing, multiple pricing options ranging from volume discounts to purchase plans and a web-based toolset to manage your experience.

Store Design, Development and Hosting. We offer our clients adaptive and responsive website design services, utilizing our experience and expertise to create efficient and effective commerce stores. Our global commerce solutions can be deployed quickly and implemented in a variety of ways from fully-functioning shopping carts through completely merchandised commerce stores. For shopping carts, we offer a full ability to manage the look, feel, and flow of the shopper experience; shopping cart with flexible checkout flows (supporting authenticated checkout, anonymous checkout or a combination of both); and a discrete set of open APIs.

The commerce stores we operate for our customers, which can be traditional online stores, in-application or in-game commerce stores often match their branding and website design to provide a seamless experience for shoppers. When a shopper navigates from a customer's

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website (operated by them) to their commerce store (operated by us), the transition is seamless as possible. We manage the order process through payment processing, fraud screening and fulfillment (either digital or physical) and notify the buyer via email once the transaction is completed. Transaction information is captured and stored in our database systems, an increasingly valuable source of information used to create highly targeted merchandising programs, email marketing campaigns, product offers and test marketing programs.

Web Content Management System. We offer our clients truly global content management accessible in real-time, providing the business owner full control over online store content displays with the scalability, reliability, and toolset to ensure their online presence is the best it can be.

Catalog. We offer a highly flexible catalog management capability with global content support, bulk import/export update tools, role-based access controls, and sophisticated content management capabilities, such as auditing and logging, validation and versioning. Catalog tools provide complete control of products, catalogs, content, and pricing via an intuitive web-based toolset available 24x7x365 for users with roles-based permissions.

Store Merchandising. Our technology platforms support a wide range of merchandising activities. This enables our customers to effectively execute promotions, up-sell, and cross-sell activities and to feature specific products and services during any phase of the shopping process. From the home page of our customers' commerce stores through the checkout and "thank you" pages, our solution allows clients to deliver targeted offers designed to increase order close ratios and average order sizes.

Digital and Physical Fulfillment Services. We provide both digital and physical fulfillment services to our customers. We offer our customers a broad array of electronic delivery capabilities that enable delivery of digital products and license keys directly to customers' computers via the Internet or accessed via a time- or usage-based subscription model. Delivery is completed when a copy of the purchased digital product is made from a master generally stored on our technology platform and then securely downloaded to the purchaser.

In addition to electronic fulfillment via download, we offer physical distribution services to our clients as well. We have contracted with multiple global third-party fulfillment agents that maintain inventories of physical products for shipment to buyers. These products are held by the fulfillment agent on consignment from our customers. We provide notification of product shipment to the buyer as well as shipment tracking, order status and inventory information.

We also provide a service called "Physical on Demand" (POD), which utilizes robotic systems to create a client-branded product CD and packaging materials after a POD order has been placed. This eliminates the requirement for inventory to be stored in a warehouse as physical product is created only when needed.

We provide extended download services for digital products for an additional fee, which enables buyers to download the products they have purchased more than once in the event of a computer failure or other unexpected problem. We believe physical fulfillment services are important to providing a complete commerce solution to our customers, particularly for non-digital products markets where digital fulfillment is not possible.

Searchandizing. Searchandizing is powerful site/catalog search tool that includes sponsored search results, faceted navigation, spell check/auto-fill and thesaurus.

Merchandising and Promotion. We help our clients convert browsers into buyers, and create stronger connections with customers by increasing their value proposition in the marketplace. Our dynamic content, rules-driven selling, and pricing flexibility tools and solutions help our

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clients engage customers and maximize revenue by making online experiences more relevant and personal.

Localization. All product catalogs, attributes, pages, links, and designs can be configured and updated by locale, and displayed dynamically based on the location of the shopper.

Recommendation and Personalization. Recommendation engines provide automated and manual merchandising capabilities that showcase or highlight additional or alternative products for sale on retail commerce websites.

smartChannel channel management program. Our smartChannel solution supports B2B online purchases and subscription renewals by small to mid-sized businesses (SMB); helps our clients efficiently run the intricate back-office functions of their B2B channel programs; automatically tracks and attributes orders to our clients' partners and accurately pays the partners via wire transfer or check for completed sales and ongoing subscription renewals. The smartChannel solution also provides our clients' partners with a portal where partners can view data about their sales performance and order commissions in near real-time.

Channel Lead Management: Our Channel Lead Management solution tracks and manages online sales leads and customer purchase data across our customers' branded commerce stores as well as their online and offline retailer, reseller and distributor channels. Our Channel Lead Management solution is designed to increase our clients' reseller web traffic, strengthen their channel and consumer relationships, and inform their pricing strategies.

Private Stores: Our Private Stores solution enables our clients to offer special pricing to exclusive groups of online buyers through global, limited-access, branded commerce stores. Our Private Stores solution is designed to support employee purchase plans; special discounts for partners; education and academic pricing; discounts for employee friends and family members; special event offers; and loyalty or fan club plans. To limit user access and ensure that only the proper group members enter, Private Stores use a combination of advanced authentication options, including email address, email invitation, domain, access codes, or a referring URL or IP address.

Commerce Business Infrastructure (CBI): Our Commerce Business Infrastructure is our unique set of capabilities for managing the complexities of global commerce to reduce risk for our customers and enable seamless global expansion. Our CBI includes merchant and seller of record, local entities, proactive fraud management, full-service tax solutions, order management, cloud enablement, business intelligence, security and compliance, customer service, integration services and fulfillment capabilities.

Merchant and Seller of Record. Our MOR/SOR solution allows DR to assume the risk exposure associated with doing business on a global scale, including fraud management, tax and compliance. When an online customer makes a purchase, we purchase that item from our client. As a result, we often hold the cash derived from the online customer for a period before remittance to our client.

Local Entities. We maintain multiple local, legal entities to deliver locale-specific solutions for seamless, efficient operational readiness in markets around the globe. Locale-specific solutions enable the use of local tax entities, local payment methods, and fraud and fulfillment services in countries around the globe.

Proactive Fraud Management. Our intelligent fraud-prevention capability is loaded with years of historical data, known fraud perpetrators, and time-tested fraud screening algorithms. The fraud screening component of our platform uses rules-based and heuristic as well as reputation-based scoring methods, which use observations of known fraudulent activities to make a determination

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regarding the validity of the order, buyer and payment information. As the order is entered, hundreds of data reviews can be processed in real time.

Security and Compliance. We operate within the guidelines of a complex set of local requirements in order to minimize the customers' legal and regulatory risk exposure associated with doing business in global markets.

WEEE Fee Compliance. In connection with the sales of consumer electronic goods, we offer management services relating to regulatory matters such as the Waste Electronics and Electrical Equipment laws.

Denied Parties Screening. We also provide denied-parties screening and export controls, which are designed to ensure that persons and/or organizations appearing on government denied-parties lists are blocked from making purchases through our system. Once a transaction is approved and the digital product has been delivered via download or the physical product(s) has been shipped, we submit the transaction for payment.

Full-Service Tax-Solution. We offer pre-integrated tax computation modules for tax displays, collections and remittance to global tax authorities, including full support for complex VAT schemes in Europe, Brazil, China and other countries.

Integration Services. Our people deliver complete system integration on the clients' behalf on a consultative basis from the beginning of the project through site launch.

Order Management. For most of our commerce clients, we manage all phases of a shopper's order on their commerce stores. We process payment transactions for orders placed through our technology platform and support a wide variety of payment types, including credit cards, wire transfers, purchase orders, money orders, direct debit cards and many other payment methods popular both in the United States and around the world. As part of the payment process, we ensure that the correct taxes are displayed, collected, remitted and reported.

Customer Service. At our client's option and for an additional fee, we provide telephone and email customer support for products sold through our platforms. We provide assistance to buyers regarding ordering and delivery questions on a 24/7 basis in multiple languages. We continue to invest in technology and infrastructure to provide fast and efficient responses to customer inquiries as well as provide online self-help options.

Payments: We offer full service payment provider solutions for online merchants around the world, including gateway services and acquiring services. We provide our services to approximately 17,000 active merchant locations across the Asia Pacific region, North America, the Middle East, Africa and Europe, primarily through our acquiring bank and processor customers, as well as through our own direct sales force. We connect businesses to 200 local payment methods, including 170 currencies, 85 internet banking options and 50 global bank connections in 190 countries that their customers prefer. In addition, we support businesses to expand into new markets through enabling the acceptance and processing of a diverse range of payment methods and options. We offer a broad range of back office payment reconciliation services that result in a highly cost efficient and secure program for e-payments. We sell and market these services through a direct sales force to large enterprises and through over 500 channel partners that reach small and mid-sized merchants ("SME merchants") located around the world, primarily in the United States and Europe. Our technology platform provides for high transaction throughput in a highly secure and data sensitive environment. These services are provided either via a direct interface between the client's commerce system and our payment services platform or via a Payment Card Industry (PCI) compliant wrapped secure web-based payment page that is served to the client's commerce system on a transaction by transaction basis.

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We offer a fully integrated e-commerce gateway that is differentiated by its multi-country and -currency capabilities and processes all major card brands and ACH transactions. Card-based payment forms consist of credit, debit, gift, stored value and electronic benefits transfer cards. Our payment gateway services enable online merchants to authorize and settle card-based payments or other alternative electronic payment methods. By using our payment gateway, merchants can accept hundreds of payment types across the globe without the need for individual connections. Our payment gateway solutions protect card details by encrypting sensitive information, such as credit and debit card numbers, and securely delivering it to the merchant's payment processor(s). Our payment gateways also provide value-added capabilities, such as card data tokenization, that merchants can use to reduce card-related fraud, improve security, and ease efforts to achieve required industry security compliance certifications. As such, our payment gateway acts as a key enabler and distribution channel for a number of merchant-facing and acquirer-facing applications. We earn revenue from gateway services on a per-transaction basis.

We also offer merchant acquiring services as an Independent Sales Organization ("ISO") on behalf of bank-sponsored acquirers. As an ISO, we contract with merchants on behalf of bank-sponsored acquirers to enable the exchange of information and funds between merchants and cardholders' financial institutions. We provide payment gateway services, merchant set-up and training, transaction authorization and electronic draft capture, clearing and settlement, merchant accounting, merchant assistance and support and risk management and contract with third-parties for end electronic payment processing services. During a typical electronic transaction, the merchant and the source of funds do not interface directly with each other, but instead rely on merchant acquirers or their ISO representatives. Our merchant acquiring services revenue is generated on services priced as a percentage of transaction value, representing the merchant discount rate. Discount rates vary based on negotiations with merchants and the economic characteristics of transactions. From our revenues, we pay interchange, assessments and other network fees, systems cost to process the transaction and commissions to our sales force. Interchange also varies based on the economic characteristics of individual transactions. Assessments are fees charged by the card associations based on the dollar value of transactions processed through their networks. The merchant discount rate also provides for underwriting of fraud and chargebacks.

We also charge other fees based on specific services that are unrelated to the number of transactions or the transaction value. We believe our business model creates powerful network effects, which will help drive growth and operating leverage in our business while our contracts, which generally have an initial term of three to five years, offer stability to and enhanced visibility of our financial performance.

We offer a differentiated mobile payment solution, including a mobile point of sale and inventory management application with a magnetic stripe reader. 140 currencies can be accessed through an application set up process, referencing merchants' individual merchant IDs per currency, which we believe benefits merchants through fewer chargebacks and a single exchange fee. The magnetic stripe reader and application have been optimized to support a 90+ percent first swipe accuracy compared to competitive solutions typically requiring several swipes to receive an accurate read. The application currently functions with all major acquirers in North America while most applications are restricted to a single gateway or bank. This bank-neutral approach supports the top acquirers, permits merchants to use their existing bank and enables them to grow revenue without the need for additional banking agreements.

Marketing Services: Our marketing services drive revenue growth for customers through acquiring, converting and retaining buyers and maximizing the lifetime value of buyers. Our suite of marketing services includes paid search advertising, search engine optimization and marketing, affiliate marketing, display advertising, store optimization, web analytics, and highly-targeted email marketing and optimization. We intend to continue to develop and/or acquire new value-added strategic marketing

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services and technologies to create additional sources of revenue for our customers and for Digital River. In general, we manage these programs for our customers and have achieved significant increases in customer revenue, return-on-investment or both, compared to what customers experienced when running these programs and supporting technologies in-house or through other service providers.

Strategic Marketing Services. Our marketForce interactive agency offers a range of strategic marketing services designed to increase customer acquisition, improve customer retention and enhance the lifetime value of each customer. Through a combination of web analytics, analytics-based statistical testing, optimization and proven direct marketing practices, our team of strategic marketing experts develops, delivers and manages programs such as paid search advertising, search engine optimization, affiliate marketing, store optimization and email optimization on behalf of our clients. We generally charge an incremental percentage of the selling price of merchandise for sales driven by our strategic marketing services activities. We believe our ability to capture and analyze integrated traffic and e-commerce sales data enhances the value of our strategic marketing services as we can precisely determine the effectiveness of specific marketing activities, website changes, and other actions taken by our clients.

Advanced Reporting and Analytics. We capture and store detailed information about visitor traffic for sales in the online stores we manage for our clients. This information is stored in our database systems where it is available for analysis and reporting. We provide clients access to a large collection of standard and customizable reports via our web analytics technology. This enables our clients to track and analyze sales, products, transactions, customer behavior and the results of marketing campaigns so they can optimize their marketing efforts to increase traffic, order close ratios and average order values. We also believe this information is valuable in establishing a metric for the lifetime value of the customer.

Clients

We serve a wide variety of customers across various industries and geographies. These include: (1) digital products and cloud services companies in industries such as software, publishing, travel, music and games; (2) branded manufacturers selling physical products across industries such as consumer electronics, electronic toys, housewares, medical equipment, power tools and sporting equipment; (3) channel partners, including retailers and affiliates. We believe that the breadth of our catalog of solutions is a competitive advantage in selling commerce and payments services to online channel partners as they can access a huge volume of products to sell without negotiating contract terms with every product provider. At the same time, we believe the breadth of our channel partner group is attractive to product manufacturers since it provides access to distribution through a single source.

On November 22, 2013, we received written notice from Microsoft Corporation ("Microsoft") that Microsoft had exercised its right under the Third Omnibus Amendment to the Microsoft Operations Digital Distribution Agreement (the "Third Omnibus Amendment") to extend the expiration date of the Microsoft Operations Digital Distribution Agreement to March 1, 2015. Pursuant to the Digital Distribution Agreement, we build, host and manage the Microsoft Store, an e-commerce store that supports the sale and fulfillment of Microsoft and third party software as well as consumer electronics products to customers throughout the world, and provide additional e-commerce services to Microsoft.

Sales and Marketing

We sell and market our services to our commerce and payments clients through a direct sales force located in offices in the United States, Europe, Asia Pacific and South America. These offices include staff dedicated to pre-sales, sales and sales support activities. Our client sales organization sells to executives seeking to establish business-to-consumer and business-to-business online channels as well as

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payments programs across a wide range of vertical markets, including software, consumer electronics, computer games, publishing, travel, music, video games, electronic toys, housewares, medical equipment, power tools, sporting equipment, and the restaurant and hospitality industries. In payments, we also sell and market our services through more than 500 channel partners that in turn reach small and mid-sized merchants ("SME merchants") located around the world, primarily in the United States and Europe. During the sales process, our sales staff delivers demonstrations, presentations, collateral material, return-on-investment analyses, proposals and contracts.

As part of our marketing services capabilities, we also design, implement and manage marketing and merchandising programs to help our commerce clients drive traffic to their online stores and increase order close ratios, average order values and repeat purchases at those stores. Our strategic e-marketing team delivers a range of marketing and merchandising programs such as paid search advertising, search engine optimization, affiliate marketing, site and store optimization, email marketing, advanced analytics and site merchandising, which includes promotions, cross-sells and up-sells. This team integrates their marketing domain expertise with our suite of technology, including reporting, analytics, optimization and email to drive increased sales for our clients.

We focus our efforts on generating awareness of our brand and capabilities, establishing our position as a leading provider of Commerce-as-a-Service and payments solutions, generating leads in our target markets, and providing sales tools for our direct sales force. We conduct a variety of highly integrated marketing programs to achieve these objectives in an efficient and effective manner. We currently market our solutions to clients and prospects via direct marketing, print and electronic advertising, trade shows and events, public relations, media events and speaking engagements.

Technology

We deliver our global cloud-commerce solutions on several platforms, each of which has been architected to solve our clients multi-faceted commerce needs. The following is a brief description of the technology standards utilized by the family of Digital River cloud-commerce platforms:

Architecture. Our platforms are highly scalable and designed to handle tens of thousands of individual online stores and millions of products available for sale within those stores. These platforms consist of Digital River developed proprietary software applications running on multiple processing platforms, databases and application servers. Our platforms are designed to support growth by adding servers, CPUs, memory and bandwidth without substantial changes to the software applications, leveraging both physical and virtual technologies. We believe this level of scalability is a competitive advantage. The application software is written in modular layers, enabling us to quickly respond to industry changes, payment processing changes, changes to international requirements for taxes and export screening, banking procedures, encryption technologies, and new and emerging web technologies.

The platforms include search capabilities that allow shoppers to search for items across millions of products and thousands of categories based on specific product characteristics or specifications while maintaining page response times acceptable to the user. We use database indexing combined with a dynamic cache system to provide flexibility and speed. The platforms have been designed to index, retrieve and manage all transaction data that flows through the system, including detailed commerce transactions and consumer interaction data. This enables us to create proprietary market profiles of each shopper and groups of shoppers that can then be used to create merchandising campaigns that are relevant to the end consumer and more successful. We also use our platforms internally for fraud detection and prevention, management of physical shipping, return authorizations, backorder processing, transaction auditing and reporting.

Our Payments service utilize our proprietary, currency-neutral payment processing technology platforms which enables us to develop and deliver a broad range of international payment services

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through self-serve and managed service models, quickly enter new markets and provide a range of differentiated solutions and analytical tools that are easily integrated within our customers' existing business processes. We provide our customers with worldwide connectivity to our payments infrastructure that is secure, compliant and regularly updated with the latest capabilities, services and functionalities. Our Beanstream platform was developed with next-generation technology, free of many of the traditional legacy constraints of older platforms. It is highly scalable to facilitate growth and meet the needs of new large volume customers, and flexible to provide a broad range of capabilities, including the unique regional requirements of the various markets in which we operate.

Commerce System Maintenance. Our platforms have a centralized maintenance management system that we use to build and manage our clients' e-commerce systems. Changes that affect all of our clients' online stores or groups of stores can be made centrally, dramatically reducing maintenance time and complexity. Most of our clients' sites include a central store and many have additional web pages where highly targeted traffic is routed. Clients also may choose to link specific locations on their commerce stores to detailed product or category information within their stores to more effectively address a shopper's specific areas of interest.

Security. We have security systems in place to control access to our internal systems and commerce data. Log-ins and passwords are required for all systems with additional levels of log-in, password and Internet Protocol security in place to control access on an individual basis. Access is only granted to commerce areas for which an individual is responsible. Multiple levels of firewalls prevent unauthorized access from the outside or access to confidential data from the inside. Our security system does not allow direct access to any client or customer data. We license certain encryption and authentication technology from third parties to provide secure transmission of confidential information such as credit card data. The security system is designed not to interfere with the consumer's experience on our clients' e-commerce sites.

Data Center Operations. Continuous data center operations are crucial to our success. We currently maintain major data center operations in the following locations: California and Minnesota, USA; Canada, and Germany, Ireland and Sweden. All major data center locations are currently processing transactions and serving downloads. Our platform is also designed to leverage third-party cloud providers supporting expansion flexibility on a global basis.

All data centers currently utilize multiple levels of redundant systems, including load balancers managing traffic volumes across web and application server farms, database servers, and enterprise disk storage arrays. For the majority of these systems, we have automatic failover procedures in place such that when a fault is detected, a process automatically takes that portion of the system offline and processing continues on the remaining redundant portions of the system, or in an alternate data center. In the event of an electrical power failure, we have redundant power generators and uninterruptible power supplies that protect our facilities. Fire suppression systems are present in each data center.

Our network software constantly monitors our clients' e-commerce sites and internal system functions, and notifies systems engineers if any unexpected conditions arise. We lease multiple lines from diverse Internet service providers and maintain a policy of adding additional capacity. Digital River continually monitors and measures the systems on which its offered services are deployed to validate that the load on these systems is consistent with other indicators of usage. In general, there are few deviations from the forecasted usage levels. Digital River targets at least 50 percent reserve capacity for all major components and subsystems, and if the 50 percent threshold is consistently exceeded over a specific time frame, additional capacity is added to the affected component or subsystem. We also utilize content distribution networks operated by our vendors to serve appropriate types of traffic; currently, the majority of our image traffic and a substantial portion of our download traffic is served via the Akamai networks.

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Product Research and Development

Our primary research and development strategy is to maintain our technology and feature set for our commerce platforms and related technologies. To this end, we continually have numerous development projects in process, including database enhancements, leveraging the cloud and virtualization to scale our platforms, developing a modular plug-and-play commerce ecosystem, ongoing enhancement of our commerce platforms, enhanced international support, advanced product distribution capabilities, sophisticated reporting functionality and new marketing technologies.

We believe that the functionality and capabilities of our commerce platforms are a competitive advantage and that we must continue to invest in them to maintain our competitive position. The Internet and global-commerce, in particular, are subject to rapid technological change, changes in user and client requirements and expectations, new technologies and evolving industry standards. To remain successful, we must continually adapt to these and other changes. We rely on internally developed, acquired and licensed technologies to maintain the technological sufficiency of our e-commerce platforms.

Competition

The market for e-commerce solutions is extremely competitive and we may find ourselves unable to compete effectively. Because there are relatively low barriers to entry in the e-commerce market, we expect continued intense competition as current competitors expand their product offerings and new competitors enter the market. In addition, our clients and partners may become competitors in the future. Increased competition is likely to result in price reductions, reduced margins, longer sales cycles and a decrease or loss of our market share, any of which could negatively impact our revenue and earnings. We face competition from the following sources:

In-house development of e-commerce capabilities using tools or applications from companies, such as Oracle Corporation (which acquired Art Technology Group, Inc.), IBM Corporation, Demandware, Inc. and SAP hybris GmbH, or through internally developed solutions;

E-Commerce capabilities custom-developed by companies, such as IBM Global Services and Accenture, Inc.;

New e-commerce models through which consumers can purchase software products for their computers and computing devices, such as app stores;

Other providers of outsourced e-commerce solutions, such as cleverbridge AG, eBay, Inc. (which acquired GSI Commerce, Inc. and Magento), Demandware Inc., Avangate BV, asknet AG and arvato Systems, a division of Bertelsmann AG;

Companies that provide technologies, services or products that support a portion of the e-commerce process, such as payment processing, including WorldPay Ltd., GlobalCollect, CyberSource Corporation (a subsidiary of Visa, Inc.), Chase Paymentech, Stripe, Square, Inc., and PayPal Corporation and Braintree (a subsidiaries of eBay, Inc.);

Companies that offer various online marketing services, technologies and products, including ValueClick, Inc. and Microsoft Advertising (formerly aQuantive, Inc.);

High-traffic, branded websites that generate a substantial portion of their revenue from e-commerce and may offer or provide to others the means to offer their products for sale, such as Amazon.com, Inc. and Buy.com, Inc.; and,

Web hosting, web services and infrastructure companies that offer portions of our solution and are seeking to expand the range of their offering, such as Network Solutions, LLC, Akamai Technologies, Inc., Yahoo!, Inc., eBay, Inc. and Hostopia.com, Inc.

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The online channel partners and the other companies described above may compete directly with us by adopting a business model similar to ours. Many of our competitors have, and new potential competitors may have, more experience developing Internet-based software and e-commerce solutions, larger technical staffs, larger customer bases, more established distribution channels and customer relationships, greater brand recognition and greater financial, marketing and other resources than we have. Some of our clients may also compete with us. In addition, competitors or our clients may be able to develop services that are superior to our services, achieve greater customer acceptance or have significantly improved functionality as compared to our existing and future products and services, which could result in the loss of existing clients and/or our inability to pursue and sign new clients. Our competitors may be able to respond more quickly to technological developments and changes in customers' needs. Our inability to compete successfully against current and future competitors could cause our revenue and earnings to decline.

Intellectual Property

We believe the protection of our trademarks, copyrights, trade secrets and other intellectual property is critical to our success. We rely on patent, copyright and trademark enforcement, contractual restrictions, service mark and trade secret laws to protect our proprietary rights. We have entered into confidentiality and invention assignment agreements with our employees and contractors, and nondisclosure agreements with certain parties with whom we conduct business in order to limit access to and disclosure of our proprietary information. We also seek to protect our proprietary position by filing U.S. and foreign patent applications related to our proprietary technology, inventions and improvements that are important to our business. As of December 31, 2013, we had forty-three U.S. patents and two foreign patents issued with three to twenty years remaining prior to expiration. We also had over fifty-one U.S. and foreign patent applications pending. We pursue the registration of our trademarks and service marks in the U.S. and internationally. We have a number of registered trademarks in the U.S., European Union and other countries.

Government Regulation

We are subject to a number of foreign and domestic laws and regulations that affect companies conducting business on the Internet. In addition, laws and regulations relating to user privacy, information security and intellectual property rights are being debated and considered for adoption by many countries throughout the world. We face risks from some of the proposed legislation that could be passed in the future.

A range of laws and new interpretations of existing laws could have an impact on our business. For example, the Digital Millennium Copyright Act has provisions that limit, but do not necessarily eliminate, our liability for listing, linking or hosting third-party content that includes materials that infringe copyrights. The Child Online Protection Act and the Children's Online Privacy Protection Act restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from children under 13. In the area of data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as California's Information Practices Act. The costs of compliance with these laws may increase in the future as a result of changes in interpretation. Furthermore, any failure on our part to comply with these laws may subject us to significant liabilities.

We are also subject to federal, state and foreign laws regarding privacy and protection of user data. We post on our web site our privacy policies and practices concerning the use and disclosure of user data. Any failure by us to comply with our posted privacy policies or privacy-related laws and regulations could result in proceedings against us by governmental authorities or others, which could potentially harm our business. In addition, the interpretation of data protection laws, and their application to the Internet, in Europe and other foreign jurisdictions is unclear and in a state of flux.

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There is a risk that these laws may be interpreted and applied in conflicting ways from country to country and in a manner that is not consistent with our current data protection practices. Complying with these varying international requirements could cause us to incur additional costs. Further, any failure by us to protect our users' privacy and data could result in a loss of user confidence in our services.

Employees

As of February 1, 2014, we employed 1,317 associates. We also employ independent contractors and other temporary employees. None of our employees are represented by a labor union, and we consider our employee relations to be good. Competition for qualified personnel in our industry is intense. We believe that our future success will continue to depend, in part, on our continued ability to attract, hire and retain qualified personnel.

Executive Officers

The following table sets forth information regarding our executive officers at February 1, 2014:

Name	Age	Position
David C. Dobson	51	Chief Executive Officer
Theodore R. Cahall, Jr.	54	Chief Operating Officer
Thomas E. Peterson	58	Executive Vice President and General Manager of Commerce
Stefan B. Schulz	47	Chief Financial Officer
Kevin L. Crudden	58	Senior Vice President and General Counsel

Mr. Dobson joined Digital River in February 2013 as Chief Executive Officer. Mr. Dobson has been a self-employed business consultant and private investor since July 2012. He served as Executive Vice President and Group Executive, Customer Solutions Group for CA, Inc. (CA), a leading enterprise information technology management software and solutions company, from July 2010 to July 2012, where he was responsible for managing CA's broad portfolio of products and solutions for mainframe, distributed and cloud computing environments. Prior to joining CA, Mr. Dobson served as Executive Vice President and Chief Strategy and Innovation Officer of Pitney Bowes Inc. (Pitney Bowes), a manufacturer of software and hardware and a provider of services related to documents, packaging, mailing and shipping, where he was responsible for leading the development of the company's long-term strategy from June 2008 to July 2009. In addition, he also served as President of Pitney Bowes Management Services, Inc., a wholly owned subsidiary of Pitney Bowes Inc., from August 2009 to July 2010. Prior to joining Pitney Bowes, he was Chief Executive Officer of Corel Corporation, a computer software company specializing in graphics processing, from 2005 to 2008. Before joining Corel Corporation, Mr. Dobson spent 19 years at IBM, where he held a number of senior management positions.

Mr. Cahall joined Digital River in October 2013 as Chief Operating Officer. Mr. Cahall served as Corporate Vice President of MSN at Microsoft, Inc. since 2010, where he led one of the largest online media networks in the world. Prior to joining Microsoft, he held various senior executive positions at AOL, Inc. As Executive Vice President and Chief Technology Officer of AOL, Inc. from 2009 to 2010, he led all of AOL's engineering and operations, managing hundreds of web properties and applications. As Executive Vice President and then President of the Products and Platforms Business Units of AOL from 2007 to 2009, he was responsible for AOL Search, MapQuest, Commerce channels, publishing, video search, e-mail and mobile. Before joining AOL, Mr. Cahall was Executive Vice President and Chief Operating Officer of United Online, Inc., a leading provider of consumer products and services over the Internet, from 2005 to 2007, and was Chief Technology Officer at CNET Networks, Inc. from 2000 to 2005, where he managed the architecture, data centers, infrastructure and more than 30 web properties. Mr. Cahall also spent six years at Bank of America Corporation, serving as vice president of

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enterprise architecture and standards, and later as the vice president of engineering for the Internet home banking division. Prior thereto, Mr. Cahall worked at AT&T Bell Laboratories.

Mr. Peterson joined Digital River in November 2013 as Executive Vice President and General Manager of Commerce. From 2011 to November 2013, Mr. Peterson held senior executive positions at Hewlett Packard, serving most recently as executive director of global accounts for the HP enterprise group, working with multinational retailers, branded manufacturers and digital products companies. From 2008 to 2011, Mr. Peterson was the President of Global Retail for Information Resources Inc. (IRI), a leading provider of analytic consulting services associated with shopper behavior, brand management, assortment/category planning and price and promotion services to retailers and consumer product goods (CPG) firms throughout the world. Prior to joining IRI, Mr. Peterson spent 29 years at IBM, where he held various executive and management positions. He most recently was world-wide general manager and executive vice president for the IBM consumer products industry, serving consumer product goods and branded manufacturers. At IBM, he also led sales, marketing and operations for the global retail store solutions division and global computer services organization.

Mr. Schulz joined Digital River in August 2011 as Chief Financial Officer. From October 2005 to July 2011, he held various positions, including Chief Financial Officer and Principal Financial Officer, Senior Vice President of Finance and Principal Accounting Officer, and Senior Vice President and Global Controller with Lawson Software, Inc. Mr. Schulz previously worked for BMC Software from 1993 until joining Lawson Software in 2005, serving as Vice President of Global Revenue Operations from May 2004 until October 2005 and Corporate Controller from 2001 until 2004.

Mr. Crudden joined Digital River in January 2006 as Vice President, General Counsel and Corporate Secretary. From 1987 until joining Digital River, Mr. Crudden was with the law firm of Robins, Kaplan, Miller & Ciresi L.L.P., Minneapolis, Minnesota, and served as a partner practicing in the areas of corporate finance, mergers and acquisitions, and corporate governance.

ITEM 1A. RISK FACTORS

The risks described below are not the only ones facing our company. Additional risks not presently known to us or that we currently deem immaterial also may impair our business operations. Our business, financial condition or results of operations could be materially adversely affected by any of these risks and the value of our common stock could decline due to any of these risks, and you could lose all or part of the money you paid to buy our common stock. The following discussion of our risk factors should be read in conjunction with the consolidated financial statements and related notes thereto, and management's discussion and analysis, contained in this report. These risks are current as of the date of this Form 10-K, and will be updated in subsequent Form 10-Qs to the extent required by law. Our business is also subject to general risks and uncertainties that affect many other companies. In addition, the current global economic climate amplifies many of these risks.

This annual report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this report.

Risks Related to Our Business

We may experience significant fluctuations in our revenues, operating results, growth rate and stock price.

Our quarterly and annual revenues, operating results, and growth rate have fluctuated significantly in the past and are likely to do so in the future due to a variety of factors, some of which are outside our control. As a result, we believe that quarter-to-quarter and year-to-year comparisons of our revenue and operating results are not necessarily meaningful, and that these comparisons may not be accurate indicators of future performance. If our annual or quarterly operating results fail to meet the guidance we provide to securities analysts and investors or otherwise fail to meet their expectations, the trading price of our common stock may be impacted.

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Factors that may affect our revenues, operating results, continued growth, and our stock price include the risks described elsewhere in this section, as well as the following:

Client Development and Retention. We generate revenue by providing services to a wide variety of companies, primarily in the software and high-tech products markets and in industries requiring payment processing services. Therefore, it is important to our ongoing success that we maintain our key client relationships and, at the same time, both develop new client relationships and increase the number and type of products offered through our services. If we cannot successfully market our products and services, develop and maintain satisfactory relationships with software and digital products publishers, manufacturers of consumer electronics and other goods, online retailers and online channel partners on acceptable commercial terms, or if clients elect to end their relationships with us and we are unable to generate sufficient additional revenue to compensate for the loss of those relationships, we will likely experience a decline in revenue and operating profit. New product verticals or market segments, and further penetration of existing product verticals and market segments, may require us to work with companies which have a limited operating history or greater risks than more established companies. This may result in the engagement with clients and offering of products which are subject to higher chargeback rates or legal exposure and may generally expose us to greater legal and/or business risk. We may not be able to fully anticipate, mitigate or control all such risks. In the event claims are brought against us in connection with products offered by clients, especially clients with a limited operating history, weak sales, or who are or may become insolvent or bankrupt, we may not be successful in seeking indemnification for such claims from such clients and may be ultimately responsible for such claims. In the event a client becomes insolvent or bankrupt, we may not be successful in obtaining and retaining all amounts owed to us by that client, and the client may cease offering products for sale through our commerce services resulting in a decline in revenue and operating profit.

We also depend on our clients to create and support products that consumers will purchase. We generally purchase products for resale from consignment or from distributors at the time of the resale to the consumer, and do not maintain an inventory of products available for sale. If we are unable to obtain sufficient quantities of products for any reason, or if the quality of service provided by these publishers and manufacturers falls below a satisfactory level, we could also experience a decline in revenue, operating profit and consumer satisfaction, and our reputation could be harmed.

Our contracts with our clients are generally one to two years in duration, with an automatic renewal provision for additional one-year periods, unless we are provided with a written notice before the end of the contract. Some of our contracts are for longer periods, but may provide for early termination upon certain notice. For example, we recently amended our contract with Microsoft to extend the term through March 1, 2015, but the amendment did not modify the previously negotiated termination provisions. We have no material long-term or exclusive contracts or arrangements with any clients that guarantee the availability of products. Clients that currently supply products to us may not continue to do so, and we may be unable to establish new relationships with clients to supplement or replace existing relationships. Clients may elect to cease offering certain products through online commerce, or cease allowing us to resell certain of their products. A client who believes we have failed to deliver the contractually-required services and benefits could terminate their agreements and bring claims against us for substantial damages, these claims could exceed the level of any insurance coverage that may be available to us, and if successful could adversely affect our operating results and financial condition. If an existing significant customer elects to end their relationship with us or if our sales of a significant customer's products materially decreases, our revenue would decline and it

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may have a material adverse effect on our business, financial condition, results of operations, growth rate and stock price.

In addition, a limited number of our other software and physical goods clients contribute a large portion of our annual revenue. If any one of these key contracts is not renewed or otherwise terminates, or if revenues from these clients decline for any other reason (such as competitive developments), our revenue would decline and our ability to sustain profitability would be impaired. For example, please see the risk factor below regarding the impact that may result from a termination of Microsoft's e-commerce agreement with us.

Dependence on Key Personnel and Employee Turnover. Our future success significantly depends on our ability to continue to identify, attract, hire, train, retain and motivate highly skilled personnel, including the continued services and performance of our senior management. Competition for these personnel is intense, particularly in the Internet industry. Our performance also depends on our ability to retain and motivate our key technical and other employees who are skilled in maintaining our proprietary technology platforms and business offerings. The loss of the services of any of our executive officers or other key employees could harm our business if we are unable to effectively replace that officer or employee, or if that person should decide to join a competitor or otherwise directly or indirectly compete with us. Employee turnover may also increase in light of the risks, uncertainties, expenses, delays and difficulties associated with operating a business in a relatively rapidly changing industry and environment.

Organizational Changes. In order to remain competitive and to control our costs, we have implemented in the past, and may be required to implement in the future, organizational changes within our company, such as the consolidation of e-commerce platforms or offices, utilization of subcontractors or outsourcing relationships, reorganization of our business, and reductions in force. We may incur significant costs in order to implement organizational changes to achieve efficiencies in our cost structure in the long term. Failure to effectively manage our subcontractors and outsourcing relationships may harm our business. These organizational changes may impact our ability to execute our business plans and could affect our operating results.

Operating Expenses. Our operating expenses are based on our expectations of future revenue. These expenses are relatively fixed in the short-term. If our revenue for a quarter falls below our expectations and we are unable to quickly reduce spending in response, our operating results for that quarter would be harmed.

Infrastructure. The introduction by us of new websites, web stores or services, new features and functionality, our utilization of new third-party Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS), and Software-as-a-Service (SaaS) "cloud" computing services, and the continued upgrading, development and maintenance of our systems and infrastructure to meet emerging market needs, support 24x7 online commerce, leverage technical innovations, and remain competitive in our service and product offerings, may require a substantial investment of our resources and result in significant capital expenditures and operating costs and expose us to additional risk and legal liability despite efforts to control such risks and liabilities.

Fluctuations in Demand. Our quarterly and annual operating results are subject to fluctuations in demand for the products or services offered by us or our clients, such as personal computer software and consumer electronics. In particular, sales of personal computer software represented a significant portion of our revenues in recent years, and continue to be very important to our business. The introduction of products and services competitive to those offered by our current clients may materially adversely affect our revenues. In addition, revenue generated by our software and digital commerce services is likely to fluctuate on a seasonal basis

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that is typical for the markets for our clients' products, including the software publishing, consumer electronics, and computer and video games markets. Softening or weakening of traditionally high-volume periods, such as the holiday season, can materially adversely affect our revenues and operating results.

Changes in the E-commerce and Payments Industries. The nature of our business and the e-commerce and payments industries in which we operate has undergone, and continues to undergo, rapid development and change. For example, new protocols or technologies and new rules and regulations applicable to our business and the e-commerce and payments industries can be introduced which could affect the ways in which e-commerce operates and products are sold online; online commerce and payments continues to experience a rapid shift towards mobile and multi-channel commerce and payments; the payments industry continues to experience growth in new technologies such as the introduction of mobile-based payment systems; and consumers may continue to shift from traditional computing platforms to mobile and tablet-based computing platforms. It may be difficult for us to predict or adjust our business in light of such developments. Thus, our chances of financial and operational success should be evaluated in light of the risks, uncertainties, expenses, delays and difficulties associated with operating a business in a relatively rapidly changing industry and environment. If we are unable to address these issues, we may not be financially or operationally successful.

Other Factors. Additional industry risks that may affect our revenues, operating results, continued growth and our stock price include:

Competitive developments, including the introduction of new products and services and the announcement of new client and strategic relationships by our competitors;

Changes that affect our clients or the viability of their product lines, and client decisions to delay new product launches, invest in e-commerce initiatives, utilize the services of a competitor, or internalize their currently outsourced e-commerce operations;

The cost of compliance with U.S. and foreign laws, rules and regulations relating to our business, including the potential effect of new laws, rules and regulations, or interpretations of existing laws, rules and regulations, that affect our business operations or otherwise restrict or affect online commerce and/or the Internet as a whole, as well as our compliance with the rules and policies of entities whose services are critical for our continued operations, such as banks and credit card associations;

Our announcement of significant acquisitions, strategic partnerships, joint ventures, divestitures or capital commitments or results of operations or other developments related to those transactions, and our ability to successfully integrate and manage acquired businesses;

Required changes in generally accepted accounting principles and disclosures;

Sales or other transactions involving our common stock or our convertible notes;

General macroeconomic conditions, including severe downturns or recessions in the United States and elsewhere, global unrest, terrorist activities, adverse effects of the ongoing sovereign debt crisis in Europe, potential impact of automatic sequesters, spending reductions, tax increases, and other austerity measures in the United States, and particularly those economic conditions affecting the e-commerce and retailer industries and affecting demand for products and services; and

Conditions or trends in the Internet and online commerce industries in the United States and around the world, including slower-than-anticipated growth of the online market as a

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vehicle for the purchase of software products, changes in consumer confidence in the safety and security of online commerce, and changes in the usage of the Internet and e-commerce.

The following risks may also have a material adverse impact on our business, financial condition, results of operations and stock price:

Our stock price is volatile.

The stock market as a whole and the trading prices of companies in the electronic commerce industry in particular, has been notably volatile. The operating results of companies in the electronic commerce industry have experienced significant quarter-to-quarter fluctuations. This broad market and industry volatility could significantly reduce the price of our common stock at any time, without regard to our own operating performance.

The market price for our common stock has varied between a high of \$20.29 and a low of \$12.80 in the year ended December 31, 2013. This volatility may affect the price at which you could sell your common stock. Our stock price is likely to continue to be volatile and subject to significant price and volume fluctuations in response to market and other factors; variations in our quarterly operating results from our expectations or those of securities analysts or investors; downward revisions in estimates by us or security analysts; and announcement by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments.

In addition, the price of our common stock may be impacted by the short sales and actions of other parties who may disseminate misleading information about us in an effort to profit from fluctuations in the price of our common stock. Further, the price of our common stock may be impacted by the announcement of the financial results or other decisions by our larger clients whose products represent a significant portion of our sales.

A material decline in the price of our common stock may result in the assertion of certain claims against us, and/or the commencement of inquiries and/or investigations against us. A prolonged decline in the price of our common stock could result in:

A reduction in the liquidity of our common stock and a reduction in our ability to raise capital and the inability for you to obtain a favorable selling price for your shares;

An event or circumstance that drives us to determine that it is more likely than not that the fair value of our one reporting unit is less than its carrying amount and record an impairment to our goodwill.

Any reduction in our ability to raise equity capital in the future may force us to reallocate funds from other planned uses and could have a significant negative effect on our business plans and operations.

The termination of our e-commerce agreement with Microsoft may materially adversely affect our business, financial condition or results of operations and stock price.

Sales of products for one client, Microsoft, accounted for approximately 32.5% of our revenue in 2013. In addition, a limited number of other software and physical goods clients contribute a large portion of our annual revenue. If any one of these key contracts is not renewed or otherwise terminates, or if revenues from these clients decline for any other reason (such as competitive developments), our revenue would decline and our ability to sustain profitability would be impaired. If our contract with Microsoft is renegotiated, not renewed, or is otherwise terminated, or if revenues from Microsoft decline for any other reason, our revenue and our ability to sustain profitability could be materially adversely impaired.

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Loss of our credit card acceptance privileges, or changes to the fees, rules or practices of payment and card associations, networks and banks, would seriously hamper our ability to process the sale of merchandise and materially adversely affect our business.

The payment by consumers for the purchase of goods and services through our e-commerce systems is typically made by credit or debit card or similar payment method across many countries. As a result, we must rely on domestic and international banks and payment processors to process transactions, and must pay a fee for this service. From time to time, banks and credit card associations may increase the per-transaction fees that they charge or change surcharge or comparable rules. In addition, reductions in the volume of transactions processed by us may result in increased per-transaction processing fees. Any such increased fees will increase our operating costs and reduce our profit margins. We also are required by our processors to comply with credit card association operating rules, and we have agreed to reimburse our processors for any fines they are assessed by credit card associations as a result of processing payments for us. The credit card associations and their member banks set and interpret the credit card rules. Visa, MasterCard, American Express, Discover and other card associations whose cards we accept could adopt new operating rules or re-interpret existing rules that we, or our processors, might find difficult to follow.

Although we have been able to successfully switch to new payment processors in the past, such migrations require significant attention from our personnel, and may not achieve the anticipated cost savings or other desired results. Any disputes or problems associated with our payment processors could impair our ability to give customers the option of using credit or debit cards to fund their payments. If we were unable to accept credit or debit cards or other widely accepted forms of payment, our business would be seriously damaged. Any change to our business practices due to the adoption of card association operating rules or the re-interpretation of existing rules that reduces the attractiveness of our services to our clients or restricts our ability to offer our services may materially adversely affect our revenues and operating results. While we do screen new merchants and monitor their site activities for export and sanctions compliance, we also could be subject to fines or increased fees from Visa and MasterCard if we fail to detect that our clients are engaging in activities that are illegal or activities that are considered "high risk," primarily the sale of certain types of digital content, or if the percentage of our sales transactions subject to chargeback increases as an absolute percentage of our overall transaction volume. We may be required to expend significant capital and other resources to monitor these activities.

Excessive chargeback losses could significantly affect our results of operations and liquidity.

Our agreements with our sponsoring financial institutions and certain payment processors require us to assume and bear the risk of "chargeback" losses. Under the rules of card network associations (including without limitation Visa and MasterCard), when a merchant processor acquires card transactions, it has certain contingent liabilities for the transactions processed. This contingent liability arises in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor. In such a case, the disputed transaction is charged back to the merchant and the disputed amount is credited or otherwise refunded to the cardholder. If we are unable to collect this amount from the merchant's account, or if the merchant refuses or is unable to reimburse us for the chargeback due to merchant fraud, breach of contract, bankruptcy, insolvency or other reasons, we will bear the loss for the amount of the refund paid to the cardholders. In addition, if we are unable to recover these chargeback amounts from merchants, the obligation to pay the aggregate of any such amounts could have a material adverse effect on our results of operations and liquidity.

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If our payments-related services are found to be in violation of, or subject to, applicable laws, rules or regulations or bank or card network rules or operating procedures, we may become subject to liability, licensing requirements, and regulatory approval, and may be required to change our business practices.

Our business is subject to various laws, rules and regulations in the U.S. and other countries where we provide payments-related services, including those laws, rules and regulations governing money transmission, export and sanctions compliance, electronic funds transfers, terrorist financing, money laundering, and consumer protection. The legal and regulatory requirements that apply to our business vary in the markets in which we operate. For our payment service provider business, we may be required to perform "know-your-customer" and other underwriting responsibilities, and may be subject to fines, penalties, financial reserves, or other enforcement actions from banks and payment card networks if we fail to detect improper use of our payment systems by our clients. While we have a compliance program focused on compliance with applicable laws, rules and regulations, we cannot ensure that we will not become subject to fines, penalties or other enforcement actions in one or more jurisdictions, or be required to make changes to our business practices or compliance programs to comply in the future. If we were found to be in violation of laws, rules or regulations, or bank or card network rules or operating procedures, we could become subject to liability and/or additional restrictions, forced to cease doing business or restrict the payment types we can offer in certain states or jurisdictions, forced to change business practices, or required to obtain additional licenses or regulatory approvals that could impose a substantial cost on us. We may not be able to pass such liabilities, fines and penalties to our clients or bank partners. Any change to our business practices that reduces the attractiveness of our services to our clients or restricts our ability to offer our services may materially adversely affect the revenues and operating results for our business.

Merchant fraud with respect to Internet-based bankcard and EFT transactions could cause us to incur significant losses.

We believe that we have significant experience in assessing the risks associated with providing payment processing services to small and medium-sized merchants through our Digital River World Payments and LML Payment Systems, Inc. (LML) subsidiaries. These risks include the limited operating history of many of the small and medium-sized merchants we serve and the risk that these merchants could be subject to a higher rate of insolvency, which could adversely affect us financially. We apply varying levels of scrutiny in our application evaluation and underwriting of prospective merchant accounts, ranging from basic due diligence for merchants with a low risk profile to a more thorough and detailed review for higher risk merchants.

As a result of our exposure to potential liability for merchant fraud, chargebacks, reject and other losses created by our merchant services business, we view our risk management and fraud avoidance practices as integral to our operations and overall success. For our merchant clients conducting card-not-present transactions, which we view as having a higher risk profile, we employ an extended underwriting and due diligence period and special account monitoring procedures. Through the underwriting process, we evaluate the applicants' financials, previous processing history and credit reports.

Effective risk management helps us minimize merchant losses for the mutual benefit of our merchants and ourselves. Our risk management procedures also help protect us from fraud perpetrated by our merchants. We believe our knowledge and experience in dealing with attempted fraud has resulted in our development and implementation of effective risk management and fraud prevention systems and procedures for the types of fraud discussed in this section.

We have potential liability for fraudulent bankcard transactions initiated by merchants. Merchant fraud occurs when a merchant knowingly uses a stolen or counterfeit bankcard or card number to record a false sales transaction, processes an invalid bankcard or intentionally fails to deliver the

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merchandise or services sold in an otherwise valid transaction. We rely significantly on the processing revenue derived from bankcard and EFT transactions and, as a result, if any merchant or customer were to submit or process unauthorized or fraudulent bankcard or EFT transactions, depending on the dollar amount, we could incur significant losses which could have a material adverse effect on our business and results of operations and liquidity.

In addition, criminals are using increasingly sophisticated methods to engage in illegal activities such as counterfeit and fraud and, while we have systems and procedures designed to manage such risk and detect and reduce the impact of fraud, we cannot guarantee that our systems will prevent fraudulent transactions from being submitted and processed or that the funds set aside to address such activity will be adequate to cover all potential situations that might occur. We do not have insurance to protect us from these losses. There is no assurance that any chargeback or processing reserve will be adequate to offset against any unauthorized or fraudulent processing losses that we may incur. Accordingly, should we experience such fraudulent activity and such losses, our results of operations could be immediately and materially adversely affected.

Our business is subject to online and physical security risks, including security breaches.

Our business depends in large part on the secure transmission of confidential information over public networks, including customers' credit card and other payment account information, and the secure storage of confidential information. We rely on encryption and authentication technology licensed from third parties to provide the security and authentication necessary for secure transmission of confidential information, such as customer credit and debit card numbers. While we take significant steps to protect the security of confidential information in our possession, we cannot guarantee our security measures will prevent security breaches, or that future advances in computer and software capabilities and encryption technology, new cryptography tools and discoveries, and other events will enable us to prevent the breach or compromise of our security even if implemented by us. Further, the technology utilized in credit and debit cards, and the systems used for the transmission of payment card transactions, are controlled by the payment card industry, and vulnerabilities in these systems and technology can place payment card data at risk. Our servers are vulnerable to computer viruses, physical or electronic break-ins, "denial of service" attacks, and similar disruptions. Because techniques used to disable or impair systems, obtain unauthorized access to systems, or engage in other breaches of security change rapidly and are often not recognized until utilized against a target, we may be unable to anticipate these techniques or prevent them.

Any actual or perceived breach or compromise of our security or one of our clients, vendors or service providers could have a material adverse effect on consumer confidence in the safety and security of transactions processed through our systems, our reputation, business operations, operating results and financial condition, dissuade existing and new clients from using our services, dissuade customers from transacting business through our systems, and expose us to significant costs, fines, losses, litigation, governmental investigations and liabilities. A party who circumvents our security measures or the security measures of our clients, vendors or service providers could misappropriate proprietary information or interrupt our operations. We may be required to expend significant capital and other resources to protect against security breaches or address problems caused by such breaches. Security breaches could expose us to lawsuits from affected persons and companies, and to governmental inquiries. Concerns over the security of the Internet and other online transactions and the privacy of users could deter people from using the Internet to conduct transactions that involve transmitting personally identifiable and other confidential information, inhibiting the growth of our business.

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We are exposed to foreign currency exchange risk.

As we generate a significant portion of our revenues outside the U.S. but report our financial results in U.S. dollars, we are exposed to adverse movements in currency exchange rates. Sales outside the United States accounted for approximately 52.0% of our total sales in 2013. A significant portion of our cash and marketable securities are held in non-U.S. domiciled countries, primarily Ireland and Germany. The results of operations of, and certain of our intercompany balances associated with, our internationally focused websites are exposed to foreign exchange rate fluctuations. Upon translation, net sales and other operating results from our international operations may differ materially from expectations, and we may record significant gains or losses on the re-measurement of intercompany balances. If the U.S. dollar weakens against foreign currencies, the translation of these foreign-currency-denominated transactions will result in increased net revenues and operating expenses. Similarly, our net revenues and operating expenses will decrease if the U.S. dollar strengthens against foreign currencies, for example, as a result of the ongoing sovereign debt crisis in Europe. As we have expanded our international operations, our exposure to exchange rate fluctuations has become more pronounced. We may enter into short-term currency forward contracts to offset the foreign exchange gains and losses generated by the re-measurement of certain assets and liabilities recorded in non-functional currencies. The use of such hedging activities may not offset more than a portion of the adverse financial impact resulting from unfavorable movements in foreign exchange rates. See Item 7A of Part II, for information demonstrating the effect on our consolidated statements of operations from changes in exchange rates versus the U.S. dollar.

Failure to enhance and expand our technology, systems and business offerings to accommodate increased traffic and to remain competitive could reduce demand for our services and impair the growth of our business.

We periodically enhance and expand our technology and transaction-processing systems, network infrastructure and other technologies to accommodate increases and spikes in the volume of traffic on our technology platforms due to factors including launches of new products and new commerce websites on our technology platforms, and seasonal fluctuations in consumer demand. To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our e-commerce platforms and the underlying network infrastructure, and develop and introduce new business offerings and programs. Any inability to enhance and expand our existing technology, transaction-processing systems or network infrastructure to manage such increased traffic and traffic spikes may cause unanticipated system disruptions, slower response times and degradation in client services, including impaired quality and speed of order fulfillment. Failure to manage increased traffic and traffic spikes or an inability to maintain our competitiveness could harm our reputation and significantly reduce demand for our services, which would impair the growth of our business. If we incur significant costs without adequate results, or are unable to adapt rapidly to technological changes, we may fail to achieve our business plan. We may be unable to improve and increase the capacity of our network infrastructure sufficiently or to anticipate and react to expected or unexpected increases in the use of the platform to handle increased volume, or to obtain needed related services from third party suppliers. Our network and our suppliers' networks may be unable to maintain an acceptable data transmission capability, especially if demands on our platform increase. We may fail to use new technologies effectively or fail to adapt our proprietary technology and systems to client requirements or emerging industry standards.

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We rely upon cloud-based service providers and other third party subcontractors in connection with our business operations, and any disruption of or interference with our use of the services provided by these providers would impact our operations and materially adversely affect our business.

We utilize, and may increase our utilization of, third-party Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS), and Software-as-a-Service (SaaS) offerings, commonly referred to as "cloud" computing services. We also utilize third parties to support other aspects of our business operations, such as bandwidth providers, data center services, and fulfillment providers. While we seek to implement contractual obligations and indemnities in our agreements with our global cloud providers and other third party providers, we may not be successful in obtaining contractual terms sufficient to mitigate all risks. Problems faced by our third-party cloud computing and service providers, or our other third party providers, including technological or business-related disruptions and security breaches within a provider's service layer, could result in the loss or unauthorized disclosure of confidential information or otherwise adversely impact our business. In addition, fires, floods, earthquakes, power losses, telecommunications failures, break-ins and similar events could damage these third party systems, facilities and hardware or cause them to fail completely. A disrupting event could result in prolonged downtime of our operations and could adversely affect our business.

If we are unable to enter into, achieve desired results from, or maintain our marketing and promotional agreements with third party marketing or technology providers to generate sales traffic and sales for our clients, our ability to generate revenue and our business could be adversely affected.

We have entered into multiple marketing and promotional agreements and operate certain affiliate networks and programs which are designed to increase both traffic to the e-commerce stores we operate and the number of customers purchasing products through such stores, including agreements with search engine providers, display advertising networks, comparison shopping engines, affiliate networks, operators of websites and marketing technology providers. Our ability to attract new clients and retain existing clients is based in part on our ability to generate increased traffic or better conversion rates resulting in increased online sales of their products through these agreements and programs. If we are unable to enter into such agreements on favorable terms, are unable to achieve the desired results under these agreements and programs, are unable to maintain these relationships, or fail to generate sufficient traffic or generate sufficient revenue from purchases pursuant to these agreements and programs, our ability to generate sales and our ability to attract and retain our clients may be impacted, negatively affecting our business and operating results.

New obligations to collect or pay transaction taxes could substantially increase the cost to us of doing business.

Many of the laws and regulations regarding the application of sales tax, use tax, value added tax (VAT) or other similar transaction taxes predate the growth of the Internet and online commerce. The application of transaction taxes to interstate and international sales over the Internet is complex and evolving. We currently collect taxes on certain product and service offerings in tax jurisdictions where we have taxable presence. A successful assertion by one or more tax jurisdictions that we should collect or were obligated to collect transaction taxes on the products we sell could harm our results of operations. The imposition by state and local governments of various taxes upon Internet commerce and related e-commerce activities could create administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on all of our online competitors, and decrease our future sales.

Changes in our tax rates could affect our future results.

Our future effective tax rates could be favorably or unfavorably affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of our deferred tax

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assets and liabilities, or by changes in tax laws or their interpretation. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our results of operations and financial condition.

Additional valuation allowances may be needed as we may not generate sufficient taxable income to utilize our deferred income tax assets.

We periodically assess whether we will generate sufficient taxable income to realize our deferred income tax assets. Valuation allowances are established if it is not likely that we will realize our deferred income tax assets. In making this determination, we consider all available positive and negative evidence and make certain assumptions. We consider, among other things, our deferred tax liabilities, the overall business environment, our historical financial results, and potential current and future tax planning strategies. At December 31, 2013, the Company had net deferred tax liabilities of \$7.2 million. This amount includes a valuation allowance on approximately \$8.1 million of deferred tax assets related to U.S. operating losses, \$17.6 million of capital loss carryovers and \$22.0 million of deferred tax assets related to other U.S. tax attributes as we believe it is more likely than not that these deferred tax assets will not be realized. We also have a valuation allowance on foreign net operating losses of approximately \$2.2 million. Our assessment is ongoing and may conclude that we require additional valuation allowances in the future. Any release of the valuation allowance would reduce income tax expense.

Failure to properly manage and sustain our expansion efforts could strain our management and other resources.

Through acquisitions and organic growth, we are rapidly and significantly expanding our operations, both domestically and internationally. We will continue to expand further to pursue growth of our service offerings and customer base. This expansion increases the complexity of our business and places a significant strain on our management, operations, technical performance, financial resources, and internal financial control and reporting functions, and there can be no assurance that we will be able to manage it effectively. Our personnel, systems, procedures and controls may not be adequate to effectively manage our future operations, especially as we employ personnel in multiple domestic and international locations. We may not be able to hire, train, retain and manage the personnel required to address our growth. Failure to effectively manage our growth opportunities could damage our reputation, limit our future growth, negatively affect our operating results and harm our business.

Failure to properly manage and execute our plans to offer certain of our products and services on a modular basis could strain our resources and may not be successful in generating additional revenue.

We plan to offer certain of our product and service offerings on a modular basis. Offering product and services on a modular basis may require increases in costs of technology, marketing and business operations, and in the complexity of our business. This may place additional strain on our technical, operational and financial resources, and there can be no assurance that we will be able to manage or execute these plans effectively. Our personnel, systems, procedures and controls may not be adequate to effectively manage our future operations, especially as we seek to offer certain aspects of our products and services as standalone product and service offerings to clients and to implement a "go-to-market" strategy for our modular offerings. We have not fully evaluated the market opportunity and demand for the use of our products and services on a modular basis. As we implement our plan, we may incur additional expenses without a corresponding increase in revenue. If we fail to effectively manage and execute our plans to modularize our product and service offerings, or fail to adequately

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market and generate demand for our modular offerings, we may not be able to successfully compete with other providers and may not be successful in generating additional revenue, which could harm our operating results and financial condition.

Our international expansion efforts may not be successful in generating additional revenue.

We sell products and services to consumers outside the United States and we intend to continue expanding our international presence. In 2013, our sales to international consumers represented approximately 52.0% of our total sales. Continued expansion into international markets, particularly the European and Asia-Pacific regions, requires significant resources that we may fail to recover through generating additional revenue. Conducting business internationally is subject to risks that may have a material adverse effect on our ability to increase or maintain foreign sales, including:

Changes in regulatory requirements and tariffs;

Difficulties in staffing and managing foreign subsidiary operations, and the increased costs of international operations;

Uncertainty of application of, and the burden and cost of complying with, local, commercial, tax, privacy and other laws and regulations;

Reduced protection of intellectual property rights;

Difficulties in physical distribution and logistics for international sales;

Higher incidences of credit card fraud and difficulties in accounts receivable collection;

Difficulties in transferring funds from certain countries;

Difficulties in enforcing contracts against international clients, especially in emerging markets;

Lower rates of Internet usage in certain countries, especially in emerging markets;

Different employer/employee relationships, the existence of workers' councils, and the possibility of unionization of our workforce outside the United States, particularly in Europe;

Political, social and economic instability and constraints on international trade; and

Import and export license requirements and restrictions of the United States and every other country in which we operate.

We may be unable to successfully and cost-effectively market, sell and distribute our services in foreign markets due to challenges, such as language barriers, currency exchange issues and the fact that the Internet infrastructure in some foreign countries may be less advanced than the U.S. Internet infrastructure. As international e-commerce grows, our competition will continue to intensify. If we are unable to successfully expand our international operations, or manage this expansion, our operating results and financial condition could be harmed.

Implementing our acquisition and strategic partnership strategy could result in dilution and operating difficulties leading to a decline in revenue and operating profit.

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An element of our business strategy involves expansion through the acquisition of businesses, assets, products or technologies that allow us to complement our existing product offerings, expand our market coverage, increase our engineering workforce or enhance our technological capabilities. On January 10th, 2013, we announced the formal completion of our acquisition of LML Payment Systems. As a result of the acquisition, we acquired all of the capital stock of LML Payment Systems at \$3.45 per share cash settlement, or an aggregate purchase price of \$55.8 million, net of cash acquired of \$47.0 million. The acquisition joins two complementary card-not-present payments businesses,

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positioning us to further capitalize on our global payment processing services. We evaluate and explore other strategic opportunities as they arise, including business combination transactions, strategic partnerships, and the purchase or sale of assets, including tangible and intangible assets such as intellectual property.

Acquisitions, strategic investments and strategic partnership agreements may require significant capital infusions, typically entail many risks, and could result in unforeseen difficulties, disruptions, distractions, and expenditures in assimilating and integrating with the operations, personnel, technologies, products and information systems of acquired companies or businesses. We have in the past and may in the future experience delays in the timing and successful completion of such activities. These challenges are magnified as the size of the acquisition increases. Furthermore, these challenges would be even greater if we acquired a business or entered into a business combination transaction with a company that was larger and more difficult to integrate than the companies we have historically acquired. Moreover, the anticipated benefits of any acquisition or strategic investment may not be realized. If a significant number of clients of the acquired businesses cease doing business with us, we would experience lost revenue and operating profit, and any synergies from the acquisition may be lost. In addition, key personnel of an acquired company may decide not to work for us. The acquisition of another company or its products and technologies may also require us to enter into a geographic or business market in which we have little or no prior experience. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities, and amortization of intangible assets or impairment of goodwill. Acquisitions could also result in a dilutive impact to our earnings.

Our clients' sales cycles and the implementation process for our commerce solution are time-consuming, which may cause us to incur substantial expenses and expend management time without generating corresponding consumer revenue, which would impair our cash flow.

We market our services directly to software publishers, online retailers, consumer electronics companies and other prospective customers. These relationships are typically complex and take time to finalize. Due to operating procedures in many organizations, a significant amount of time may pass between selection of our products and services by key decision-makers, the signing of a contract, and the launch of a revenue-generating commerce store. The period between the initial client sales call and the signing of a contract with significant sales potential is difficult to predict and typically ranges from six to twelve months, and completion of the implementation process typically ranges from one to four months. If at the end of a sales effort a prospective client does not purchase our products or services, we may have incurred substantial expenses and expended management time that cannot be recovered and that will not generate corresponding revenue. As a result, our cash flow and our ability to fund expenditures incurred during the sales cycle and implementation process may be impaired. We can incur substantial front-end costs to launch client sites and it may require a substantial time before those costs are recouped by us, if at all.

We may become liable for fraudulent, improper or illegal uses of our platforms and services.

Our "self-service" platforms typically have an automated structure that allows customers to sign up for and use our e-commerce services without significant participation from Digital River personnel. Despite our efforts to contractually prohibit the sale of inappropriate and illegal goods and services and our efforts to detect the same, the remote control nature of these platforms increases the risk that transactions involving the sale of unlawful goods or services or the violation of the proprietary rights of others may occur before we become aware of them. Furthermore, unscrupulous individuals may offer for sale, or attempt to purchase, illegal products via such platforms under innocuous names, further frustrating our attempts to prevent inappropriate use of our services. Failure to detect inappropriate or illegal uses of our platforms by third parties could expose us to a number of risks, including fines, increased fees or termination of services by payment processors or credit card associations, risks of lawsuits and governmental investigations, and civil and criminal penalties.

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Compliance with and changes to applicable laws, rules, regulations, and certification requirements, may substantially increase our costs of doing business, limit our activities, or otherwise adversely affect our ability to offer our services.

We are subject to the same international, federal, state and local laws as other companies conducting business over the Internet. Because our services are accessible worldwide, and we facilitate sales of products to customers worldwide, international jurisdictions may claim that we are required to comply with their laws, rules and regulations. Laws regulating Internet companies outside of the United States may be less favorable than those in the United States, giving greater rights to consumers, content owners and users. Compliance with international, federal, state and local laws may be costly or may require us to change our business practices or restrict our service offerings relative to those provided in the United States. As our services are available over the Internet in multiple states and foreign countries, these jurisdictions may claim that we are required to qualify to do business as a foreign corporation in each state or foreign country. Failure to qualify as a foreign corporation in a required jurisdiction could subject us to taxes and penalties and could result in our inability to enforce contracts in these jurisdictions. Laws, rules and regulations applicable to our business include areas such as:

User privacy with respect to adults and minors;

Our ability to collect and/or share necessary information that allows us to conduct business on the Internet;

Export compliance;

Pricing, taxation, and regulatory fees;

Fraud;

Advertising;

Intellectual property rights;

Information security;

Quality of products and services;

Recycling of consumer products; and

Our investments in other companies.

Our acceptance of credit cards and similar payment methods requires us to maintain certain certifications, most notably Payment Card Industry (PCI) Level 1 compliance. Maintaining this certification requires an annual audit by a qualified third party auditor and a review and assessment of our security controls and a significant commitment of internal resources. Our loss of such certification may result in our inability to process credit card transactions and other payments, and would have a material adverse effect on our ability to do business.

Violation of any laws, rules or regulations applicable to our business could result in fines or other actions by regulatory agencies, increased costs of doing business, reduced profits, or restrictions on our ability to conduct business such as our ability to export products or bans on our ability to offer certain services. In addition, any significant changes, developments, or new interpretations of laws, rules, and regulations applicable to our business will increase our costs of compliance and may further restrict our overseas client base, may require significant management and other resources to respond appropriately, and may harm our operating results.

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Failure to protect our intellectual property may jeopardize our competitive position and require us to incur significant expenses to enforce our rights.

We rely on a combination of patent, copyright, trademark, service mark and trade secret laws, and contractual restrictions with our employees and other parties with which we do business, to protect our proprietary rights and to limit access to and disclosure of our proprietary information. We also seek to protect our proprietary position by filing U.S. patent applications related to our proprietary technology, inventions and improvements that are important to the development of our business, and the registration of our trademarks and service marks in the U.S. and internationally.

The steps we have taken to protect our proprietary rights may be inadequate and third parties may infringe or misappropriate our trade secrets, trademarks and similar proprietary rights. Our contractual arrangements and the other steps taken by us to protect our intellectual property may not prevent misappropriation of our technology or deter independent third-party development of similar technologies. We may not be able to successfully obtain patents or trademarks for our technologies or brands. Effective protection of our intellectual property rights may not be available in every country in which our services are made available online, or cost-effective for us to obtain on a worldwide basis. Any significant failure on our part to protect our intellectual property could make it easier for our competitors to offer similar services and thereby adversely affect our market opportunities. In addition, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Litigation could result in substantial costs and diversion of management and technical resources.

Claims against us related to infringement of other parties' intellectual property rights, by our products and services or the products we resell or deliver, could require us to expend significant resources, enter into unfavorable licenses, pay damages, prevent us from using certain technology, or require us to change our business plans.

From time to time we are notified of potential patent disputes, and expect that we will increasingly be subject to the assertion of patent infringement claims against us and/or our customers as our services expand in scope and complexity. We have been, and from time-to-time may be, named as a defendant in lawsuits claiming that we have, in some way, violated the intellectual property rights of others. For example, we were named as a defendant in a patent litigation in the United States District Court for the Eastern District of Texas brought against us and various other defendants by DDR Holdings, LLC, seeking injunctive and monetary relief. On October 12, 2012, the jury found in favor of the plaintiff on the infringement claim, and on September 20, 2013 the court awarded damages of \$1.1 million (including pre-judgment interest, but excluding costs and post-judgment interest). We have appealed the outcome.

Litigation over patents and other intellectual property rights is not uncommon with respect to e-commerce technologies, and often involves patent holding companies or other adverse patent owners who have no relevant product revenues and against whom our own patents may therefore provide little or no deterrence.

Claims may be made against us for negligence, copyright or trademark infringement, products liability or other theories based on the nature and content of software products or tangible goods that we deliver electronically and physically. Because we did not create these products, we are generally not in a position to know the quality or nature of the content of these products.

Any assertions or prosecutions of intellectual property claims could require us to expend significant financial, managerial and personnel resources. Although we carry general liability insurance and typically require that our customers indemnify us against consumer claims, our insurance and indemnification measures may not cover potential claims of this type, may not adequately cover all costs incurred in defense of potential claims, or may not reimburse us for all liability that may be

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imposed. We may elect to self-insure against certain claims. The defense of any claims, with or without merit, could be time-consuming, result in costly litigation and diversion of technical and management personnel, cause product enhancement delays or require that we develop non-infringing technology or enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may be unavailable on terms acceptable to us or at all. In the event of a successful claim of infringement against us and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, we may be unable to continue to pursue our current business plan. We expect that we will increasingly be subject to patent infringement claims as our services expand in scope and complexity, and our results of operations and financial condition could be materially adversely affected.

We are subject to regulations relating to consumer privacy and the protection of personal information.

We collect and maintain customer data from our customers, which subjects us to increasing international, federal and state regulations related to online privacy and the use of personal user information. Congress has enacted anti-spam legislation with which we must comply when providing email campaigns for our clients. Legislation and regulations are pending in various domestic and international governmental bodies that address online privacy protections. Several governments have proposed, and some have enacted, legislation that would limit the use and transfer of personal user information or require online service providers to establish privacy policies. In addition, the U.S. Federal Trade Commission (FTC) has urged Congress to adopt legislation regarding the collection and use of personal identifying information obtained from individuals when accessing websites, including both adults and minors. The FTC and certain states, such as California, have released guidance for privacy practices associated with applications used on mobile devices such as smartphones and tablets.

Even in the absence of laws requiring companies to establish these procedures, the FTC has settled several proceedings resulting in consent decrees in which Internet companies have been required to establish programs regarding the manner in which personal information is collected from users and provided to third parties. We could become a party to a similar enforcement proceeding. These regulatory and enforcement efforts could limit our collection of and/or ability to share with our clients demographic and personal information from customers, which could adversely affect our ability to comprehensively serve our clients.

The European Union has adopted a privacy directive that regulates the collection and use of information that identifies an individual person, and in January 2012 released proposed revisions to its privacy framework. These regulations may inhibit or prohibit the collection and sharing of personal information in ways that could harm our clients or us. Failure to comply with member state implementations of these directives may result in fines, private lawsuits and enforcement actions. These enforcement actions can include interruption or shutdown of operations relating to the collection and sharing of information pertaining to citizens of the European Union. Other countries including the United States have introduced or may seek to expand their existing data privacy laws, rules and regulations, which could require us to expend significant resources to implement procedures and processes to ensure our compliance.

We have and post on our websites our own privacy statements, policies and practices concerning our collection, use and disclosure of user information. The FTC, state and international regulatory agencies continue to be aggressive in enforcing privacy and data protection laws and regulations. Any actual or perceived failure by us to comply with our posted privacy statements, policies and practices or with federal, state or international data privacy laws, rules and regulations could reduce consumer confidence in conducting transactions processed through our systems, and could result in actions or proceedings against us by governmental entities, individual or class action litigation, subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and adversely affect our business.

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Our business is highly dependent on the efficient and uninterrupted operation of our computer network systems and data centers, and system failures, outages or errors could reduce the attractiveness of our service offerings.

We provide commerce, payments, marketing, and delivery services to our clients and consumers through our proprietary technology transaction processing, and client management systems and payment gateway connections. These systems also maintain an electronic inventory of products and gather consumer marketing information. Our ability to operate our business largely depends on the efficient and uninterrupted operation of our computer network systems and data centers. The satisfactory performance, reliability and availability of the technology and the underlying network infrastructure are critical to our operations, level of client service, reputation and ability to attract and retain clients. We have experienced periodic interruptions and have identified errors, affecting all or a portion of our systems, which we believe will continue to occur from time-to-time. While we attempt to correct every system error we identify, not all errors may be identified or corrected. The measures we have enacted, such as the implementation of security access and disaster recovery plans, may not be successful and we may experience problems other than system failures, or delays in restoring system availability when an outage occurs. We may be unable to prevent unanticipated system disruptions due to the failure of network or hardware components in our underlying network infrastructure. Any significant downtime interruptions in our facilities, computer networks, firewalls and databases could result in an immediate loss of revenue to us, harm our business and reputation, result in a loss of customers, and expose us to potential liability and increased operating expenses.

Although we maintain system redundancies in multiple physical locations, our systems and operations are vulnerable to damage or interruption, among other factors from:

Fire, flood, natural disasters, and other events beyond our control;

Defects introduced by third party technology;

Banking connections;

Defects introduced by outsourced services;

Third party and outsourced services technology failure due to defects in hardware and or firmware;

Catastrophic hardware failure of a third party;

Catastrophic hardware failure of an outsourced or cloud-based service provider;

Errors introduced by software and or hardware maintenance;

Operator negligence, improper operation by, or supervision of, employees, physical and electronic break-ins, misappropriation, computer viruses and similar events; and

Power loss, computer systems failures, denial-of-service attacks and Internet and telecommunications failure.

We may not carry sufficient business interruption insurance to fully compensate us for losses that may occur.

The listing of our network addresses on anti-spam lists could harm our ability to service our clients and deliver goods over the Internet.

Certain privacy and anti-email proponents have engaged in a practice of gathering, and publicly listing, network addresses that they believe have been involved in sending unwanted, unsolicited emails commonly known as spam. In response to user complaints about spam, Internet service providers have, from time to time, blocked such network addresses from sending emails to their users. If our network

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addresses mistakenly end up on these spam lists, our ability to provide services for our clients and consummate the sales of digital and physical goods over the Internet could be harmed.

If our internal control over financial reporting or disclosure controls and procedures are not effective, there may be errors in our financial statements that could require a restatement or our filings may not be timely and investors may lose confidence in our reported financial information, which could lead to a decline in our stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate the effectiveness of our internal control over financial reporting as of the end of each year, and to include a management report assessing the effectiveness of our internal control over financial reporting in each Annual Report on Form 10-K. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Over time, controls may become inadequate because changes in conditions or deterioration in the degree of compliance with policies or procedures may occur. Implementation of new technology related to the control system may result in misstatements due to errors that are not detected and corrected during testing. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

As a result, we cannot assure you that significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in significant deficiencies or material weaknesses, cause us to fail to timely meet our periodic reporting obligations, or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor reports regarding disclosure controls and the effectiveness of our internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules proclaimed after that. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to timely meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

We are incorporated in Delaware. Certain anti-takeover provisions under Delaware law and in our certificate of incorporation and amended and restated bylaws, as currently in effect, may make a change of control of our company more difficult, even if a change in control would be beneficial to our stockholders. Our anti-takeover provisions include provisions such as a prohibition on stockholder actions by written consent, a classified board of directors and the authority of our board of directors to issue preferred stock without stockholder approval. In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits stockholders owning 15% or more of our outstanding voting stock from merging or combining with us in certain circumstances. These provisions may delay or prevent an acquisition of us, even if the acquisition may be considered beneficial by some of our stockholders. In addition, they may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult

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for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management.

Risks Related to Our Industry

Because the e-commerce industry is highly competitive and has low barriers to entry, we may be unable to compete effectively.

The market for e-commerce solutions is extremely competitive and we may find ourselves unable to compete effectively. Because there are relatively low barriers to entry in the e-commerce market, we expect continued intense competition as current competitors expand their product offerings and new competitors enter the market. In addition, our clients and partners may become competitors in the future. Increased competition is likely to result in price reductions, reduced margins, longer sales cycles and a decrease or loss of our market share, any of which could negatively impact our revenue and earnings. We face competition from the following sources:

In-house development of e-commerce capabilities using tools or applications from companies, such as Oracle Corporation (which acquired Art Technology Group, Inc.), IBM Corporation, Demandware, Inc. and SAP hybris GmbH, or through internally developed solutions;

E-Commerce capabilities custom-developed by companies, such as IBM Global Services and Accenture, Inc.;

New e-commerce models through which consumers can purchase software products for their computers and computing devices, such as app stores;

Other providers of outsourced e-commerce solutions, such as cleverbridge AG, eBay, Inc. (which acquired GSI Commerce, Inc. and Magento), Demandware Inc., Avangate BV, asknet AG and arvato Systems, a division of Bertelsmann AG;

Companies that provide technologies, services or products that support a portion of the e-commerce process, such as payment processing, including WorldPay Ltd., GlobalCollect, CyberSource Corporation (a subsidiary of Visa, Inc.), Chase Paymentech, Stripe, Square, Inc., and PayPal Corporation and Braintree (a subsidiaries of eBay, Inc.);

Companies that offer various online marketing services, technologies and products, including ValueClick, Inc. and Microsoft Advertising (formerly aQuantive, Inc.);

High-traffic, branded websites that generate a substantial portion of their revenue from e-commerce and may offer or provide to others the means to offer their products for sale, such as Amazon.com, Inc. and Buy.com, Inc.; and,

Web hosting, web services and infrastructure companies that offer portions of our solution and are seeking to expand the range of their offering, such as Network Solutions, LLC, Akamai Technologies, Inc., Yahoo!, Inc., eBay, Inc. and Hostopia.com, Inc.

The online channel partners and the other companies described above may compete directly with us by adopting a business model similar to ours. Many of our competitors have, and new potential competitors may have, more experience developing Internet-based software and e-commerce solutions, larger technical staffs, larger customer bases, more established distribution channels and customer relationships, greater brand recognition and greater financial, marketing and other resources than we have. Some of our clients may also compete with us. In addition, competitors or our clients may be able to develop services that are superior to our services, achieve greater customer acceptance or have significantly improved functionality as compared to our existing and future products and services, which could result in the loss of existing clients and/or our inability to pursue and sign new clients. Our competitors may be able to respond more quickly to technological developments and changes in

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customers' needs. Our inability to compete successfully against current and future competitors could cause our revenue and earnings to decline.

The pace of recovery of U.S. and global economies, political and economic conditions, and the debt crisis in the United States and other countries may adversely affect our revenue and results of operations and stock price.

The U.S. and other global economies continue to experience slow recovery from the recent recession that affected the economy as a whole, resulting in continued issues with the pace of economic growth, loss of consumer confidence and uncertainty about economic stability, and increased unemployment. U.S. and foreign credit and financial markets continue to experience instability, resulting in increased volatility in the stock market and reduced availability of credit. The U.S. continues to face budgetary issues and constraints which may result in a failure to raise the "debt ceiling" and austerity measures such as automatic sequesters, cuts in government spending and programs, increased taxes, and other related actions or inactions by the U.S. government. Other countries and economies continue to experience adverse effects of sovereign debt crises and related austerity measures. These issues may cause a cascading effect impacting other countries and economies. Our revenue and growth is dependent on the continued growth in demand for our clients' products and the continued growth of Internet commerce, and depends significantly on geopolitical economic and business conditions. The continuing effects of instability in the credit and financial markets, general economic conditions, and the approach to addressing debt crises and austerity measures in the U.S. and other countries may continue to negatively impact our business and our clients, demand for our clients products, and consumer spending, such as causing delays in new product introductions, changes in client's outsourcing behavior, increasing our difficulty in collecting client receivables, and increasing the risk of client bankruptcies and/or interruption or cessation of business, which may have a negative impact on our business, operating results and financial condition. These factors could have a negative and adverse impact on companies with which we do business, which in turn could have a negative and adverse effect on our business. Continuing geopolitical instability in certain countries and regions may affect consumer spending behavior in those countries and regions. Instability in the credit and equity markets increases the risk that the actual amounts realized in the future on our financial instruments and investments may significantly differ from the fair values currently assigned to them. If macroeconomic and market conditions affecting us or our clients remain uncertain, weaken further, or otherwise fail to improve, they may have a material adverse effect on our business, operating results, financial condition and stock price.

Risks Related to the Securities Markets

We may need to raise additional capital to achieve our business objectives, which could result in dilution to existing investors or increase our debt obligations.

We require substantial working capital to fund our business. In February 2009, we filed a shelf registration that would allow us to sell an undetermined amount of equity or debt securities in accordance with the rules applying to "well-known seasoned issuers." In addition, we filed an acquisition shelf registration statement for up to approximately 1.5 million shares. On November 1, 2010, we sold and issued \$345.0 million in aggregate principal amount of senior convertible notes (2010 Notes), in a private, unregistered offering. If additional funds are raised through the issuance of equity securities, the percentage ownership of our stockholders will be reduced and these equity securities may have rights, preferences or privileges senior to those of our common stock. Our capital requirements depend on several factors, including the rate of market acceptance of our products, the ability to expand our client base, the growth of sales and marketing and opportunities for acquisitions of other businesses. We have experienced significant operating losses and negative cash flow from operations during our operating history and may do so in the future. Additional financing may not be available

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when needed, on terms favorable to us or at all. If adequate funds are not available or are not available on acceptable terms, we may be unable to develop or enhance our services, take advantage of future opportunities or respond to competitive pressures, which would harm our operating results and adversely affect our ability to sustain profitability.

The investment of our substantial cash balance and our investments in marketable debt securities are subject to risks which may cause losses and affect the liquidity of these investments.

As of December 31, 2013, we held \$45.7 million of auction rate securities (ARS) at par value which we have recorded at \$42.0 million fair value. The ARS are over-collateralized and the underlying student loans are guaranteed by the U.S. government. These securities are BB+ to AAA rated and almost all continue to fail at auction due to continued illiquid market conditions.

Due to the illiquid market conditions, the fair value of our ARS is \$3.7 million (8.2%) less than par value as of December 31, 2013. This reduction from par value is considered temporary and is recorded in "Accumulated other comprehensive income (loss)".

The investment principal associated with failed auctions will not be accessible until successful auctions occur, a buyer is found outside of the auction process, the issuers establish a different form of financing to replace these securities, or final payments come due according to the contractual maturities of the debt issues. If none of these events occur or if the credit markets deteriorate, we may in the future be required to take a larger fair value discount and may be required to take a permanent impairment resulting in a reduction of earnings and liquidity. We intend to hold our auction rate securities until we can recover the full principal amount and have the ability to do so based on our other sources of liquidity. Based on our expected operating cash flows, and our other sources of cash, we do not anticipate the potential lack of liquidity on these investments will affect our ability to execute our current business plan.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table summarizes the various facilities that we lease for our business operations:

Description of Use	Primary Locations	Square Footage(1)	Lease Expirations
Corporate Office Facilities	Minnesota	143,723	2021
Other U.S. Office Facilities	California, Kansas, Pennsylvania, Utah, Washington	50,146	From 2014 to 2016
Non-U.S. Office Facilities	Austria, Brazil, Canada, China, Germany, India, Ireland, Japan, Korea, Luxembourg, Russia, Singapore, Sweden, Taiwan, United Kingdom	111,091	From 2014 to 2024
Off Site U.S. Data Centers	California, Minnesota	35,699	From 2014 to 2015
Off Site non U.S. Data Centers	Germany, Ireland, Sweden	1,589	2014

(1) Includes sub-leased space.

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ITEM 3. LEGAL PROCEEDINGS

We have provided information about legal proceedings in which we are involved in Item 8, Part II, Note 8 to the Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Price Range of Common Stock**

Our common stock is traded on the Nasdaq Global Select Market under the symbol "DRIV." The following table sets forth, for the periods indicated, the high and low sale price per share of our common stock on that market. These over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions.

	High	Low
2013		
First Quarter	\$ 15.18	\$ 13.75
Second Quarter	\$ 18.94	\$ 12.80
Third Quarter	\$ 20.29	\$ 16.26
Fourth Quarter	\$ 19.67	\$ 16.57
2012		
First Quarter	\$ 19.10	\$ 14.13
Second Quarter	\$ 19.10	\$ 13.81
Third Quarter	\$ 17.82	\$ 12.87
Fourth Quarter	\$ 17.06	\$ 13.00

 Holders

As of February 1, 2014, there were approximately 261 holders of record of our common stock. On February 1, 2014, the last sale price reported on The Nasdaq Global Select Market for our common stock was \$17.58 per share.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We intend to retain any future earnings to support operations and to finance the growth and development of our business and do not anticipate paying cash dividends for the foreseeable future.

Issuer Purchases of Equity Securities

Set forth below is information regarding the Company's stock repurchases, which were part of our publically announced plan, during the three months ended December 31, 2013.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan	Approximate dollar value of shares that may yet be purchased under the plan (in millions)
October 1, 2013 - October 31, 2013	346,989	\$ 17.86	346,989	\$ 47.4
November 1, 2013 - November 30, 2013	59,405	\$ 17.85	59,405	\$ 46.4
December 1, 2013 - December 31, 2013		\$		\$ 46.4
Total	406,394		406,394	

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Securities Authorized for Issuance under Equity Compensation Plans

The information required in the table of Securities Authorized for Issuance under Equity Compensation Plans will be incorporated by reference to our Proxy Statement in connection with our 2013 Annual Meeting to be filed in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended.

Securities Performance Measurement Comparison(1)

The SEC requires a comparison on an indexed basis of cumulative total stockholder return for the Company, a relevant broad equity market index and a published industry line-of-business index. The following graph shows a total stockholder return of an investment of \$100 in cash on December 31, 2008 for (i) the Company's Common Stock; (ii) the CRSP Total Return Index for the Nasdaq Stock Market (U.S. companies) (the "Nasdaq Composite Index"); and (iii) the RDG Technology Composite Index. The RDG Technology Composite Index is composed of approximately 500 technology companies in the semiconductor, electronics, medical and related technology industries. Historic stock price performance is not necessarily indicative of future stock price performance. All values assume reinvestment of the full amount of all dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Digital River, Inc., the NASDAQ Composite Index, and the RDG Technology
Composite Index

*
\$100 invested on 12/31/08 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

This Section is not "soliciting material," is not deemed "filed" with the SEC and is not to be incorporated by reference in any filing of the Company under the Securities Act or the Exchange Act whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

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The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included in Item 8 of Part II, "Financial Statements and Supplementary Data" of this Form 10-K to fully understand factors that may affect the comparability of the information presented below.

The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this Annual Report on Form 10-K, and the financial statements and related financial information contained in previously-filed reports should no longer be relied upon. Certain items in the prior years' Consolidated Statements of Operations and Consolidated Balance Sheets have been reclassified for comparative purposes to conform to the current year presentation. See Item 8 of Part II, Note 1 Nature of Operations and Summary of Significant Accounting Policies, for discussion of the reclassifications to prior years.

	2013	2012	December 31,		
			2011	2010	2009
			(in thousands)		
Balance Sheet Data:					
Current Assets	\$ 699,742	\$ 800,668	\$ 836,323	\$ 844,744	\$ 488,822
Current Liabilities	270,496	282,141	312,143	280,176	267,113
Working capital	429,246	518,527	524,180	564,568	221,709
Total assets	981,174	1,052,284	1,310,776	1,333,767	985,642
Long-term obligations	317,247	328,145	366,361	369,843	24,310
Total stockholders' equity	\$ 393,431	\$ 441,998	\$ 632,272	\$ 683,748	\$ 694,219

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	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenue	\$ 389,679	\$ 370,496	\$ 376,469	\$ 349,153	\$ 395,250
Costs and expenses (exclusive of depreciation and amortization expense shown separately below):					
Direct cost of services	73,505	66,756	62,381	64,092	78,542
Network and infrastructure	59,036	52,564	47,886	46,017	45,885
Sales and marketing	106,954	97,816	102,221	97,233	93,473
Product research and development	72,359	61,550	64,175	58,491	52,417
General and administrative	56,279	55,763	40,649	40,481	35,477
Goodwill impairment	21,249	175,241			
Depreciation and amortization	22,080	20,192	22,001	22,789	19,097
Amortization of acquisition-related intangibles	8,543	4,700	6,315	5,055	5,523
Total costs and expenses	420,005	534,582	345,628	334,158	330,414
Income (loss) from operations	(30,326)	(164,086)	30,841	14,995	64,836
Interest income	2,451	3,820	6,098	3,035	3,209
Interest expense	(7,822)	(8,968)	(9,018)	(1,661)	(5,339)
Other income (expense), net	16,260	4,799	(1,931)	(1,080)	452
Income (loss) from continuing operations before income taxes	(19,437)	(164,435)	25,990	15,289	63,158
Income tax expense (benefit)	(908)	19,203	2,276	(1,736)	12,522
Income (loss) from continuing operations	(18,529)	(183,638)	23,714	17,025	50,636
Income (loss) from discontinued operations, net of tax	(6,118)	(12,230)	(6,547)	(1,290)	(865)
Net income (loss)	\$ (24,647)	\$ (195,868)	\$ 17,167	\$ 15,735	\$ 49,771
Income (loss) per share basic:					
Income (loss) from continuing operations	\$ (0.58)	\$ (5.53)	\$ 0.65	\$ 0.45	\$ 1.37
Income (loss) from discontinued operations	(0.19)	(0.37)	(0.18)	(0.03)	(0.02)
Net income (loss) per share basic	\$ (0.77)	\$ (5.90)	\$ 0.47	\$ 0.42	\$ 1.35
Income (loss) per share diluted:					
Income (loss) from continuing operations	\$ (0.58)	\$ (5.53)	\$ 0.63	\$ 0.44	\$ 1.34
Income (loss) from discontinued operations	(0.19)	(0.37)	(0.17)	(0.03)	(0.02)

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Net income (loss) per share diluted	\$	(0.77)	\$	(5.90)	\$	0.46	\$	0.41	\$	1.32
Shares used in per-share calculation basic		32,065		33,224		36,778		37,518		36,975
Shares used in per-share calculation diluted		32,065		33,224		37,510		38,339		37,704

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion in this Annual Report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Additional factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section entitled "Risk Factors," included in Item 1A of Part I. When used in this document, the words "believes," "expects," "anticipates," "intends," "plans," and similar expressions, are intended to identify certain of these forward-looking statements. However, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. The cautionary statements made in this document should be read as being applicable to all related forward-looking statements wherever they appear in this document. We have no obligation to update the matters set forth herein, whether as a result of new information, future events or otherwise.

Overview

We provide end-to-end global cloud-commerce, payments and marketing solutions to a wide variety of companies in software, consumer electronics, computer games, video games and other markets. We offer our clients a broad range of services that enable them to quickly and cost effectively establish an online sales channel capability and to subsequently manage and grow online sales on a global basis while mitigating risks. Our services include adaptive and responsive design, development and hosting of commerce stores, merchandising, order management, fraud prevention screening, popular localized online payment methods, export controls and management, tax compliance and management, digital product delivery via download, integration with third-party agencies for physical product fulfillment, multi-lingual customer service, subscription management, online marketing services, including email marketing, paid search program management, website optimization, and web analytics and reporting, among other programs.

Our services allow our clients to focus on promoting and marketing their products and brands worldwide while leveraging our investments in technology and infrastructure to facilitate the purchase of products through their online websites. When shoppers visit one of our clients' branded websites they are transferred to an online commerce store and/or shopping cart operated by us on our commerce platforms. Once on our system, shoppers can browse for products and make purchases online. After a purchase is made, we either deliver the product digitally via download over the Internet or transmit instructions to a third party for physical fulfillment of the order. We offer a full range of payment processing services to clients. These services include multiple payment methods, fraud management, tax management, cloud-based billing and other payment optimization services. We have invested substantial resources to develop our multi-tenant cloud-commerce and marketing platforms, including direct-to-buyer software, and we provide access and use of our platforms to our clients as a service as opposed to selling the software to be operated on their own in-house computer hardware. Our cloud-commerce store solutions range from simple remote control models to more comprehensive online store models.

In addition to the services we provide that facilitate the completion of an online transaction, we also offer services designed to increase traffic to our clients' websites and the associated online stores and to improve the sales productivity of those stores. Our services include paid search advertising, search engine optimization, affiliate marketing, store optimization, multi-variant testing, web analytic services and e-mail optimization. All of our services are designed to help our clients acquire customers more effectively, sell to those customers more often and more efficiently, and increase the lifetime value of each customer.

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Additionally, through our Digital River World Payments subsidiary, we offer a full range of payment processing services to clients. These services include multiple payment methods, fraud management, tax management, cloud-based billing and other payment optimization services.

Current Period Results

For the year ended December 31, 2013, we recorded a net loss of \$24.6 million or loss of \$0.77 per share, comprised of net loss from continuing operations of \$18.5 million or loss of \$0.58 per share and net loss from discontinued operations of \$6.1 million or loss of \$0.19 per share. For the comparative period ended December 31, 2012, we recorded a net loss of \$195.9 million or loss of \$5.90 per share, comprised of net loss from continuing operations of \$183.6 million or loss of \$5.53 per share and net loss from discontinued operations of \$12.2 million or loss of \$0.37 per share. Revenues from continuing operations of \$389.7 million for the year-ended December 31, 2013, exceeded revenues from continuing operations of \$370.5 million in the same period in the prior year as payments revenue growth of \$36.5 million offset a decrease in commerce revenue of \$17.4 million compared to prior year. Of the growth in payments revenue, \$24.1 million was related to LML, which was acquired in the first quarter of 2013. Client attrition that occurred in 2012 was the primary driver of the decrease in commerce revenue compared to prior year. The level of client attrition and its impact on revenue continues to be consistent with our expectations and previous communications.

Total costs and expenses in continuing operations for the year-ended of December 31, 2013 of \$420.0 million decreased 21.4% compared to the same period in the prior year primarily due to a lower charge for goodwill impairment in 2013. Excluding goodwill impairment, total costs and expenses increased 11% to \$398.8 million due to the acquisition of LML and additional investment in our technology infrastructure and platform. As of December 31, 2013 and December 31, 2012, we had \$599.5 million and \$705.6 million in cash, cash equivalents and short-term investments, respectively.

Our management's discussion and analysis includes the results of LML's earnings starting as of the acquisition date of January 10, 2013.

Other

On November 22, 2013, we received written notice from Microsoft Corporation ("Microsoft") that Microsoft had exercised its right under the Third Omnibus Amendment to the Microsoft Operations Digital Distribution Agreement (the "Third Omnibus Amendment") to extend the expiration date of the Microsoft Operations Digital Distribution Agreement to March 1, 2015. Pursuant to the Digital Distribution Agreement, we build, host and manage the Microsoft Store, an e-commerce store that supports the sale and fulfillment of Microsoft and third party software as well as consumer electronics products to customers throughout the world, and provide additional e-commerce services to Microsoft.

We view our operations and manage our business as one reportable segment, providing outsourced commerce and payments solutions globally to a variety of companies.

We were incorporated in Delaware in February 1994. Our headquarters are located at 10380 Bren Road West, Minnetonka, Minnesota and our telephone number is 952-253-1234.

General information about us can be found at www.digitalriver.com under the "Company/Investor Relations" link or follow the Company on Twitter at twitter.com/digitalriverinc. Our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments or exhibits to those reports, are available free of charge through our website as soon as reasonably practicable after we file such reports with the Securities and Exchange Commission.

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Results of Operations

The following table sets forth certain items from our consolidated statements of operations as a percentage of total revenue for the years indicated.

	2013	2012	2011
Revenue	100.0%	100.0%	100.0%
Costs and expenses (exclusive of depreciation and amortization expense shown separately below):			
Direct cost of services	18.9	18.0	16.6
Network and infrastructure	15.1	14.2	12.7
Sales and marketing	27.4	26.4	27.2
Product research and development	18.6	16.6	17.0
General and administrative	14.4	15.1	10.8
Goodwill impairment	5.5	47.3	
Depreciation and amortization	5.7	5.4	5.8
Amortization of acquisition-related intangibles	2.2	1.3	1.7
Total costs and expenses	107.8	144.3	91.8
Income (loss) from operations	(7.8)	(44.3)	8.2
Interest income	0.6	1.0	1.6
Interest expense	(2.0)	(2.4)	(2.4)
Other income (expense), net	4.2	1.3	(0.5)
Income (loss) before income taxes	(5.0)	(44.4)	6.9
Income tax expense (benefit)	(0.2)	5.2	0.6
Income (loss) from continuing operations	(4.8)	(49.6)	6.3
Income (loss) from discontinued operations, net of tax	(1.5)	(3.3)	(1.7)
Net income (loss)	(6.3)%	(52.9)%	4.6%

Revenue. Our revenue was \$389.7 million in 2013 compared to \$370.5 million and \$376.5 million in 2012 and 2011, respectively.

Our revenues are driven primarily by global commerce and payment services provided to a wide variety of companies in the software, consumer electronics, computer games and other markets. Commerce revenues include revenues generated from Microsoft, as well as, our remaining supporting businesses. Revenues from our former supporting businesses, Digital River Education Services, Inc. (DRES) and CustomCD, Inc. (CustomCD), are included within discontinued operations. Payments revenues include revenues from Digital River World Payments (DRWP) and our first quarter 2013 acquisition, LML Payment Systems, Inc. (LML).

For the year ended December 31, 2013, payments revenue increased \$36.5 million, 147%, primarily due to \$24.1 million of revenue from LML. Excluding LML, payments revenue from DRWP of \$37.4 million was also up 50.2% compared to \$24.9 million in the prior year, driven by continued client expansion. This increase in payments revenue was offset by a decrease of \$17.4 million in the continuing operations of our commerce business due mainly to the continued impact of client attrition that occurred in 2012. For the year ended December 31, 2012, payments revenue increased \$6.9 million, 38.2%, compared to the year-ended December 31, 2011. This increase in payments revenue was offset by a decrease of \$12.9 million in the continuing operations of our commerce business

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International sales were approximately 52.0%, 48.1% and 48.6% of revenue from continuing operations in 2013, 2012 and 2011, respectively.

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Microsoft Corporation accounted for approximately 32.5%, 30.9% and 29.2% of our revenue in 2013, 2012 and 2011, respectively.

Direct Cost of Services. Direct cost of services includes payment processing fees, chargeback expense, fraud detection and prevention, costs related to product fulfillment, delivery solutions and certain client-specific costs. Direct cost of service expenses were \$73.5 million, \$66.8 million and \$62.4 million in 2013, 2012 and 2011, respectively. The increase in 2013 compared to 2012 was due to higher payment processing costs related to our payments business, including the acquisition of LML, which are in line with the increase in payments business revenue. The increase in 2012 compared with 2011 was primarily attributable to higher payment processing costs.

Network and Infrastructure. Our network and infrastructure expenses primarily include costs to operate and maintain our technology platforms, customer service, data communication and data center operations. Network and infrastructure expenses were \$59.0 million in 2013, compared to \$52.6 million and \$47.9 million in 2011 and 2010, respectively. The increases in 2013 and 2012 compared to 2011 were mainly due to higher workforce, data communication and IT related costs related to enhancing our infrastructure.

Sales and Marketing. Our sales and marketing expenses include personnel and related costs, advertising, promotional and product marketing expenses. Sales and marketing expenses were \$107.0 million, \$97.8 million and \$102.2 million in 2013, 2012 and 2011, respectively. The increase in 2013 compared to 2012 was driven by additional first quarter 2013 expenses primarily related to corporate website redesign and branding initiatives as well as the addition of LML expenses. Reductions in workforce costs drove the decrease in costs in 2012 compared to 2011.

Product Research and Development. Our product research and development expenses include costs associated with design, development and enhancement of our technology platforms and related systems. Research and development costs are expensed as incurred, except certain internal-use software development costs that are eligible for capitalization and costs directly associated with preparing a client website launch that are eligible to be deferred and amortized over the life of the site's associated revenue streams. These costs drive enhanced technologies and strengthen our leadership position in the markets we serve. These investments advance our global system scalability, e-marketing capabilities, data management and client reporting. Product research and development expenses were \$72.4 million in 2013, compared to \$61.6 million and \$64.2 million in 2012 and 2011, respectively. The increase in 2013 was primarily due to increased emphasis in our investment in platform enhancements and LML related research and development. The decrease in 2012 compared to 2011 was primarily due to reduction in workforce related costs specifically related to certain development projects that were completed in 2011.

General and Administrative. Our general and administrative expenses primarily include executive, finance, human resources and other administrative workforce and other related expenses, fees for professional services, bank fees, litigation costs, insurance costs, integration costs and non-income related taxes. General and administrative expenses were \$56.3 million in 2013 compared to \$55.8 million and \$40.6 million in 2012 and 2011, respectively. The increase in costs in 2013 and 2012 compared to 2011 was due to severance, legal fees, and acquisition and integration costs associated with LML in the fourth quarter of 2012 and the first quarter of 2013, along with strategic consulting expenses associated with business process transformation plans in the second quarter of 2013.

Goodwill Impairment Charge. In December 2012, due to the deterioration in our stock price in the second half of 2012, adjustments in our forecasted revenue growth and change in our chief operating decision maker, management determined that a triggering event for potential goodwill impairment had occurred. As such, management completed an interim impairment test and determined that the book value of the Company was in excess of fair value and a goodwill impairment was required. In the

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fourth quarter 2012, we recorded a preliminary non-cash pretax goodwill impairment charge of \$175.2 million. A \$14.1 million tax benefit was recorded as a result of the impairment charge. During the first quarter of 2013, we completed our goodwill impairment analysis, recording an additional non-cash pretax goodwill impairment charge of \$21.2 million.

Depreciation and Amortization. Our depreciation and amortization expenses include the depreciation of computer equipment, office furniture and leasehold improvements and the amortization of purchased and internally developed software. Computer equipment, software and furniture are depreciated/amortized under the straight-line method using three to seven year lives and leasehold improvements are amortized over the shorter of the life of the asset or the remaining length of the lease. Depreciation and amortization expense was \$22.1 million in 2013 compared to \$20.2 million and \$22.0 million in 2012 and 2011, respectively. The increase in 2013 expenses compared to 2012 can be attributed to new capital expenditures since the second quarter of 2012 related to our data centers. The decrease in expenses in 2012 compared to 2011 can be primarily attributed to several large software assets becoming fully depreciated in 2012.

Amortization of Acquisition-Related Intangibles. Amortization of acquisition-related intangibles consists of the amortization of intangible assets such as customer relationships, technology and trade names acquired in business combinations. Amortization of acquisition-related intangible assets was \$8.5 million in 2013 compared to \$4.7 million and \$6.3 million in 2012 and 2011, respectively. The increase in 2013 compared to 2012 was due to the addition of intangibles associated with the purchase of LML. The decrease in 2012 compared to 2011 was driven primarily by the \$9.4 million intangible asset impairment recorded in the fourth quarter of 2011.

Interest Income. Our interest income represents the total of interest income on our cash, cash equivalents, short-term investments and certain long-term investments. Interest income was \$2.5 million, \$3.8 million and \$6.1 million in 2013, 2012 and 2011, respectively. The decrease in interest income in 2013 compared to 2012 is related to lower cash and cash equivalents and short-term investments due to the acquisition of LML and stock and debt repurchases completed during 2013. The decrease in interest income in 2012 compared to 2011 was mainly due to lower market yields on our invested portfolio.

Interest Expense. Our interest expense includes the total of cash and non-cash interest expense attributable to our outstanding convertible debt. Interest expense was \$7.8 million, \$9.0 million and \$9.0 million in 2013, 2012 and 2011, respectively, which included \$1.7 million, \$2.0 million and \$2.0 million of debt financing cost amortization, respectively. The decrease in interest expense, including debt financing cost amortization, in 2013 compared to 2012 and 2011 is due to the repurchase of our 2010 senior convertible notes during 2013 and the fourth quarter of 2012, which bear an annual interest rate of 2.0%.

Other Income (Expense), Net. Our other income (expense), net includes foreign currency transaction gains and losses, gains and losses on investments or asset disposals (excluding disposal of businesses), other-than-temporary impairment of investments and dividend income. Other income (expense) was income of \$16.3 million in 2013, compared to income of \$4.8 million and expense of \$1.9 million in 2012 and 2011, respectively. The increase in 2013 is primarily driven by the sale of a cost method equity investment to a third party which resulted in a gain of \$17.6 million, offset by unfavorable foreign currency re-measurement losses. The increase in other income (expense) in 2012 compared to 2011 was driven by a \$3.2 million gain recorded due to a call option on a cost-basis investment that was executed for cash value.

Income Tax Expense. In 2013, our tax benefit related to continuing operations was \$0.9 million, consisting of approximately \$1.9 million of current tax expense and \$2.8 million of deferred tax benefit. In 2013, our tax expense related to discontinued operations was \$2.5 million. In 2012, our tax expense

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related to continuing operations was \$19.2 million, consisting of approximately \$0.9 million of current tax expense and \$18.3 million of deferred tax expense. In 2012, our tax expense related to discontinued operations was \$9.6 million. In 2011, our tax expense related to continuing operations was \$2.3 million, consisting of approximately \$2.3 million of current tax expense and an immaterial deferred tax benefit. In 2011, our tax benefit related to discontinued operations was \$3.8 million. Our effective tax rate related to continuing operations was 4.7% in 2013, compared to negative 11.7% in 2012 and 9.0% in 2011. Differences in our effective tax rate from the U.S. statutory rate are primarily due to our mix of earnings from international operations, the differences in statutory rates in these countries from the U.S. rate, and the full valuation allowance on our U.S. deferred tax assets.

Discontinued Operations. In 2013, revenues included within discontinued operations totaled \$8.0 million, compared to \$15.7 million in 2012 and \$21.7 million in 2011. Losses from discontinued operations, before tax and loss on disposals, for the year ended December 31, 2013, 2012 and 2011, totaled \$1.7 million, \$2.6 million and \$10.4 million, respectively. The pre-tax loss on disposal recorded in the year ended December 31, 2013, was \$1.9 million, \$1.8 million related to DRES and \$0.1 million related to CustomCD. Total net losses from discontinued operations were \$6.1 million in 2013, compared to net loss of \$12.2 million and \$6.5 million for 2012 and 2011, respectively.

Liquidity and Capital Resources

Cash Flows (in thousands)	Years ended December 31,		
	2013	2012	2011
Cash provided by (used in):			
Operating activities	\$ (15,290)	\$ 38,840	\$ 94,768
Investing activities	4,657	68,257	(74,584)
Financing activities	(57,543)	(67,047)	(81,277)
Effect of exchange rate changes on cash and cash equivalents	9,193	5,608	(6,800)
Net increase (decrease) in cash and cash equivalents	\$ (58,983)	\$ 45,658	\$ (67,893)

Operating Activities

As of December 31, 2013, we had \$483.9 million of cash and cash equivalents, approximately 51.4% of which are held by our international subsidiaries. As of December 31, 2012, we had \$542.9 million of cash and cash equivalents, approximately 31.0% of which was held by our international subsidiaries. If funds held by our international subsidiaries were repatriated to the U.S., we would incur a U.S. tax liability that is not currently accrued in our financial statements. However, cash and cash equivalents held in the U.S. are sufficient to fund our current and anticipated domestic operations. As a result, we do not anticipate any local liquidity restrictions that would preclude us from funding our expansion or operating needs.

Net cash used by operating activities was \$15.3 million in 2013, compared to net cash provided by operating activities of \$38.8 million and \$94.8 million in 2012 and 2011, respectively. Net cash used in operations in 2013 was primarily due to changes in working capital, \$53.7 million use of cash. Excluding the impact of working capital changes, our operating cash flow for 2013 was \$38.4 million. Net cash provided by operating activities in 2012, excluding changes in working capital, was \$59.8 million. Changes in working capital were a use of cash of \$20.9 million. Net cash provided by operating activities in 2011 was primarily the result of net income, adjusted for non-cash expenses, of \$80.4 million, combined with positive cash flows from working capital of \$14.4 million.

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Investing Activities

Net cash provided by investing activities was \$4.7 million in 2013 and was primarily the result of net sales of investments of \$83.7 million, offset by net cash paid for the acquisition of LML of \$55.8 million and purchases of equipment and capitalized software of \$23.3 million. Net cash provided by investing activities was \$68.3 million in 2012 and was primarily the result of net sales of investments of \$89.8 million, offset by purchases of capital equipment of \$22.0 million. Net cash used in investing activities was \$74.6 million in 2011 and was primarily the result of net purchases of investments of \$50.7 million and purchases of capital equipment of \$23.9 million.

Financing Activities

In 2013, net cash used in financing activities was \$57.5 million and was primarily due to \$51.2 million in stock repurchases, \$5.4 million in convertible senior note repurchases and \$4.5 million of restricted stock repurchases to satisfy tax withholding obligations, offset by proceeds of \$2.2 million from sale of stock under our employee stock purchase plan and \$1.3 million from exercises of stock options. In 2012, net cash used in financing activities was \$67.0 million and was primarily due to \$43.9 million of convertible senior note repurchases, \$22.7 million repurchases of common stock, and \$5.1 million of restricted stock repurchases to satisfy tax withholdings obligation, offset by proceeds of \$2.6 million from sale of stock under the employee stock purchase plan and \$1.6 million from the exercises of stock options. In 2011, cash used in financing activities was \$81.3 million and was primarily due to \$79.8 million in repurchases of common stock and \$6.0 million of restricted stock repurchases to satisfy tax withholding obligations, offset by proceeds of \$2.5 million from sale of stock under our employee stock purchase plan and \$2.0 million of excess tax benefits from stock-based compensation.

Effect of Exchange Rate Changes

In 2013, changes in foreign currency rates resulted in a \$9.2 million increase in our cash and cash equivalents. Exchange rate changes increased our cash and cash equivalents by \$5.6 million in 2012 and decreased our cash and equivalents by \$6.8 million in 2011. The changes are due to foreign currency volatility on our international entity balance sheet exposures, primarily the euro.

Auction Rate Securities

As of December 31, 2013, we held \$45.7 million of auction rate securities (ARS) at par value which we have recorded at \$42.0 million fair value. As of December 31, 2012, we held \$45.8 million of ARS at par value which we have recorded at \$37.0 million fair value. The ARS are 106 - 138% over-collateralized and the underlying student loans are guaranteed by the U.S. government. Almost all of these securities continue to fail at auction due to continued illiquid market conditions.

Due to the illiquid market conditions, the fair value of our ARS is \$3.7 million (8.2%) less than par value as of December 31, 2013. This reduction from par value is considered temporary. The temporary reduction from par value was \$8.8 million (19.3%) as of December 31, 2012.

In evaluating our ARS portfolio, we note sustained performance of our securities, strong parity levels, observed market redemption activity, continued receipt of interest and penalty payments, and an increase in fair value at December 31, 2013 compared to December 31, 2012. As we expect to receive all contractual cash flows, we do not believe the unrealized losses to be credit related. We continue to believe that we will be able to liquidate at par over time. We also anticipate we will have sufficient cash flow from operations to execute our business strategy and fund our operational needs. We do not intend to sell, or believe we will be required to sell, these investments prior to recovery of their amortized cost basis. Accordingly, we have treated the fair value decline as temporary.

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The discounted cash flow model we used to value these securities included the following assumptions:

	December 31, 2013	December 31, 2012
Redemption period (in years)	7.0	7.0
Credit ratings	BB+ to AAA	BB+ to AAA
Penalty coupon rate	1.0% to 1.5%	1.0% to 1.5%
Weighted average annualized yield	1.6%	1.5%
Risk adjusted discount rate	4.7% to 7.8%	3.5% to 12.3%

Management makes estimates and assumptions about the ARS, which can be sensitive to changes and effect the determination of fair value. An increase in the length of redemption period or an increase in the discount rate assumption would decrease our fair value. Also, a decrease in the securities' credit ratings would decrease our fair value.

The portfolio had a weighted average maturity of 29.8 years and 30.8 years as of December 31, 2013 and December 31, 2012, respectively.

We classify our ARS as Level 3 long-term investments until we receive a call or partial call on the securities. As of December 31, 2013 and December 31, 2012, our entire ARS portfolio was classified as Level 3 long-term investments. In 2013, we liquidated \$0.1 million of ARS due to a partial call at par. In 2012, we liquidated \$25.7 million of ARS due to full or partial calls at par. The amount of Level 3 assets as a percentage of total assets measured at fair value on a recurring basis was 6.5% and 5.0% in 2013 and 2012, respectively.

Commitments and Guarantees

At certain times, we enter into agreements where a letter of credit is required to ensure payment of future obligations by counterparties, such as our credit card processors and international taxing jurisdictions. Upon withdrawal, we are obligated to fund the executor bank on demand. We have not set aside specific funds to cover this potential obligation as we can generally recover these costs from our clients. If drawn upon, we expect to fund this commitment with cash and cash equivalents. There were \$0.6 million and \$3.6 million in undrawn letters of credit at December 31, 2013 and 2012, respectively.

In addition to the contractual obligations included in the table below, we will have significant cash obligations associated with the purchase of hardware and capitalized software to support our business. Cash outflows associated with the purchase of equipment and capitalized software were \$23.3 million, \$22.0 million and \$23.9 million in 2013, 2012 and 2011, respectively. We are also parties to legally binding contracts regarding goods and services under which the actual commitment is contingent on certain factors that are unknown or uncertain at this time. Therefore, these items are not included in the table. Uncertain income tax position benefits of \$10.4 million are not included in the table because we cannot make a reasonably reliable estimate of the period of cash settlement with the respective tax authorities. In addition, purchase orders made in the ordinary course of business are excluded from the table and any amounts which we are liable for under the purchase orders are included in current liabilities on our Consolidated Balance Sheets.

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The following table summarizes our principal contractual commitments as of December 31, 2013:

Contractual Obligations	Total Amount Committed	Payment due by period (in thousands)				2018 and Thereafter
		2014	2015	2016 - 2017		
Operating Lease Obligations	\$ 36,942	\$ 8,421	\$ 4,768	\$ 8,097	\$ 15,656	
Senior Convertible Notes, including interest	405,171	14,730	5,916	11,831	372,694	
Total	\$ 442,113	\$ 23,151	\$ 10,684	\$ 19,928	\$ 388,350	

See Item 8 of Part II, Note 8 to the Consolidated Financial Statements for additional discussion of our commitments. See Item 8 of Part II, Note 9 to the Consolidated Financial Statements for additional discussion of our principal debt commitments.

Application of Critical Accounting Policies*Critical Accounting Estimates and Policies*

We prepare our consolidated financial statements in conformity with United States generally accepted accounting principles (U.S. GAAP). As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The significant accounting policies that we believe are the most critical in fully understanding and evaluating our reported financial results are addressed below. We also have other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. For additional information, see Item 8 of Part II, Note 1 to the Consolidated Financial Statements.

Goodwill. We have a single reporting unit. We complete our goodwill impairment analysis annually as of October 1, or more frequently if events or circumstances occur that would more likely than not reduce the fair value of our single reporting unit below its carrying amount.

In conducting our impairment analysis, we first assess qualitative factors to determine whether it is more likely than not that the fair value of our single reporting unit is less than its carrying amount, including goodwill. If, after assessing all relevant qualitative factors, we determine that it is more likely than not that the fair value of our single reporting unit is less than its carrying amount, a blended income and market approach is then used to determine the fair value of our sole reporting unit and any applicable impairment charge. The application of goodwill impairment tests requires management judgment for many of the inputs. Key assumptions included in the impairment test include our revenue growth rate, discount rate, and estimates of our future cash flows. Changes in these estimates could result in additional impairment of goodwill in a future period. Any impairment charges reflect our view of anticipated risks based on our expectations of market and general economic conditions.

In December 2012, due to the deterioration in our stock price in the second half of 2012, adjustments in our forecasted revenue growth and change in our chief operating decision maker, management determined that a triggering event for potential goodwill impairment had occurred. As such, management completed an interim impairment test utilizing the blended income and market approach, and the key assumptions described in the preceding paragraph, and determined that the carrying value of the Company was in excess of fair value and a goodwill impairment was required. In the fourth quarter 2012, we recorded a preliminary non-cash pretax goodwill impairment charge of \$175.2 million. A \$14.1 million tax benefit was recorded as a result of the impairment charge.

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During the first quarter of 2013, we completed our goodwill impairment analysis and recorded an additional non-cash pretax goodwill impairment charge of \$21.2 million relating to our single reporting unit. The tax benefit was offset by our current period tax valuation allowance.

Based on our qualitative analysis performed as of October 1, 2013, we determined that it was more likely than not that the fair value of our single reporting unit is in excess of its carrying amount. The primary evidence utilized in reaching this conclusion was our market capitalization, which increased significantly since the goodwill impairment identified during 2012. A significant decrease in our market capitalization, or significant changes in quantitative or other qualitative factors, could lead to a future impairment. As of October 1, 2013, and through December 31, 2013, the goodwill in our single reporting unit is not considered to be at risk of impairment.

Intangible Assets. We amortize certain definite lived intangibles over their useful lives. Useful lives are based on our estimates of the period of time over which the assets will generate revenue or benefit our business. We review assets with definite lives for impairment whenever events or changes in circumstances indicate that the value we are carrying on our financial statements for an asset may not be recoverable. Our evaluation considers non-financial data such as changes in the operating environment and business strategy, competitive information, market trends and operating performance. If there are indications that an impairment may have occurred, we compare an undiscounted cash flow analysis to the carrying value of the assets. If the carrying amount of the asset exceeds the undiscounted cash flows, we measure the amount of the impairment by comparing the carrying amount of the asset to its fair value.

Revenue Recognition. We recognize revenue from services rendered once all the following criteria for revenue recognition have been met: (1) persuasive evidence of an agreement exists; (2) the services have been rendered; (3) the fee is fixed and determinable; and, (4) collection of the amounts due is reasonably assured.

We sell both digital and physical products on behalf of our customers and charge transaction fees based on a percentage of the sale price. These revenues are recorded net of related costs of sales as generally our clients control product choices and are subject to inventory risks. Revenue for these sales is recognized upon fulfillment, when title and significant risk of ownership passes to the end customer.

We provide payment processing services to merchants and charge monthly service and transaction based fees. Transaction fees are recognized in the period in which the transaction occurs. Service fees are recognized over the covered period.

When we provide additional deliverables in connection with our e-commerce and payments solution arrangements, including site set up services, these services do not meet the criteria of separate units of accounting as the services do not have value to the client on a standalone basis. Therefore we account for these deliverables as one unit of accounting and recognize them over the term of the associated contract. When we provide client services on a standalone basis, such as website design, custom development, data backup, analytical marketing, affiliate marketing and email marketing services, revenue is recognized as the services are provided.

Shipping revenue is recorded net of any associated costs. Taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer are not recorded as revenue.

Allowance for Doubtful Accounts. We use estimates in determining our allowance for doubtful accounts which are based on our historical experience and current trends. We must estimate the collectability of our billed accounts receivable. We analyze accounts receivable and consider our historical bad debt experience, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. We

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must make significant judgments and estimates in connection with the allowance in any accounting period. The uncollectible portion of receivables is charged against the allowance for doubtful accounts when collection efforts have ceased.

Income Taxes and Deferred Taxes. Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We record deferred tax assets for favorable tax attributes, including tax loss carryforwards. We currently have U.S. tax loss carryforwards, including acquired operating tax loss carryforwards, and a lesser amount of acquired foreign operating tax loss carryforwards. We evaluate the need for a valuation allowance against the deferred tax assets on a quarterly basis.

Recent Accounting Pronouncements

Information regarding recently issued accounting standards is included in Item 8 of Part II, Note 1 to the Consolidated Financial Statements.

Off Balance Sheet Arrangements

None.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

Our portfolio of cash equivalents, short-term and long-term investments is maintained in a variety of securities, including government agency obligations and money market funds. Investments are classified as available-for-sale securities and carried at their market value with cumulative unrealized gains or losses recorded as a component of "Accumulated other comprehensive income (loss)" within stockholders' equity. A sharp rise in interest rates could have an adverse impact on the market value of certain securities in our portfolio. We do not currently hedge our interest rate exposure and do not purchase financial instruments for trading or speculative purposes.

A hypothetical and immediate one percent (1%) change in interest rates would increase or decrease the fair value in our investment portfolio held at December 31, 2013 and 2012, by \$2.2 million and by \$2.9 million, respectively. The approximate gains or losses in earnings are estimates, and actual results could vary due to the assumptions used.

At December 31, 2013 and 2012, we had long-term debt of \$304.6 million (\$8.8 million of which is classified as current due to January 1, 2014 repurchase date) and \$309.9 million, respectively, associated with our Senior Convertible Notes, which are fixed rate instruments. The market value of our long-term debt will fluctuate with movements of interest rates, increasing in periods of declining rates of interest and declining in periods of increasing rates of interest.

Foreign Currency Risk

Growth in our international operations will incrementally increase our exposure to foreign currency fluctuations as well as other risks typical of international operations, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures and other regulations and restrictions.

Foreign exchange rate fluctuations may adversely impact our consolidated results of operations as exchange rate fluctuations on transactions denominated in currencies other than our functional currencies result in gains and losses that are reflected in our Consolidated Statements of Operations. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign

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currency-denominated transactions will result in increased net revenues and operating expenses. Conversely, our net revenues and operating expenses will decrease when the U.S. dollar strengthens against foreign currencies.

The effect on operations in our consolidated statements of operations from changes in exchange rates versus the U.S. Dollar is as follows (in thousands):

	Year Ended December 31, 2013			Year Ended December 31, 2012			Year Ended December 31, 2011		
	At Prior Year Rates(1)	Exchange Rate Effect(2)	As Reported	At Prior Year Rates(1)	Exchange Rate Effect(2)	As Reported	At Prior Year Rates(1)	Exchange Rate Effect(2)	As Reported
Revenue	\$ 390,548	\$ (869)	\$ 389,679	\$ 376,500	\$ (6,004)	\$ 370,496	\$ 371,207	\$ 5,262	\$ 376,469
Costs and expenses	420,668	(663)	420,005	539,636	(5,054)	534,582	341,224	4,404	345,628
Income (loss) from operations	\$ (30,120)	\$ (206)	\$ (30,326)	\$ (163,136)	\$ (950)	\$ (164,086)	\$ 29,983	\$ 858	\$ 30,841

- (1) Represents the outcome that would have resulted had exchange rates in the current period been the same as those in effect in the comparable prior-year period for operating results.
- (2) Represents the increase (decrease) in reported amounts resulting from changes in exchange rates from those in effect in the comparable prior-year period for operating results.

Transaction Exposure

The Company enters into short-term foreign currency forward contracts to offset the foreign exchange gains and losses generated by the re-measurement of certain assets and liabilities recorded in non-functional currencies. Changes in the fair value of these derivatives, as well as re-measurement gains and losses, are recognized in current earnings in "Other income (expense), net". Foreign currency transaction losses were \$1.3 million, \$0.4 million and \$1.5 million in 2013, 2012 and 2011, respectively.

Translation Exposure

Foreign exchange rate fluctuations may adversely impact our consolidated financial position as the assets and liabilities of our foreign operations are translated into U.S. dollars in preparing our Consolidated Balance Sheets. These gains or losses are recognized as an adjustment to stockholders' equity which is reflected in our Consolidated Balance Sheets under "Accumulated other comprehensive income (loss)".

The potential loss in fair value resulting from a hypothetical 10% adverse currency movement is \$6.4 million and \$4.8 million for 2013 and 2012, respectively.

Other Market Risks

Investments in Auction Rate Securities

At December 31, 2013, we held approximately \$45.7 million of ARS at par. In light of current conditions in the ARS market as described in Part II Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", in this Form 10-K, we may incur temporary unrealized losses, or other-than-temporary realized losses, in the future if we are unable to recover the investment principal in our ARS.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in Item 15(a). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, 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 therein.

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, 2013, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 27, 2014, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
Minneapolis, Minnesota
February 27, 2014

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

(in thousands)

	December 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 483,868	\$ 542,851
Short-term investments	115,652	162,794
Accounts receivable, net of allowance of \$3,206 and \$4,834	70,865	55,192
Deferred tax assets	1,479	457
Prepaid expenses and other	27,878	31,813
Assets of discontinued operations		7,561
Total current assets	699,742	800,668
Property and equipment, net	53,770	53,098
Goodwill	139,318	108,960
Intangible assets, net	29,217	11,718
Long-term investments	56,023	71,735
Deferred income taxes	1,037	1,792
Other assets	2,067	4,313
TOTAL ASSETS	\$ 981,174	\$ 1,052,284

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 187,635	\$ 201,826
Accrued payroll	20,058	11,294
Deferred revenue	6,904	13,119
Other current liabilities	55,899	50,149
Liabilities of discontinued operations		5,753
Total current liabilities	270,496	282,141
NON-CURRENT LIABILITIES		
Senior convertible notes	295,795	309,909
Other liabilities	21,452	18,236
Total non-current liabilities	317,247	328,145

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TOTAL LIABILITIES	587,743	610,286
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; 50,074,977 and 48,941,402 shares issued	501	489
Treasury stock at cost; 16,910,883 and 13,581,889 shares	(424,416)	(368,721)
Additional paid-in capital	761,560	737,499
Retained earnings	51,254	75,901
Accumulated other comprehensive income (loss)	4,532	(3,170)
Total stockholders' equity	393,431	441,998
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 981,174	\$ 1,052,284

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

Table of Contents**DIGITAL RIVER, INC.****Consolidated Statements of Operations for the Years Ended December 31,****(in thousands except per share data)**

	2013	2012	2011
Revenue	\$ 389,679	\$ 370,496	\$ 376,469
Costs and expenses (exclusive of depreciation and amortization expense shown separately below):			
Direct cost of services	73,505	66,756	62,381
Network and infrastructure	59,036	52,564	47,886
Sales and marketing	106,954	97,816	102,221
Product research and development	72,359	61,550	64,175
General and administrative	56,279	55,763	40,649
Goodwill impairment	21,249	175,241	
Depreciation and amortization	22,080	20,192	22,001
Amortization of acquisition-related intangibles	8,543	4,700	6,315
Total costs and expenses	420,005	534,582	345,628
Income (loss) from operations	(30,326)	(164,086)	30,841
Interest income	2,451	3,820	6,098
Interest expense	(7,822)	(8,968)	(9,018)
Other income (expense), net	16,260	4,799	(1,931)
Income (loss) from continuing operations before income taxes	(19,437)	(164,435)	25,990
Income tax expense (benefit)	(908)	19,203	2,276
Income (loss) from continuing operations	(18,529)	(183,638)	23,714
Income (loss) from discontinued operations, net of tax	(6,118)	(12,230)	(6,547)
Net income (loss)	\$ (24,647)	\$ (195,868)	\$ 17,167
Income (loss) per share basic:			
Income (loss) from continuing operations	\$ (0.58)	\$ (5.53)	\$ 0.65
Income (loss) from discontinued operations	(0.19)	(0.37)	(0.18)
Net income (loss) per share basic	\$ (0.77)	\$ (5.90)	\$ 0.47
Income (loss) per share diluted:			
Income (loss) from continuing operations	\$ (0.58)	\$ (5.53)	\$ 0.63

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Income (loss) from discontinued operations	(0.19)	(0.37)	(0.17)
Net income (loss) per share diluted	\$ (0.77)	\$ (5.90)	\$ 0.46
Shares used in per-share calculation basic	32,065	33,224	36,778
Shares used in per-share calculation diluted	32,065	33,224	37,510

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

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DIGITAL RIVER, INC.

Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31,

(in thousands)

	2013	2012	2011
Net income (loss)	\$ (24,647)	\$ (195,868)	\$ 17,167
Other comprehensive income (loss):			
Unrealized foreign exchange gain (loss) on the revaluation of investments in foreign subsidiaries	1,155	6,495	(9,004)
Unrealized gain (loss) on investments	6,547	(1,701)	746
Tax benefit (expense)			(278)
Other comprehensive income (loss)	7,702	4,794	(8,536)
Comprehensive income (loss)	\$ (16,945)	\$ (191,074)	\$ 8,631

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

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

(in thousands)

	Common Stock		Treasury Stock	Additional Paid-In Capital	Accumulated Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
BALANCE, December 31, 2010	39,027	\$ 463	\$ (255,196)	\$ 683,307	\$ 572	\$ 254,602	\$ 683,748
Net income (loss)						17,167	17,167
Unrealized gain (loss) on investments, net of tax expense (benefit) of \$278					468		468
Foreign currency translation gain (loss)					(9,004)		(9,004)
Repurchase of common stock	(4,265)		(79,758)				(79,758)
Exercise of stock options	19			364			364
Stock-based compensation				22,114			22,114
Restricted stock issued under equity incentive plans, net of forfeitures	765	8		(8)			
Tax withheld in restricted stock vesting	(179)		(5,992)				(5,992)
Tax benefit (deficiency) of stock-based compensation				699			699
Common stock issued under the Employee Stock Purchase Plan	141	1		2,465			2,466
BALANCE, December 31, 2011	35,508	\$ 472	\$ (340,946)	\$ 708,941	\$ (7,964)	\$ 271,769	\$ 632,272
Net income (loss)						(195,868)	(195,868)
Unrealized gain (loss) on investments, net of tax expense (benefit) of \$0					(1,701)		(1,701)
Foreign currency translation gain (loss)					6,495		6,495
Repurchase of common stock	(1,533)		(22,667)				(22,667)
Exercise of stock options	121	1		1,566			1,567
Stock-based compensation				29,517			29,517
Restricted stock issued under equity incentive plans, net of forfeitures	1,367	14		(14)			
Tax withheld in restricted stock vesting	(307)		(5,108)				(5,108)
Tax benefit (deficiency) of stock-based compensation				(5,061)			(5,061)
Common stock issued under the Employee Stock Purchase Plan	204	2		2,550			2,552
BALANCE, December 31, 2012	35,360	\$ 489	\$ (368,721)	\$ 737,499	\$ (3,170)	\$ 75,901	\$ 441,998

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Net income (loss)					(24,647)		(24,647)
Unrealized gain (loss) on investments, net of tax expense (benefit) of \$0					6,547		6,547
Foreign currency translation gain (loss)					1,155		1,155
Repurchase of common stock	(3,020)		(51,208)				(51,208)
Exercise of stock options	122	1		1,272			1,273
Stock-based compensation				20,568			20,568
Restricted stock issued under equity incentive plans, net of forfeitures	847	9		(9)			
Tax withheld in restricted stock vesting	(309)		(4,487)				(4,487)
Common stock issued under the Employee Stock Purchase Plan	164	2		2,230			2,232
BALANCE, December 31, 2013	33,164	\$ 501	\$ (424,416)	\$ 761,560	\$ 4,532	\$ 51,254	\$ 393,431

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,****(in thousands)**

	2013	2012	2011
OPERATING ACTIVITIES			
Net income (loss)	\$ (24,647)	\$ (195,868)	\$ 17,167
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Loss on disposal of discontinued businesses	1,894		
Amortization of acquisition-related intangibles	8,543	6,832	8,689
Provision for doubtful accounts	1,661	2,031	1,317
Depreciation and amortization	22,163	20,307	22,207
Impairment of goodwill	21,249	175,241	
Impairment of intangibles		235	9,351
Debt issuance cost amortization	1,701	1,953	1,986
Amortization of investment premiums	2,837		
Loss on sale of equipment	88	85	
Gain on investment	(17,526)	(3,178)	
Gain on business divestiture		(246)	
Stock-based compensation expense	20,568	29,517	22,114
Excess tax benefits from stock-based compensation		(505)	(1,985)
Deferred and other income taxes	(150)	23,349	(2,649)
Impairment of equity investment			2,198
Change in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(15,278)	2,715	(15,292)
Prepaid and other assets	9,744	(8,392)	2,635
Accounts payable	(37,698)	(40,333)	57,162
Deferred revenue	(7,288)	8,265	(1,782)
Income tax payable	(1,679)	10,948	(4,061)
Other current liabilities	(1,472)	5,884	(24,289)
Net cash provided by (used in) operating activities	(15,290)	38,840	94,768
INVESTING ACTIVITIES			
Purchases of investments	(140,900)	(98,658)	(254,536)
Sales of investments	184,978	185,750	213,302
Cash received (paid) for cost method investments	39,636	2,700	(9,490)
Cash received from divestitures	120	500	
Cash paid for acquisitions, net of cash received	(55,843)		
Purchases of equipment and capitalized software	(23,334)	(22,035)	(23,860)
Net cash provided by (used in) investing activities	4,657	68,257	(74,584)
FINANCING ACTIVITIES			
Debt issuance costs			(342)
Repurchase of convertible senior notes	(5,353)	(43,896)	
Exercise of stock options	1,273	1,567	364
Sales of common stock under employee stock purchase plan	2,232	2,552	2,466
Repurchase of common stock	(51,208)	(22,667)	(79,758)
Repurchase of restricted stock to satisfy tax withholding obligation	(4,487)	(5,108)	(5,992)
Excess tax benefits from stock-based compensation		505	1,985
Net cash provided by (used in) financing activities	(57,543)	(67,047)	(81,277)

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EFFECT OF EXCHANGE RATE CHANGES ON CASH	9,193	5,608	(6,800)
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(58,983)	45,658	(67,893)
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CASH AND CASH EQUIVALENTS, beginning of year	542,851	497,193	565,086
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CASH AND CASH EQUIVALENTS, end of year	\$ 483,868	\$ 542,851	\$ 497,193
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SUPPLEMENTAL DISCLOSURES

Cash paid for interest on senior convertible notes	\$ 6,081	\$ 7,123	\$ 7,010
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Cash paid for income taxes	\$ 4,292	\$ 3,272	\$ 5,085
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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, 2013 and 2012

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

We provide end-to-end global commerce, payments and marketing solutions to companies that want to sell their products and services online. We were incorporated in 1994 and began building and operating online stores for our clients in 1996. We generate revenue through revenue sharing, transaction fees, monthly service charges and fees for services charged to customers that utilize our solutions.

Principles of Consolidation and Classification

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

Use of Estimates

The preparation of financial statements in accordance with United States generally accepted accounting principles (U.S. GAAP) 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 at the average exchange rates for the reported period. Gains and losses resulting from translation are recorded as a component of "Accumulated other comprehensive income (loss)" within stockholders' equity. Losses resulting from foreign currency transactions were \$1.3 million, \$0.4 million and \$1.5 million in 2013, 2012 and 2011, respectively, and are recorded within "Other income (expense), net".

We are exposed to market risk from changes in foreign currency exchange rates. Our risks relate to the effect of foreign currency exchange rate fluctuations on the U.S. dollar value of foreign currency denominated operating sales and expenses and exchange rate translation losses (or gains) associated with economic interests that are denominated in a foreign currency. The risk of translation losses due to foreign exchange volatility is partially mitigated by the use of foreign exchange forward contracts with maturities of less than three months. These derivative transactions are not designated as hedges and are adjusted to fair value through income each period. The principal exposures mitigated were the Euro, Australian dollar, British pound, Canadian dollar, Danish krone and Japanese yen currencies. For the years ended December 31, 2013, 2012 and 2011, we recorded a loss of \$0.1 million, a gain of \$0.1 million, and a loss of \$0.3 million, respectively, on derivative settlements within "Other income (expense), net". We held no open foreign exchange forward contracts at December 31, 2013 and the notional amount of holdings at December 31, 2012 was \$1.9 million. The gain (loss) on derivative settlements and the notional amounts held at the respective year ends are not material when compared to our net income (loss) and our overall cash and cash equivalents reported for the respective periods.

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DIGITAL RIVER, INC.

Notes to Consolidated Financial Statements (Continued)

December 31, 2013 and 2012

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Our foreign currency 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 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.

Short-Term Investments

Our short-term investments consist of debt securities that are classified as available-for-sale and are carried on our balance sheets at their market value with cumulative unrealized gains or losses recorded net of tax as a component of "Accumulated other comprehensive income (loss)" within stockholders' equity. We classify all of our available-for-sale securities, except for our auction rate securities, as current assets, as these securities represent investments available for current corporate purposes. Upon the sale of a security classified as available-for-sale, the amount reclassified out of "Accumulated other comprehensive income (loss)" into earnings is based on the specific identification method.

Allowance for Doubtful Accounts

We use estimates in determining our allowance for doubtful accounts which are based on our historical experience and current trends. We must estimate the collectability of our billed accounts receivable. We analyze accounts receivable and consider our historical bad debt experience, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. We must make judgments and estimates in connection with the allowance in any accounting period. The uncollectible portion of receivables is charged against the allowance for doubtful accounts when collection efforts have ceased.

Prepaid Expenses and Other

Prepaid expenses and other are largely comprised of prepaid licenses, deferred set-up costs, deferred financing costs, notes receivable, value added taxes, income tax receivable and restricted cash. Restricted cash consists of cash and cash equivalents that are held in escrow accounts, or are otherwise restricted by agreements with third parties, for a particular purpose. As of December 31, 2013 and 2012, we had \$3.6 million and \$0.4 million of restricted cash, respectively. In 2012, \$0.6 million of notes receivable, lent through a short term promissory note, was deemed to be uncollectable and a full reserve was recorded against the note at both December 31, 2013 and 2012, respectively.

Property and Equipment

Property and equipment is recorded at cost, less accumulated depreciation and amortization. Computer equipment, office furniture and purchased and internally developed software are depreciated

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

or amortized under the straight-line method using estimated useful lives of three to seven years and leasehold improvements are depreciated over the shorter of the asset life or remaining length of the lease. Useful lives are based on our estimates of the period of time over which the assets will generate revenue or benefit our business. We review assets with definite lives for impairment whenever events or changes in circumstances indicate that the value we are carrying on our financial statements for an asset may not be recoverable. Our evaluation considers non-financial data such as changes in the operating environment and business strategy, competitive information, market trends and operating performance. Property and equipment at December 31 consisted of the following (in thousands):

	2013	2012
Computer hardware and software	\$ 174,928	\$ 155,916
Furniture, fixtures and leasehold improvements	12,339	12,040
Total property and equipment	187,267	167,956
Accumulated depreciation and amortization	(133,497)	(114,858)
Net property and equipment	\$ 53,770	\$ 53,098

Depreciation and amortization expense from continuing operations was \$22.1 million, \$20.2 million and \$22.0 million in 2013, 2012 and 2011, respectively.

Repairs and maintenance costs are charged directly to expense as incurred. Major renewals or replacements that substantially extend the useful life of an asset are capitalized and depreciated.

Software Development

Costs to develop software for internal use are capitalized when the criteria for capitalization under U.S. GAAP is met. This criteria includes that the project must be approved by senior management, costs must be related to new development or significant upgrades or enhancements to existing software, and completion and future utilization of the development must be probable. Costs related to development that do not meet these criteria are expensed in the period incurred. Capitalized costs of completed projects are amortized over the estimated useful life of the software. For the years ended December 31, 2013 and 2012, net software for internal use was \$16.3 million and \$18.6 million, respectively.

Goodwill

We have a single reporting unit. We complete our goodwill impairment analysis annually as of October 1, or more frequently if events or circumstances occur that would more likely than not reduce the fair value of our single reporting unit below its carrying amount.

In conducting our impairment analysis, we first assess qualitative factors to determine whether it is more likely than not that the fair value of our single reporting unit is less than its carrying amount, including goodwill. If after assessing all relevant qualitative factors, we determine that it is more likely than not that the fair value of our single reporting unit is less than its carrying amount, a blended income and market approach is then used to determine the fair value of our sole reporting unit and

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DIGITAL RIVER, INC.

Notes to Consolidated Financial Statements (Continued)

December 31, 2013 and 2012

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

any applicable impairment charge. The application of goodwill impairment tests requires management judgment for many of the inputs. Key assumptions included in the impairment test include our revenue growth rate, discount rate, and estimates of our future cash flows. Changes in these estimates could result in additional impairment of goodwill in a future period. Any impairment charges reflect our view of anticipated risks based on our expectations of market and general economic conditions. See Note 5 Goodwill and Intangible Assets, for further details regarding our 2013 qualitative impairment analysis and 2012 quantitative analysis.

Intangible Assets

We amortize certain definite lived intangibles over their useful lives. Useful lives are based on our estimates of the period of time over which the assets will generate revenue or benefit our business. We review assets with definite lives for impairment whenever events or changes in circumstances indicate that the value we are carrying on our financial statements for an asset may not be recoverable. Our evaluation considers non-financial data such as changes in the operating environment and business strategy, competitive information, market trends and operating performance. If there are indications that an impairment may have occurred, we compare an undiscounted cash flow analysis to the carrying value of the assets. If the carrying amount of the asset exceeds the undiscounted cash flows, we measure the amount of the impairment by comparing the carrying amount of the asset to its fair value. See Note 5 Goodwill and Intangible Assets, for further details.

Long-Term Investments

Our long-term investments consist of market basis equity investments, cost method equity investments and auction rate securities. The market basis equity investments and auction rate securities are classified as available-for-sale and are carried on our balance sheet at their market value with cumulative unrealized gains or losses recorded net of tax as a component of "Accumulated other comprehensive income (loss)" within stockholders' equity. Upon the sale of a security classified as available-for-sale, the amount reclassified out of "Accumulated other comprehensive income (loss)" into earnings is based on the specific identification method.

We also have equity investments that are accounted for under the cost method included in long-term investments. We review the key characteristics of our investments and their classification in accordance with U.S. GAAP on an annual basis, or when indications of potential impairment exist. If a decline in the fair value of a security is deemed by management to be other-than-temporary, we write down the cost basis of the investment to fair value, and the amount of the write-down is included in net earnings.

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*****Other Assets***

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

	2013	2012
Debt financing costs, net	\$ 1,410	\$ 3,323
Other	657	990
Total other assets	\$ 2,067	\$ 4,313

Debt financing costs, net include broker, legal, accounting and other fees associated with entering into our 2010 and 2004 senior convertible notes. We amortize debt financing costs over the original term of the debt.

Other Current Liabilities

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

	2013	2012
Accrued expenses	\$ 29,082	\$ 30,036
Current portion of debt	10,016	1,256
Sales, value-added and transaction taxes	15,534	18,507
Current deferred and other income taxes	1,267	350
Total other current liabilities	\$ 55,899	\$ 50,149

Discontinued Operations

We separately classify the results of operations and the assets and liabilities of material components or businesses that have been sold, disposed, or that meet the criteria for held for sale within our Consolidated Statements of Operations and Consolidated Balance Sheets. As allowed under U.S. GAAP, we do not reclassify the cash flows of discontinued businesses within our Consolidated Statements of Cash Flows. In determining if the criteria for separate presentation is met, we assess if the operations and cash flows of the business have been, or will be, eliminated from ongoing operations and whether we will have any significant continuing involvement in the operations of the business after the disposal transaction. The presentation of corresponding prior periods is updated to conform to the current period presentation. See Note 15 Discontinued Operations for further discussion.

Comprehensive Income (Loss)

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Comprehensive income (loss) includes revenues, expenses, and gains and losses that are excluded from net earnings under GAAP. Items of comprehensive income (loss) are unrealized gains and losses on investments and foreign currency translation adjustments which are added to net income (loss) to compute comprehensive income (loss). Comprehensive income (loss) related to cumulative translation adjustments has no tax expense or benefit as these funds are indefinitely invested.

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The following table summarizes the changes in accumulated other comprehensive income (loss), net of tax, by component as of December 31 (in thousands):

	Foreign currency translation adjustment	Unrealized gain (loss) on investments	Total
Balance as of December 31, 2010	\$ 5,074	\$ (4,502)	\$ 572
Other comprehensive income before reclassifications	(9,004)	817	(8,187)
Reclassification adjustment for net gains included in net income		(349)	(349)
Net current period other comprehensive income (loss)	(9,004)	468	(8,536)
Balance as of December 31, 2011	\$ (3,930)	\$ (4,034)	\$ (7,964)
Other comprehensive income before reclassifications	6,495	(1,688)	4,807
Reclassification adjustment for net gains included in net income		(13)	(13)
Net current period other comprehensive income (loss)	6,495	(1,701)	4,794
Balance as of December 31, 2012	\$ 2,565	\$ (5,735)	\$ (3,170)
Other comprehensive income before reclassifications	1,155	6,558	7,713
Reclassification adjustment for net gains included in net income		(11)	(11)
Net current period other comprehensive income (loss)	1,155	6,547	7,702
Balance as of December 31, 2013	\$ 3,720	\$ 812	\$ 4,532

The following table summarizes the reclassifications out of accumulated other comprehensive income (loss) for the year ended December 31, 2013 (in thousands):

Reclassification out of Accumulated other comprehensive income	Amount reclassified from accumulated other comprehensive income	Affected line item in the Consolidated Statement of Operations
Realized gains (losses) on investments	\$ 18	Other income (expense), net
	(7)	Income tax benefit (expense)

\$ 11 Net income (loss)

Revenue Recognition

We recognize revenue from services rendered once all the following criteria for revenue recognition have been met: (1) persuasive evidence of an agreement exists; (2) the services have been rendered; (3) the fee is fixed and determinable; and, (4) collection of the amounts due is reasonably assured.

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

We sell both digital and physical products on behalf of our customers and charge transaction fees based on a percentage of the sale price. These revenues are recorded net of related costs of sales as generally our clients control product choices and are subject to inventory risks. Revenue for these sales is recognized upon fulfillment, when title and significant risk of ownership passes to the end customer.

We provide payment processing services to merchants and charge monthly service and transaction based fees. Transaction fees are recognized in the period in which the transaction occurs. Service fees are recognized over the covered period.

When we provide additional deliverables in connection with our e-commerce and payments solution arrangements, including site set up services, these services do not meet the criteria of separate units of accounting as the services do not have value to the client on a standalone basis. Therefore we account for these deliverables as one unit of accounting and recognize them over the term of the associated contract. When we provide client services on a standalone basis, such as website design, custom development, data backup, analytical marketing, affiliate marketing and email marketing services, revenue is recognized as the services are provided.

Shipping revenue is recorded net of any associated costs. Taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer are not recorded as revenue.

Credit Card Chargeback Reserve

We use estimates based on historical experience and current trends to determine accrued chargeback expenses. The following table illustrates our provision for chargeback losses as a percentage of revenue for 2013, 2012 and 2011 (in thousands, except percentages):

	2013	2012	2011
Revenue	\$ 389,679	\$ 370,496	\$ 376,469
Provision for Credit Card Chargebacks	332	688	452
Provision for Credit Card Chargebacks as a % of Revenue	0.1%	0.2%	0.1%

Determining appropriate reserves for chargeback transactions is an inherently uncertain process. The reserves are maintained at a level we deem appropriate to provide for losses incurred on revenue earned in each period.

Stock-Based Compensation Expense

We account for share-based payments made to our employees and directors, including stock options and employee stock purchases made through our Employee Stock Purchase Plan (ESPP) based on estimated fair values. The fair value of each stock option and employee stock purchase made through our ESPP are estimated on the date of grant using the Black-Scholes option pricing model. The fair value of restricted stock, restricted stock units and performance shares is determined based on the closing price of our common stock on the date of grant. We estimated the fair value of

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DIGITAL RIVER, INC.

Notes to Consolidated Financial Statements (Continued)

December 31, 2013 and 2012

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

performance share units with a market condition granted to certain executives on the date of grant using the Monte Carlo valuation model.

Compensation expense for all share-based payment awards is recognized over the requisite service period. Stock-based compensation expense recognized in our Consolidated Statements of Operations is based on awards ultimately expected to vest and thus has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Benefits of tax deductions in excess of recognized stock-based compensation expense are reported as a financing cash flow.

Severance

We begin to accrue for severance and outplacement costs when all of the criteria for one-time employment termination benefits are met, which is generally at the time of communication to the employee. Total restructuring related severance expense for the years ended December 31, 2013, 2012 and 2011 was \$5.8 million, \$1.7 million, and \$0.0 million respectively.

Advertising Costs

The costs of advertising are charged to sales and marketing expense as incurred. We incurred advertising expense of \$0.2 million, \$0.2 million and \$0.4 million in 2013, 2012 and 2011, respectively.

Income Taxes

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We record deferred tax assets for favorable tax attributes, including tax loss carryforwards. We currently have U.S. tax loss carryforwards, including acquired operating tax loss carryforwards, and a lesser amount of acquired foreign operating tax loss carryforwards. We evaluate the need for a valuation allowance against the deferred tax assets on a quarterly basis.

Recent Accounting Pronouncements

ASU 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists: In July 2013, the FASB issued ASU 2013-11, which requires an entity to present unrecognized tax benefits as a reduction of the deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, if net settlement is required or expected. To the extent that net settlement is not required or expected, the unrecognized tax benefit must be presented as a liability. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. ASU No. 2013-11 is effective for reporting periods beginning after December 15, 2013, and should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Because this standard only affects the presentation of unrecognized tax benefits and not the measurement of an unrecognized tax benefit, we do not expect this standard to have a material impact on our Consolidated Financial Statements.

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DIGITAL RIVER, INC.

Notes to Consolidated Financial Statements (Continued)

December 31, 2013 and 2012

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASU 2013-02 Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income: In February 2013, the FASB issued ASU 2013-02, which required entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either in the financial statements or footnotes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail on these amounts. ASU 2013-02 is effective prospectively for fiscal periods beginning after December 15, 2012. We have adopted the new guidance in ASU 2013-02 as of the period ended March 31, 2013, and its adoption did not have a material impact on our Consolidated Financial Statements.

We have determined that all other recently issued accounting standards will not have a material impact on our Consolidated Financial Statements, or do not apply to our operations.

Reclassifications

Certain items in the prior years' Consolidated Statements of Operations and Consolidated Balance Sheets have been reclassified for comparative purposes to conform to the current year presentation.

The results of the operations of CustomCD, Inc. (CustomCD) and Digital River Education Services, Inc. (DRES), which were sold on September 30, 2013 and October 1, 2013, respectively, have been classified within Discontinued Operations in our Consolidated Statements of Operations for the year ended December 31, 2013. The operations of these entities in the corresponding years ended December 31, 2012 and 2011 have been reclassified into Discontinued Operations for comparative purposes to conform to the current year presentation. In addition, the assets and liabilities of CustomCD and DRES in the December 31, 2012 Consolidated Balance Sheet have been reclassified and separately presented as current assets and current liabilities of discontinued operations.

Through December 31, 2012, we reported payment processing fees, chargebacks, and directly related personnel expenses within the "Sales and marketing" and "General and administrative" line items. We have reclassified these expenses to the "Direct cost of services" line as these costs are associated directly with services rendered. For the years ended December 31, 2012 and 2011, excluding amounts related to CustomCD and DRES which have been reclassified to discontinued operations, we have reclassified \$55.5 million and \$49.0 million, respectively, previously reported as "Sales and marketing" and \$2.0 million and \$2.1 million, respectively, previously reported as "General and administrative" to "Direct cost of services". The reclassifications did not have an effect on reported consolidated net income (loss).

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****2. NET INCOME PER SHARE**

The following table summarizes the computation of basic and diluted net income per share (in thousands, except per share data):

	For the Years Ended December 31,		
	2013	2012	2011
Income (loss) from continuing operations per share basic			
Income (loss) from continuing operations basic	\$ (18,529)	\$ (183,638)	\$ 23,714
Weighted average shares outstanding basic	32,065	33,224	36,778
Income (loss) from continuing operations per share basic	\$ (0.58)	\$ (5.53)	\$ 0.65
Income (loss) from continuing operations per share diluted			
Income (loss) from continuing operations basic	\$ (18,529)	\$ (183,638)	\$ 23,714
Exclude: Interest expense and amortized financing cost of convertible senior notes, net of tax benefit			78
Income (loss) from continuing operations diluted	\$ (18,529)	\$ (183,638)	\$ 23,792
Weighted average shares outstanding basic	32,065	33,224	36,778
Dilutive impact of non-vested stock and options outstanding			532
Dilutive impact of 2004 senior convertible notes			200
Weighted average shares outstanding diluted	32,065	33,224	37,510
Income (loss) from continuing operations per share diluted	\$ (0.58)	\$ (5.53)	\$ 0.63

For the year ended December 31, 2013 and 2012, 479,236 and 308,825 incremental shares, respectively, related to dilutive securities were not included in the diluted net income (loss) per share calculation because the Company reported a loss for this year. Incremental shares related to dilutive securities have an anti-dilutive impact on net income (loss) per share when a net loss is reported and therefore are not included in the calculation.

Options to purchase 527,815, 1,438,511 and 1,289,765 shares for 2013, 2012 and 2011, respectively, were not included in the computation of diluted net income (loss) per share, because their effect on diluted net income (loss) per share would have been anti-dilutive.

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The unissued shares underlying our 2004 senior convertible notes, 199,828 weighted average shares for 2013 and 2012 were excluded for the purposes of calculating GAAP diluted net income (loss) per share, because their effect on diluted net income (loss) per share would have been anti-dilutive. The unissued shares underlying our 2010 senior convertible notes, 6,057,747 weighted average shares for 2013, 6,986,627 weighted average shares for 2012, 7,022,077 weighted average shares for 2011, were excluded for the purposes of calculating GAAP diluted net income (loss) per share, because their effect on diluted net income per share would have been anti-dilutive.

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DIGITAL RIVER, INC.

Notes to Consolidated Financial Statements (Continued)

December 31, 2013 and 2012

3. FAIR VALUE MEASUREMENTS

Financial assets and liabilities that are re-measured and reported at fair value at each reporting period are classified and disclosed in one of the following three categories:

Level 1 Observable inputs such as quoted prices in active markets;

Level 2 Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets in less active markets than Level 1 investments;

Inputs other than quoted prices that are observable for assets or liabilities; and

Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimate of market participant assumptions.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. The Company's policy is to recognize transfers between levels of the fair value hierarchy at the end of the quarter. There have been no transfers of assets between levels of the hierarchy in 2013 or 2012.

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****3. FAIR VALUE MEASUREMENTS (Continued)**

The following table sets forth by level within the fair value hierarchy our financial assets that were accounted for at fair value on a recurring basis at December 31, 2013 and 2012, (in thousands):

	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Balance as of December 31, 2013				
Cash and cash equivalents	\$ 483,868	\$ 483,868	\$	\$
Restricted cash	3,560	3,560		
Commercial Paper	9,992	9,992		
U.S. government sponsored entities	4,000		4,000	
Corporate bonds	101,660	101,660		
Market basis equity investments	3,549	3,549		
Auction rate securities	41,993			41,993
Total assets measured at fair value	\$ 648,622	\$ 602,629	\$ 4,000	\$ 41,993

Balance as of December 31, 2012				
Cash and cash equivalents	\$ 542,851	\$ 542,851	\$	\$
Restricted cash	351	351		
U.S. government sponsored entities	28,110		28,110	
Corporate bonds	128,622	128,622		
Asset backed securities	6,062		6,062	
Market basis equity investments	1,694	1,694		
Auction rate securities	37,001			37,001
Total assets measured at fair value	\$ 744,691	\$ 673,518	\$ 34,172	\$ 37,001

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****3. FAIR VALUE MEASUREMENTS (Continued)**

The following is a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Auction rate securities
Balance as of December 31, 2010	\$ 83,678
Total unrealized gains (losses) included in other comprehensive income	735
Settlements	(19,075)
Balance as of December 31, 2011	\$ 65,338
Total unrealized gains (losses) included in other comprehensive income	(2,637)
Settlements	(25,700)
Balance as of December 31, 2012	\$ 37,001
Total unrealized gains (losses) included in other comprehensive income	5,092
Settlements	(100)
Balance as of December 31, 2013	\$ 41,993

The following methods and assumptions were used to estimate the fair value of each class of financial instrument. There have been no changes in the valuation techniques used by the Company to fair value our financial instruments:

Cash and Cash equivalents. Consist of cash on hand in bank deposits, highly liquid investments and money market accounts. The fair value was measured using quoted market prices and is classified as Level 1. The carrying amount approximates fair value.

Restricted Cash. Consist of cash and cash equivalents that are held in escrow accounts and restricted by agreements with third parties for a particular purpose. The carrying amount approximates fair value and is classified as Level 1.

Commercial Paper. Consist of primarily high grade commercial paper. The fair value of these investments was measured using quoted market prices and is classified as Level 1. The contractual maturities of these investments are within one year.

U.S government sponsored entities. Consist of Fannie Mae, Freddie Mac and Federal Home Loan Bank investment grade bonds that are traded in less active markets than Level 1 investments. The fair value of these bonds is classified as Level 2. The contractual maturities of these investments are within three years.

Corporate Bonds. Consist of investment grade corporate bonds that trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The fair value of

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****3. FAIR VALUE MEASUREMENTS (Continued)**

these bonds was measured using quoted market prices and is classified as Level 1. The contractual maturities of these investments are within two years.

Asset Backed Securities. Consist of securities backed by automobile loan receivables that are traded in less active markets than our Level 1 investments. The fair value is classified as Level 2.

Market Basis Equity Investments. Consist of available-for-sale equity securities that trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The fair value of these investments was measured using quoted market prices and is classified as Level 1.

Auction Rate Securities

As of December 31, 2013, we held \$45.7 million of auction rate securities (ARS) at par value which we have recorded at \$42.0 million fair value. As of December 31, 2012, we held \$45.8 million of ARS at par value which we have recorded at \$37.0 million fair value. The ARS are 106 - 138% over-collateralized and the underlying student loans are guaranteed by the U.S. government. Almost all of these securities continue to fail at auction due to continued illiquid market conditions.

Due to the illiquid market conditions, the fair value of our ARS is \$3.7 million (8.2%) less than par value as of December 31, 2013. This reduction from par value is considered temporary and is recorded in "Accumulated other comprehensive income (loss)". The temporary reduction from par value recorded in "Accumulated other comprehensive income (loss)" was \$8.8 million (19.3%) as of December 31, 2012. Unrealized gains on our ARS of \$5.1 million in 2013, unrealized losses of \$2.6 million in 2012, and unrealized gains of \$0.7 million in 2011 are recorded in "Unrealized gain (loss) on investments" in our Consolidated Statements of Comprehensive Income (Loss).

In evaluating our ARS portfolio, we note sustained performance of our securities, strong parity levels, observed market redemption activity, continued receipt of interest and penalty payments, and an increase in fair value at December 31, 2013 compared to December 31, 2012. As we expect to receive all contractual cash flows, we do not believe the unrealized losses to be credit related. We continue to believe that we will be able to liquidate at par over time. We also anticipate we will have sufficient cash flow from operations to execute our business strategy and fund our operational needs. We do not intend to sell, or believe we will be required to sell, these investments prior to recovery of their amortized cost basis. Accordingly, we have treated the fair value decline as temporary.

The discounted cash flow model we used to value these securities included the following assumptions:

	December 31, 2013	December 31, 2012
Redemption period (in years)	7.0	7.0
Credit ratings	BB+ to AAA	BB+ to AAA
Penalty coupon rate	1.0% to 1.5%	1.0% to 1.5%
Weighted average annualized yield	1.6%	1.5%
Risk adjusted discount rate	4.7% to 7.8%	3.5% to 12.3%

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DIGITAL RIVER, INC.

Notes to Consolidated Financial Statements (Continued)

December 31, 2013 and 2012

3. FAIR VALUE MEASUREMENTS (Continued)

Management makes estimates and assumptions about the ARS, which can be sensitive to changes and effect the determination of fair value. An increase in the length of redemption period or an increase in the discount rate assumption would decrease our fair value. Also, a decrease in the securities' credit ratings would decrease our fair value.

The portfolio had a weighted average maturity of 29.8 years and 30.8 years as of December 31, 2013 and December 31, 2012, respectively.

We classify our ARS as Level 3 long-term investments until we receive a call or partial call on the securities. As of December 31, 2013 and December 31, 2012, our entire ARS portfolio was classified as Level 3 long-term investments. In 2013, we liquidated \$0.1 million of ARS due to a partial call at par. In 2012, we liquidated \$25.7 million of ARS due to full or partial calls at par. The amount of Level 3 assets as a percentage of total assets measured at fair value on a recurring basis was 6.5% and 5.0% in 2013 and 2012, respectively.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, they are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances like evidence of impairment. In 2013 and 2012, other than the impairment discussed in Note 5 Goodwill and Intangible Assets, we had no significant fair value adjustments of assets or liabilities on a nonrecurring basis subsequent to their initial recognition. The inputs used in the goodwill impairment fair value calculations fall within Level 3 inputs due to the significant unobservable inputs used to determine fair value.

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****4. INVESTMENTS**

As of December 31, 2013 and 2012, our available-for-sale securities consisted of the following (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	Greater than 12 Months	Fair Value	Maturities/Reset Dates Less than 12 Months	Greater than 12 Months
Balance as of December 31, 2013							
Commercial paper	\$ 9,992	\$	\$	\$	\$ 9,992	\$ 9,992	\$
U.S. government sponsored entities	4,000				4,000		4,000
Corporate bonds	101,400	281	(21)		101,660	58,280	43,380
Market basis equity investments	1,668	1,881			3,549		3,549
Auction Rate Securities	45,725			(3,732)	41,993		41,993
Total available-for-sale securities	\$ 162,785	\$ 2,162	\$ (21)	\$ (3,732)	\$ 161,194	\$ 68,272	\$ 92,922
Balance as of December 31, 2012							
U.S. government sponsored entities	\$ 28,103	\$ 7	\$	\$	\$ 28,110	\$ 28,110	\$
Corporate bonds	128,035	587			128,622	51,094	77,528
Asset backed securities	6,058	4			6,062	6,062	
Market basis equity investments	1,694				1,694		1,694
Auction Rate Securities	45,825			(8,824)	37,001		37,001
Total available-for-sale securities	\$ 209,715	\$ 598	\$	\$ (8,824)	\$ 201,489	\$ 85,266	\$ 116,223

We consider the fair value decline of our investments in corporate bonds and ARS to be temporary, as we do not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost basis. See Note 3 Fair Value Measurements, for further discussion regarding the fair value of ARS. Temporary unrealized gains and losses on available for sale securities are recorded in "Accumulated other comprehensive income (loss)".

Realized gains or losses on investments are recorded in our Consolidated Statements of Operations within "Other income (expense), net". Upon the sale of a security classified as available for sale, the amount reclassified out of "Accumulated other comprehensive income (loss)" into earnings is based on the specific identification method.

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As of December 31, 2013 and 2012, our cost method equity investments were \$10.5 million and \$33.0 million, respectively, and are included under "Long-term investments" in our Consolidated Balance Sheets. During the first quarter of 2013, we sold a cost method equity investment to a third party and recorded a gain of \$11.1 million. During the second quarter of 2013, we received additional funds based on our sales agreement and as a result we recorded a gain of \$6.5 million. In 2012 we recorded a \$3.2 million gain due to a call option that was executed for cash on the same cost method

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DIGITAL RIVER, INC.

Notes to Consolidated Financial Statements (Continued)

December 31, 2013 and 2012

4. INVESTMENTS (Continued)

investment. All gains related to this cost basis investment are recorded in the line item "Other income (expense), net" in our Consolidated Statements of Operations. Based on future events, we may receive up to \$3.1 million of additional sale proceeds. We have concluded that these additional funds represent contingent gains and have not accounted for them in our consolidated financial statements in accordance with U.S. GAAP. We have not estimated the fair value of our one remaining cost method equity investment as of December 31, 2013 as we are not aware of any facts or circumstances that would indicate a decline in the fair value of this investment below its carrying value.

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

We complete our goodwill impairment analysis annually as of October 1, or more frequently if events or circumstances occur that would more likely than not reduce the fair value of our single reporting unit below its carrying amount. In conducting our impairment analysis, we first assess qualitative factors to determine whether it is more likely than not that the fair value of our single reporting unit is less than its carrying amount, including goodwill. If after assessing all relevant qualitative factors, we determine that it is more likely than not that the fair value of our single reporting unit is less than its carrying amount, a blended income and market approach is then used to determine the fair value of our sole reporting unit and any applicable impairment charge. The application of goodwill impairment tests is a level 3 fair value measurement and requires management judgment for many of the inputs. Key assumptions included in the impairment test include our revenue growth rate, discount rate, and estimates of our future cash flows. Changes in these estimates could result in additional impairment of goodwill in a future period. Any impairment charges reflect our view of anticipated risks based on our expectations of market and general economic conditions.

In December 2012, due to the deterioration in our stock price in the second half of 2012, adjustments in our forecasted revenue growth and change in our chief operating decision maker, management determined that a triggering event for potential goodwill impairment had occurred. As such, management completed an interim impairment test utilizing the blended income and market approach, and the key assumptions described in the preceding paragraph, and determined that the carrying value of the Company was in excess of fair value and a goodwill impairment was required. In the fourth quarter 2012, we recorded a preliminary non-cash pretax goodwill impairment charge of \$175.2 million. A \$14.1 million tax benefit was recorded as a result of the impairment charge.

During the first quarter of 2013, we completed our goodwill impairment analysis and recorded an additional non-cash pretax goodwill impairment charge of \$21.2 million relating to our single reporting unit. The tax benefit was offset by our current period tax valuation allowance.

Based on our qualitative analysis performed as of October 1, 2013, we determined that it was more likely than not that the fair value of our single reporting unit is in excess of its carrying amount. The primary evidence utilized in reaching this conclusion was our market capitalization, which increased significantly since the goodwill impairment identified during 2012. A significant decrease in our market capitalization, or significant changes in quantitative or other qualitative factors, could lead to a future impairment. As of October 1, 2013, and through December 31, 2013, the goodwill in our single reporting unit is not considered to be at risk of impairment.

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****5. GOODWILL AND INTANGIBLE ASSETS (Continued)**

During the third quarter of 2013, we allocated \$0.3 million of goodwill from our single reporting unit to CustomCD and DRES, which were written-off and included in the computation of the loss on disposal of discontinued businesses as of the year ended December 31, 2013. See Note 15 Discontinued Operations, for further discussion of the sales of CustomCD and DRES.

Goodwill impairment charges are included as a separate operating expense line item, "Goodwill impairment" within Continuing Operations in our Consolidated Statements of Operations.

The changes in the net carrying amount of goodwill for the years ended December 31, 2013 and 2012 are as follows (in thousands):

	Carrying Amount Gross	Accumulated Impairment	Carrying Amount Net
Balance as of December 31, 2011	\$ 281,858	\$	\$ 281,858
Disposal of goodwill	(254)		(254)
Impairment losses		(175,241)	(175,241)
Adjustments from foreign currency translation	2,597		2,597
Balance as of December 31, 2012	\$ 284,201	\$ (175,241)	\$ 108,960
Goodwill from acquisitions	54,447		54,447
Disposal of goodwill	(260)		(260)
Impairment losses		(21,249)	(21,249)
Adjustments from foreign currency translation	(2,580)		(2,580)
Balance as of December 31, 2013	\$ 335,808	\$ (196,490)	\$ 139,318

Intangible Assets

All intangible assets are definite lived and are amortized over their useful lives. Useful lives are based on our estimates of the period of time over which the assets will generate revenue or benefit our business. We review assets with definite lives for impairment whenever events or changes in circumstances indicate that the value we are carrying on our financial statements for an asset may not be recoverable. During 2012, we impaired \$0.2 million of intangibles due to the discontinued use of a trade name associated with an acquired product. During 2011, due to changes in our business strategy, a \$9.4 million impairment was recorded to reduce the book carrying values of certain customer relationship, trade name, technology, and non-compete agreement intangibles. The fair values for these intangible assets were determined using the income approach. The application of intangible impairment tests is a level 3 fair value measurement and requires management judgment for many of the inputs. Impairments are recorded in "Amortization of acquisition-related intangibles" on the Consolidated

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****5. GOODWILL AND INTANGIBLE ASSETS (Continued)**

Statements of Operations. Information regarding our other intangible assets is as follows (in thousands):

	As of December 31, 2013		
	Carrying Amount Gross	Accumulated Amortization	Carrying Amount Net
Customer relationships	\$ 68,754	\$ 45,113	\$ 23,641
Non-compete agreements	4,289	4,289	
Technology/tradename	44,039	38,463	5,576
Total	\$ 117,082	\$ 87,865	\$ 29,217

	As of December 31, 2012		
	Carrying Amount Gross	Accumulated Amortization	Carrying Amount Net
Customer relationships	\$ 55,808	\$ 47,358	\$ 8,450
Non-compete agreements	5,102	5,102	
Technology/tradename	29,565	26,297	3,268
Total	\$ 90,475	\$ 78,757	\$ 11,718

Amortization expense from continuing operations was \$8.5 million, \$4.7 million and \$6.3 million, for the years ended 2013, 2012 and 2011, respectively.

Estimated amortization expense for the remaining life of the intangible assets, based on intangible assets as of December 31, 2013, is as follows (in thousands):

Year	
2014	\$ 8,394
2015	7,852
2016	6,912
2017	6,059
Total	\$ 29,217

6. STOCK-BASED COMPENSATION

Equity Incentive Plans

2007 Plan

Our stockholders approved the Digital River, Inc. 2007 Equity Incentive Plan (the "2007 Plan") at the Company's annual stockholder meeting held on May 31, 2007. The number of shares issuable under the 2007 Plan equals 7,450,000 shares of our common stock. In addition, shares not issued under the 1998 Plan shall become available for issuance under the 2007 Plan to the extent a stock option or other stock award under the 1998 Plan expires or terminates before shares of common stock are issued under the award. Under our 2007 Equity Incentive Plan we have the flexibility to grant incentive and

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****6. STOCK-BASED COMPENSATION (Continued)**

non-statutory stock options, restricted stock awards, restricted stock unit awards and performance shares to our directors, employees, and consultants. There were 2,307,809 shares reserved under the plan as of December 31, 2013.

1998 Plan

The 1998 Equity Incentive Plan expired in June 2008 except as to options still outstanding under the plan.

Stock Option Awards

Options granted to employees typically expire no later than ten years after the date of grant. Awards that expire or are canceled without delivery of shares generally become available for issuance under the plan. We issue new shares to satisfy the exercise and vesting of awards granted under the stock award plan. Awards typically vest over 4 years.

Incentive stock option grants must have an exercise price of at least 100% of the fair market value of a share of common stock on the grant date. Incentive stock options granted to employees who, immediately before such grant, owned stock directly or indirectly representing more than 10% of the voting power of our stock, will have an exercise price of 110% of the fair market value of a share of common stock on the grant date and will expire no later than five years from the date of grant.

There were no stock options granted in 2013, 2012 or 2011.

A summary of the changes in outstanding options is as follows:

	Options Outstanding	Weighted Average Exercise Price Per Share
Balance, December 31, 2010	1,936,963	\$ 33.53
Exercised	(19,359)	18.80
Canceled/expired	(95,712)	40.71
Balance, December 31, 2011	1,821,892	\$ 33.31
Exercised	(121,467)	12.90
Canceled/expired	(140,228)	33.48
Balance, December 31, 2012	1,560,197	\$ 34.89
Exercised	(121,524)	10.47
Canceled/expired	(910,858)	36.78
Balance, December 31, 2013	527,815	\$ 37.24

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****6. STOCK-BASED COMPENSATION (Continued)**

The following table summarizes significant ranges of outstanding and exercisable options under our 1998 Plan and 2007 Plan as of December 31, 2013:

Exercise Price	Number Outstanding	Options Outstanding		Aggregate Intrinsic Value	Number Exercisable	Options Exercisable	
		Weighted Average Life Remaining	Weighted Average Exercise Price			Weighted Average Exercise Price	Aggregate Intrinsic Value
\$22.98 - \$30.69	179,087	1.3 years	28.14		179,087	28.14	
31.84 - 38.17	178,774	4.1 years	32.07		178,774	32.07	
40.10 - 57.36	169,954	3.1 years	52.26		169,954	52.26	
\$22.98 - \$57.36	527,815	2.8 years	\$ 37.24	\$	527,815	\$ 37.24	\$

There is no aggregate intrinsic value for options outstanding and exercisable at December 31, 2013, as the exercise price for all options exceeds the Company's closing stock price of \$18.47 as of December 31, 2013. The total intrinsic value of options exercised during the years ended December 31, 2013, 2012 and 2011 were \$0.4 million, \$0.3 million and \$0.3 million, respectively, determined as of the date of exercise. The weighted average life remaining on exercisable options is 2.8 years.

Restricted and Performance Stock

Restricted stock awards are subject to forfeiture if employment terminates prior to the release of the restrictions. Performance based awards (performance shares) are subject to forfeiture if employment terminates prior to the release of the restrictions or if established performance goals are not met. Awards typically vest over 3 to 4 years. A summary of the changes in restricted stock and performance shares under our 1998 Plan and 2007 Plan as of December 31, 2013, is as follows:

	Restricted Stock and Performance Shares	Weighted Average Fair Value
Non-Vested Balance, December 31, 2010	1,955,508	\$ 27.50
Granted	1,014,150	32.51
Vested	(573,443)	28.23
Forfeited	(249,203)	28.95
Non-Vested Balance, December 31, 2011	2,147,012	\$ 29.50
Granted	1,746,350	17.45
Vested	(924,169)	28.99
Forfeited	(379,421)	25.82

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Non-Vested Balance, December 31, 2012	2,589,772	\$	22.10
Granted	1,873,245		14.79
Vested	(1,030,989)		23.02
Forfeited	(787,014)		18.98

Non-Vested Balance, December 31, 2013	2,645,014	\$	17.49
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Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****6. STOCK-BASED COMPENSATION (Continued)*****Employee Stock Purchase Plan***

We also sponsor an employee stock purchase plan under which 2,200,000 shares have been reserved for purchase by employees. The purchase price of the shares under the plan is the lesser of 85% of the fair market value on the first or last day of the offering period. Offering periods are currently every six months ending on June 30 and December 31. Employees may designate up to ten percent of their compensation for the purchase of shares under the plan. Total shares purchased by employees under the plan were 163,657, 204,241 and 140,910 in the years ended December 31, 2013, 2012 and 2011, respectively. There were 630,583 shares still reserved under the plan as of December 31, 2013.

Inducement Equity Incentive Plan

Effective on December 14, 2005, we adopted an Inducement Equity Incentive Plan (the "Inducement Plan"). No awards have been granted under this plan since 2007. There were 34,858 shares still reserved under the plan as of December 31, 2013.

Expense Information

The following table summarizes stock-based compensation expense, net of tax, related to employee stock options, awards and employee stock purchases recognized (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Costs and expenses			
Direct cost of services	\$ 158	\$ 184	\$ 269
Network and infrastructure	1,453	1,576	1,310
Sales and marketing	6,731	8,284	8,115
Product research and development	3,409	3,685	3,099
General and administrative	8,817	15,788	9,321
Stock-based compensation included in costs and expenses	20,568	29,517	22,114
Tax benefit			(7,942)
Stock-based compensation expense, net of tax	\$ 20,568	\$ 29,517	\$ 14,172

At December 31, 2013, there was no unrecognized stock-based compensation expense related to unvested stock option awards as all outstanding option awards are fully vested. At December 31, 2013, there was approximately \$26.4 million of total unrecognized stock-based compensation expense, adjusted for estimated forfeitures, related to unvested restricted stock and performance share awards that we expect to recognize over a weighted-average period of 2.4 years.

Valuation Information

During the year ended December 31, 2013, we estimated the fair value of stock-based compensation expense associated with our performance share units with a market condition on the date

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****6. STOCK-BASED COMPENSATION (Continued)**

of grant using the Monte Carlo valuation model with the following weighted average assumptions. No performance share units with a market condition were granted in 2012 or 2011.

	2013
Risk-free interest rate	0.4%
Expected life (years)	2.8
Volatility factor	49%
Expected dividends	
Weighted average grant date fair value per share	\$ 14.22

During the years ended December 31, 2013, 2012 and 2011, we estimated the fair value of stock-based compensation expense associated with our employee stock purchase plans on the date of grant using the Black-Scholes option pricing valuation model with the following weighted average assumptions:

	2013	2012	2011
Risk-free interest rate	0.1%	0.1%	0.1%
Expected life (years)	0.5	0.5	0.5
Volatility factor	38%	53%	36%
Expected dividends			
Weighted average fair value of employee stock purchase plan shares	\$ 4.14	\$ 4.68	\$ 8.38

7. INCOME TAXES

The components of pretax income from continuing operations are as follows (in thousands):

	Year ended December 31,		
	2013	2012	2011
United States	\$ (30,085)	\$ (88,571)	\$ (1,740)
International	10,648	(75,864)	27,730
Income (loss) before income taxes	\$ (19,437)	\$ (164,435)	\$ 25,990

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****7. INCOME TAXES (Continued)**

The provision (benefit) for income taxes from continuing operations is composed of the following (in thousands):

	Year ended December 31,		
	2013	2012	2011
Current tax expense (benefit):			
United States federal	\$	\$	\$ (1,904)
State and local	137		(120)
International	1,745	921	4,326
Total current provision (benefit) for income taxes	1,882	921	2,302
Deferred tax expense (benefit):			
United States federal	883	17,615	(93)
State and local	55	1,107	(6)
International	(3,728)	(440)	73
Total deferred provision (benefit) for income taxes	(2,790)	18,282	(26)
Income tax expense (benefit)	\$ (908)	\$ 19,203	\$ 2,276

For the years ended December 31, 2013 and 2012, our tax expense related to discontinued operations was \$2.5 million and \$9.6 million, respectively. For the year ended December 31, 2011, our tax benefit related to discontinued operations was \$3.8 million.

The following is a reconciliation of the difference between the actual provision for income taxes and the provision computed by applying the U.S. federal statutory rate of 35% to pretax income from continuing operations (in thousands):

	Year ended December 31,		
	2013	2012	2011
Tax expense at statutory rate	\$ (6,803)	\$ (57,552)	\$ 9,096
State taxes, net of federal benefit	126	(591)	(96)
International rate differential	(2,047)	(4,593)	(8,589)
Tax credits	(1,041)	(117)	(660)
Nondeductible expense and other	2,170	306	1,836
Goodwill impairment	5,823	48,285	
Valuation allowance (release)	895	33,301	(84)
Adjustment for unrecognized tax benefits	(31)	164	773
Income tax expense (benefit)	\$ (908)	\$ 19,203	\$ 2,276

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****7. INCOME TAXES (Continued)**

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred income taxes are as follows (in thousands):

	2013	2012
Deferred tax assets:		
Net operating loss and credit carryforwards	\$ 14,875	\$ 15,306
Nondeductible reserves and accruals	43,795	27,482
Depreciation and amortization	756	2,675
Valuation allowance	(53,820)	(37,860)
Total deferred tax assets	5,606	7,603
Deferred tax liabilities:		
Depreciation	(8,475)	(6,018)
Other intangibles	(4,367)	(1,770)
Gain on investment		(1,144)
Total deferred tax liabilities	(12,842)	(8,932)
Net deferred tax liabilities	\$ (7,236)	\$ (1,329)

As of December 31, 2013, we had U.S. federal tax loss carryforwards of approximately \$13.1 million and state tax loss carryforwards of \$50.4 million to offset future taxable income. The tax losses consist of U.S. federal net operating losses of \$10.9 million and acquired U.S. federal net operating losses of \$2.2 million, as well as, state net operating losses of \$23.8 million and acquired state net operating losses of \$26.6 million. The U.S. federal tax loss carryforwards expire in the years 2025 through 2033, while the state tax loss carryforwards expire in the years 2014 through 2033. As of December 31, 2013, we also had foreign tax loss carryforwards of approximately \$10.8 million. The foreign loss carryforwards do not expire under current law.

On a quarterly basis, we assess whether a valuation allowance for net operating loss carryforwards and other deferred tax assets is needed. Beginning in the fourth quarter of 2012, we determined that it was necessary to place a valuation allowance against our net U.S. tax assets and a portion of our foreign tax assets. At December 31, 2013 and 2012, the Company had a valuation allowance on approximately \$8.1 million and \$11.3 million, respectively, of U.S. deferred tax assets related to operating losses, \$17.6 million and \$1.0 million, respectively, related to U.S. capital loss carryforwards and \$22.0 million and \$33.5 million, respectively, of deferred tax assets related to other U.S. tax attributes. At December 31, 2013 and 2012, we also have a valuation allowance on our foreign net operating loss assets of approximately \$2.2 million and \$2.3 million, respectively. Any future release of this valuation allowance will reduce expense.

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****7. INCOME TAXES (Continued)**

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance as of December 31, 2010	\$ 10,026
Increases for tax positions taken during current year	252
Increases for tax positions taken during prior years	2,843
Decreases for tax positions taken during prior years	(842)
Decreases for expiration of statute of limitations	(1,385)
Decreases as a result of settlements with taxing authorities	(225)

Balance as of December 31, 2011	\$ 10,669
Increases for tax positions taken during current year	132
Increases for tax positions taken during prior years	731
Decreases for tax positions taken during prior years	(20)
Decreases for expiration of statute of limitations	(301)

Balance as of December 31, 2012	\$ 11,211
Increases for tax positions taken during current year	223
Increases for tax positions taken during prior years	146
Decreases for tax positions taken during prior years	(126)
Decreases for expiration of statute of limitations	(1,010)

Balance as of December 31, 2013	\$ 10,444
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Of the \$10.4 million of unrecognized tax benefits, \$9.7 million would affect our effective tax rate if recognized. We recognize interest and penalties related to uncertain tax positions in income tax expense. We had approximately \$1.5 million and \$0.9 million of accrued interest and penalties related to uncertain tax positions at December 31, 2013 and 2012, respectively. Interest on unrecognized tax benefits was \$0.6 million, \$0.4 million, and \$0.1 million in years 2013, 2012, and 2011.

The Company and its subsidiaries file income tax returns in U.S. federal and various state jurisdictions, and foreign jurisdictions. The tax years 2006 through 2012 remain open to examination by most of the major taxing jurisdictions to which we are subject. During 2011, the IRS completed an examination of the Company's 2009 U.S. tax return. Due to the potential resolution of examinations currently being performed by taxing authorities, and the expiration of various statutes of limitation, it is reasonably possible that our gross unrecognized tax benefits balance may change within the next twelve months by a range of zero to \$8.9 million. Beyond this estimate, it is not practical to determine the timing of any cash flows related to these uncertain tax positions.

We have not provided U.S. income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries as of December 31, 2013 because we intend to permanently reinvest such earnings outside the U.S. If these foreign earnings were to be repatriated in the future, the related U.S. tax liability may be reduced by any foreign income taxes previously paid on these earnings. As of December 31, 2013, the cumulative amount of earnings upon which U.S. income taxes have not been provided is approximately \$117.2 million. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable.

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****8. COMMITMENTS AND CONTINGENCIES***Leases*

We currently have 40 facility leases in addition to leasing certain computer equipment under non-cancelable operating leases. Total rent expense, including common area maintenance charges, recognized under all leases was \$10.5 million, \$9.5 million and \$8.5 million for the years ended December 31, 2013, 2012 and 2011, respectively. We did not incur contingent or sublease rental expense in 2013, 2012 or 2011. The minimum annual rent payments under long-term leases at December 31, 2013, were as follows (in thousands):

Year ending December 31,	Lease Obligations
2014	\$ 8,421
2015	4,768
2016	4,266
2017	3,831
2018	4,107
Thereafter	11,549
Total future minimum obligations	\$ 36,942

Our headquarters in Minnetonka, MN is under a ten year operating lease which commenced in the second quarter of 2011. We have a right to renew the term for a single five year period subsequent to the original term. Significant provisions of the lease include a rent holiday for the first eighteen months of occupancy, subsequent rent escalations and leasehold improvement allowances. The rent holiday and escalations are amortized over the life of the agreement. Leasehold improvement allowances are classified as a reduction to rent and are recorded as a part of property and equipment, net, with amortization recorded over the life of the lease.

Litigation

DDR Holdings, LLC (DDR) brought a claim against us and several other defendants regarding U.S. Patents Nos. 6,629,135 ("the '135 patent"), 6,993,572 ("the '572 patent"), and 7,818,399 ("the '399 Patent"), which are owned by DDR. These patents claim e-commerce outsourcing systems and methods relating to the provision of outsourced e-commerce support pages having a common look and feel with a host's website. The case was filed in the U.S. District Court for the Eastern District of Texas on January 31, 2006 seeking injunctive relief, declaratory relief, damages and attorneys' fees. We denied infringement of any valid claim of the patents-in-suit, and asserted counter-claims seeking a judicial declaration that the patents are invalid and not infringed. After a delay due to DDR's request for re-examination of the '135 and '572 patents, Digital River and DDR concluded discovery and pre-trial depositions in August 2012. In pre-trial motions, DDR dropped its claims against Digital River with respect to the '135 and '399 patent. On October 12, 2012, the jury found in favor of the plaintiff on the infringement claim in connection with the '572 patent and awarded damages of \$0.8 million (versus plaintiff's demand of \$10.2 million). On June 20, 2013, the court denied Digital River's post-trial motions and entered judgment in the amount of \$1.1 million (which amount includes pre-judgment interest), plus costs and post-judgment interest. Digital River has appealed. During the third quarter of 2012, initial full settlement of the awarded damages (exclusive of interest which may be awarded by the

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DIGITAL RIVER, INC.

Notes to Consolidated Financial Statements (Continued)

December 31, 2013 and 2012

8. COMMITMENTS AND CONTINGENCIES (Continued)

court) was accrued for on the "Other accrued liabilities" line of the Consolidated Balance Sheets and the "General and administrative" line of the Consolidated Statements of Operations. The accrued amount was adjusted to \$1.1 million during the second quarter of 2013 to reflect the award of pre-judgment interest. In addition, on August 20, 2013, DDR filed a second lawsuit against DR, alleging both additional infringement of the '572 patent as well as a newly issued continuation patent, Patent No. 8,515,825 issued on August 20, 2013 ("the '825 patent"). While we intend to vigorously defend this matter, we cannot predict the timing or ultimate outcome, nor estimate a range of loss, if any, for this matter.

We are subject to legal proceedings, claims and litigation arising in the ordinary course of business. While the final outcome of these matters is currently not determinable, we believe there is no ordinary course litigation pending against us that is likely to have, individually or in the aggregate, a material effect on our consolidated financial position, results of operations, stockholders' equity or cash flows. Because of the uncertainty inherent in litigation, it is possible that unfavorable resolutions of these lawsuits, proceedings and claims could exceed the amount we have currently reserved for these matters.

From time to time, we are involved in other disputes or regulatory inquiries that arise in the ordinary course of business. Any claims or regulatory actions against us, whether meritorious or not, could be time consuming, result in costly litigation, damage awards, injunctive relief or increased costs of doing business through adverse judgment or settlement, require us to change our business practices in expensive ways, require significant amounts of management time, result in the diversion of significant operational resources or otherwise harm our business. These matters are subject to inherent uncertainties and management's view of these matters may change in the future.

Third parties have from time-to-time claimed, and others may claim in the future, that we have infringed their intellectual property rights. We have been notified of several potential patent disputes, and expect that we will increasingly be subject to patent infringement claims as our services expand in scope and complexity. We have in the past been forced to litigate such claims. We may also become more vulnerable to third-party claims as laws, such as those related to privacy and online commerce, the Digital Millennium Copyright Act, the Lanham Act and the Communications Decency Act are enacted by legislatures and interpreted by the courts, and as we expand geographically into jurisdictions where the underlying laws with respect to the potential liability of online intermediaries like ourselves are either unclear or less favorable. These claims, whether meritorious or not, could be time consuming and costly to resolve, cause service upgrade delays, require expensive changes in our methods of doing business, or could require us to pay damages or enter into costly royalty or licensing agreements.

Indemnification Provisions

In the ordinary course of business we have included limited indemnification provisions in certain of our agreements with parties with whom we have commercial relations. Under these contracts, we generally indemnify, hold harmless and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with claims by any third party with respect to our domain names, trademarks, logos and other branding elements to the extent that such marks are applicable to our performance under the subject agreement. In certain agreements, including both agreements under which we have developed technology for certain commercial parties and agreements with our clients, we have provided an indemnity for other types of third-party claims.

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DIGITAL RIVER, INC.

Notes to Consolidated Financial Statements (Continued)

December 31, 2013 and 2012

8. COMMITMENTS AND CONTINGENCIES (Continued)

In addition, we are required by our credit card processors to comply with credit card association operating rules, and we have agreed to indemnify our processors for any fines they are assessed by credit card associations as a result of processing payments for us. The credit card associations and their member banks set and interpret the credit card rules. Visa, MasterCard, American Express or Discover could adopt new operating rules or re-interpret existing rules that we or our credit card processors might find difficult to follow. We also could be subject to fines or increased fees from MasterCard and Visa.

To date, no significant costs have been incurred, either individually or collectively, in connection with our indemnification provisions.

Commitments and Guarantees

At certain times, we enter into agreements where a letter of credit is required to ensure payment of future obligations by counterparties, such as our credit card processors and international taxing jurisdictions. Upon withdrawal, we are obligated to fund the executor bank on demand. We have not set aside specific funds to cover this potential obligation as we can generally recover these costs from our clients. If drawn upon, we expect to fund this commitment with cash and cash equivalents. There were \$0.6 million and \$3.6 million in undrawn letters of credit at December 31, 2013, and 2012, respectively.

9. DEBT

2010 Senior Convertible Notes

On November 1, 2010, we sold and issued \$345.0 million in aggregate principal amount of senior convertible notes (2010 Notes), in a private, unregistered offering. The 2010 Notes are unsecured obligations and rank equally with all of our existing and future senior unsecured debt. The 2010 Notes were sold at their total principal amount. The 2010 Notes bear interest at the rate of 2.00% per annum from the date of issuance, payable semi-annually on May 1 and November 1, commencing on May 1, 2011. The 2010 Notes will mature, unless earlier repurchased, redeemed or converted in accordance with their terms, on November 1, 2030.

In 2013, we repurchased \$5.4 million of the 2010 Notes in the open market at an average price of 98.8% of par. In 2013, the net loss on extinguishment of debt, which is net of the gain on sale and the write-off of debt issuance costs, was immaterial. In 2012, we repurchased \$43.9 million of the 2010 Notes in the open market at an average price of 98.5% of par. In 2012, the loss on extinguishment of debt was \$0.1 million, which is net of the gain on sale and the write-off of debt issuance costs. Notes repurchased are deemed to be extinguished for accounting purposes.

Holders have the right to convert some or all of the 2010 Notes at any time prior to the maturity date into shares of our common stock at the initial conversion rate of 20.3537 shares per \$1,000 in principal amount of the 2010 Notes, which is equal to an initial conversion price of approximately \$49.13 per share. At the initial conversion rate, assuming the conversion of all remaining \$295.8 million in aggregate principal amount, the 2010 Notes may be converted into approximately 6,019,607 shares of our common stock. We will adjust the conversion price if certain events occur on or before November 1, 2015, as specified in the related indenture.

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DIGITAL RIVER, INC.

Notes to Consolidated Financial Statements (Continued)

December 31, 2013 and 2012

9. DEBT (Continued)

At any time on or after November 1, 2015, and prior to the maturity date, we may redeem for cash some or all of the 2010 Notes at a redemption price equal to the principal amount of the 2010 Notes to be redeemed, plus accrued and unpaid interest up to, but excluding, the redemption date.

Holders have the right to require us to repurchase some or all of their 2010 Notes for cash on each of November 1, 2015, November 1, 2020 and November 1, 2025, at a repurchase price equal to the principal amount of the 2010 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the relevant repurchase date. If we undergo certain types of fundamental changes prior to the maturity date, holders of the 2010 Notes will have the right, at their option, to require us to repurchase some or all of their 2010 Notes at a repurchase price equal to the principal amount of the 2010 Notes being repurchased, plus accrued and unpaid interest up to, but excluding, the repurchase date.

As of December 31, 2013 and 2012, the fair value of our \$295.8 million and \$301.1 million 2010 senior convertible notes was valued at \$298.3 million and \$285.3 million, respectively, based on the quoted fair market values of the debt. Debt is classified as a level 3 fair value measurement. We determine fair value based on the market approach.

2004 Senior Convertible Notes

In 2004, we sold and issued \$195.0 million in aggregate principal amount of 1.25% senior convertible notes due January 1, 2024 (2004 Notes), in a private, unregistered offering. The 2004 Notes were sold at their principal amount. On January 1, 2009, the majority of the holders of the 2004 Notes exercised the option to require us to repurchase those Notes. On January 1, 2014, the majority of the remaining holders of the 2004 Notes exercised the option to require us to repurchase those Notes. Notes with an aggregate principal amount of approximately \$0.1 million remain outstanding after the January 1, 2014 repurchase and are classified as non-current within "Senior convertible notes" in our Consolidated Balance sheet as of December 31, 2013. The \$8.7 million of 2004 Notes that were repurchased on January 1, 2014 are classified as current in "Other current liabilities" in our Consolidated Balance Sheet as of December 31, 2013. Holders of the remaining \$0.1 million outstanding 2004 Notes have the right to require us to repurchase their Notes prior to maturity on January 1, 2019.

As of December 31, 2013 and 2012, the fair value of our \$8.8 million 2004 senior convertible notes was valued at \$8.9 million and \$8.6 million, respectively, based on the quoted fair market values of the debt. Debt is classified as a Level 3 fair value measurement. We determine fair value based on a market approach.

We incurred interest expense of \$7.8 million, \$9.0 million and \$9.0 million in 2012, 2011 and 2010, respectively, related to our senior convertible notes.

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****10. STOCKHOLDERS' EQUITY*****Share Repurchase Program***

The Company's stock repurchases during 2013, 2012 and 2011, were as follows:

Year ending December 31,	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan	Approximate dollar value of shares that may yet be purchased under the plan (in millions)
2011	4,265,168	\$ 18.70	4,265,168	\$ 20.2
2012	1,533,132	\$ 14.78	1,533,132	\$ 97.6
2013	3,019,562	\$ 16.96	3,019,562	\$ 46.4
Total	8,817,862		8,817,862	

11. EMPLOYEE BENEFIT PLAN***401K Plan***

We have a defined contribution 401(k) retirement plan for eligible employees. Employees may contribute up to 15% of their pretax compensation to the plan, with the Company providing a discretionary match of up to 50% of the total employee contribution. Amounts charged to expense related to our matching contributions were \$2.4 million, \$1.5 million and \$1.1 million on matching percentages of 45%, 25% and 25% in 2013, 2012 and 2011, respectively.

12. SEGMENT INFORMATION

We view our operations and manage our business as one reportable segment, providing outsourced commerce and payments solutions globally to a variety of companies. Although we differentiate our offerings in the broad categories of Commerce, Payments and Marketing Services, with the exception of revenue, the types of information and internal reports used by our chief operating decision maker to monitor performance, evaluate results of operations, allocate resources and otherwise manage the business are at a consolidated level.

We market our products and services through our offices in the United States and our wholly-owned branches and subsidiaries operating in Australia, Austria, Brazil, Canada, China, Germany, Korea, India, Ireland, Japan, Luxembourg, Mexico, Russia, Singapore, Sweden, Taiwan and the United Kingdom. Sales to international customers accounted for 52.0%, 48.1% and 48.6% of revenue from continuing operations for 2013, 2012 and 2011, respectively. Sales are attributed to a geographic region based on the ordering location of the customer or the payment processing location, depending on the type of customer. If revenue earned in any individual country exceeds 10% of the revenue reported for the period, the country is separately listed. The remaining balance is separated between Europe and

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****12. SEGMENT INFORMATION (Continued)**

other. Currently, no non-U.S country exceeds the 10% threshold. Summarized revenue from continuing operations information by region is outlined below (dollars in thousands).

	2013	2012	2011
United States	\$ 187,046	\$ 192,447	\$ 193,467
Europe	118,852	113,163	120,494
Other	83,781	64,886	62,508
 Total	 \$ 389,679	 \$ 370,496	 \$ 376,469

Microsoft Corporation accounted for approximately 32.5%, 30.9% and 29.2% of our revenue from continuing operations in 2013, 2012 and 2011, respectively.

Asset information by geographic area is based on the physical location of the assets. If assets in any individual country exceed 10% of the assets reported for the period, the country is separately listed. Currently, no non-U.S country exceeds the 10% threshold. The assets located in the U.S and the remaining assets located in Europe and the rest of the world are detailed in the table below (in thousands):

	2013		2012	
	United States	Europe and Other	United States	Europe and Other
Total property and equipment	\$ 163,743	\$ 23,524	\$ 145,820	\$ 22,136
Accumulated depreciation	(114,965)	(18,532)	(97,155)	(17,703)
 Net property and equipment	 \$ 48,778	 \$ 4,992	 \$ 48,665	 \$ 4,433

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables contain selected unaudited statement of operations information for each quarter of 2013 and 2012. The following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The results of the operations of CustomCD and DRES have been reclassified to Discontinued Operations for all periods presented. See Note 15 Discontinued Operations, for further discussion. Within the 2012 quarters, payment processing fees, chargebacks, and directly related personnel expenses have been reclassified into "Direct cost of services" to conform with 2013 presentation. See Note 1 Nature of Operations and Summary of Significant Accounting Policies, for further discussion.

The operating results for any quarter are not necessarily indicative of results for any future period.

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****13. QUARTERLY FINANCIAL DATA (UNAUDITED) (Continued)**

Unaudited quarterly results of operations are as follows (in thousands, except per share data):

	Quarter Ended			
	March 31	June 30	September 30	December 31
2013				
Revenue	\$ 111,021	\$ 90,163	\$ 87,260	\$ 101,235
Direct cost of services(1)	22,006	17,061	16,205	18,233
Network and infrastructure(1)	15,075	14,326	14,648	14,987
Income (loss) from continuing operations	(10,687)	(203)	(7,596)	(43)
Income (loss) from discontinued operations	(678)	(669)	(4,891)	120
Net income (loss)	(11,365)	(872)	(12,487)	77
Income (loss) per share basic:				
Income (loss) from continuing operations	\$ (0.33)	\$ (0.01)	\$ (0.24)	\$ 0.00
Income (loss) from discontinued operations	(0.02)	(0.02)	(0.16)	0.00
Net income (loss) per share basic	\$ (0.35)	\$ (0.03)	\$ (0.40)	\$ 0.00
Income (loss) per share diluted:				
Income (loss) from continuing operations	\$ (0.33)	\$ (0.01)	\$ (0.24)	\$ 0.00
Income (loss) from discontinued operations	(0.02)	(0.02)	(0.16)	0.00
Net income (loss) per share diluted	\$ (0.35)	\$ (0.03)	\$ (0.40)	\$ 0.00

	Quarter Ended			
	March 31	June 30	September 30	December 31
2012				
Revenue	\$ 98,204	\$ 87,117	\$ 87,056	\$ 98,119
Direct cost of services(1)	17,249	15,085	15,476	18,946
Network and infrastructure(1)	12,452	12,686	13,184	14,242
Income (loss) from continuing operations	5,184	681	(735)	(188,768)
Income (loss) from discontinued operations	(447)	(481)	1	(11,303)
Net income (loss)	4,737	200	(734)	(200,071)
Income (loss) per share basic:				
Income (loss) from continuing operations	\$ 0.15	\$ 0.02	\$ (0.02)	\$ (5.77)

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Income (loss) from discontinued operations	(0.01)	(0.01)	0.00	(0.34)
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Net income (loss) per share basic	\$ 0.14	\$ 0.01	\$ (0.02)	\$ (6.11)
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Income (loss) per share diluted:

Income (loss) from continuing operations	\$ 0.15	\$ 0.02	\$ (0.02)	\$ (5.77)
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Income (loss) from discontinued operations	(0.01)	(0.01)	0.00	(0.34)
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Net income (loss) per share diluted	\$ 0.14	\$ 0.01	\$ (0.02)	\$ (6.11)
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(1) Gross profit is calculated as revenue less direct cost of services and network and infrastructure expenses and excludes depreciation and amortization expense.

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****14. BUSINESS COMBINATIONS***Acquisition of LML Payment Systems, Inc.*

On January 10, 2013 we acquired 100% of the capital stock of LML Payment Systems, Inc., a publicly held payment service provider with operations in Victoria, British Columbia in an all cash transaction valued at \$3.45 per share. The aggregate purchase price was \$55.8 million, net of cash acquired of \$47.0 million. Acquisition and integration costs of \$5.7 million and \$0.8 million were expensed as incurred, and were recorded in the line item "General and administrative" in our Consolidated Statements of Operations for the year ended December 31, 2013 and 2012, respectively. LML is a leading provider of payment processing services to the Canadian small and medium sized business market. This acquisition was made to broaden our online payments services to businesses of all sizes. The goodwill arising from the transaction consists primarily of the assembled workforce and synergies expected to be gained when combining the complimentary Digital River and LML business models. None of the goodwill recognized is expected to be deductible for income tax purposes.

LML revenue for the period starting as of the acquisition date of January 10, 2013, and ending on December 31, 2013, was \$24.1 million. The legal entities acquired had a net loss for the period starting as of the acquisition date of January 10, 2013, and ending on December 31, 2013, of \$0.6 million. The total legal entity losses include integration expenses of \$1.4 million, but exclude any corporate allocations.

The purchase price for the LML acquisition has been assigned to the assets acquired and liabilities assumed based on their fair value at the date of acquisition. The allocation of the purchase price is summarized in the following table (in thousands):

	LML Payment Systems, Inc.
Cash and cash equivalents	\$ 46,957
Accounts receivable	1,334
Receivable of acquisition expenses incurred on behalf of Digital River	1,068
Customer and partner relationships	23,230
Trade names	3,567
Other intangibles	1,185
Goodwill	54,447
Other assets	4,597
Total assets acquired	136,385
Other liabilities	33,585
Total liabilities assumed	33,585
Total allocation of purchase price consideration	102,800
Less: cash acquired	(46,957)
Total purchase price, net of cash acquired	\$ 55,843

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****14. BUSINESS COMBINATIONS (Continued)**

For the LML acquisition, customer and partner relationships have a weighted average useful life of 5.0 years, trade names have a weighted average useful life of 5.0 years and other intangibles have a weighted average useful life of 4.8 years.

Amortization expense of LML acquisition-related intangible assets was \$5.2 million for the year ended December 31, 2013. Estimated amortization expense for the remaining life of the LML intangible assets, is as follows (in thousands):

Year		
2014	\$	5,394
2015		5,102
2016		5,102
2017		5,102
Total	\$	20,700

Pro Forma Operating Results (Unaudited)

The unaudited pro forma financial information in the table below summarizes the combined results of operations for Digital River, Inc. and LML. The consolidated financial statements include the historical operating results of each business acquired from the date of acquisition.

The historical financial information has been adjusted to give effect to pro forma events that are directly attributable to the transaction, are factually supportable and, in the case of the pro forma results of operations, have a nonrecurring impact. For the year ended December 31, 2012, the pro forma results include adjustments primarily related to amortization of acquired intangible assets of \$5.4 million, less elimination of LML historical intangible amortization expense of \$0.6 million and income taxes benefit of \$2.6 million. The following unaudited pro forma condensed results of operations for 2013 and 2012 have been prepared as if the LML acquisition had occurred on January 1, 2012, (in thousands):

	For the Years	
	Ended December 31,	
	2013	2012
Revenue	\$ 390,601	\$ 398,784
Net income (loss)	(24,355)	(194,121)

This pro forma financial information does not purport to represent results that would actually have been obtained if the transactions had been in effect on January 1, 2012, as applicable, or any future results that may be realized.

15. DISCONTINUED OPERATIONS AND DISPOSALS

On September 30, 2013, we sold CustomCD, Inc., which was based in Portland, Oregon in a stock sale to a former employee. We have recorded a pre-tax loss on the sale of \$0.1 million within "Income (loss) from discontinued operations, net of tax" in our Consolidated Statements of Operations. The

Table of Contents**DIGITAL RIVER, INC.****Notes to Consolidated Financial Statements (Continued)****December 31, 2013 and 2012****15. DISCONTINUED OPERATIONS AND DISPOSALS (Continued)**

results of operations of CustomCD, including the loss on the sale, have been excluded from the results of continuing operations and are reported as discontinued operations. We continue to utilize the services of CustomCD to provide back-up CDs to our customers. Expenses totaling \$1.3 million, \$1.5 million and \$1.6 million in 2013, 2012 and 2011, respectively, are reflected in "Direct cost of sales" related to these services.

On October 1, 2013, we sold Digital River Education Services, Inc., which was based in Plano, Texas in a stock sale to two former employees. We have recorded a pre-tax loss on the sale of \$1.8 million within "Income (loss) from discontinued operations, net of tax" in our Consolidated Statements of Operations. The results of operations of DRES, including the loss on the sale, have been excluded from the results of continuing operations and are reported as discontinued operations.

We do not allocate interest income or interest expense to discontinued operations. The operating results of the discontinued operations included in our Consolidated Statements of Operations for the 2013, 2012 and 2011 were as follows (in thousands):

	For the Years Ended December 31,		
	2013	2012	2011
Revenue	\$ 8,043	\$ 15,726	\$ 21,671
Income (loss) on discontinued operations before taxes and loss on sales	(1,704)	(2,627)	(10,379)
Loss on disposal of discontinued businesses before taxes	(1,894)		
Provision (benefit) for income taxes	2,520	9,603	(3,832)
Income (loss) on discontinued operations, net of tax	\$ (6,118)	\$ (12,230)	\$ (6,547)

The assets and liabilities of discontinued operations for 2012 were as follows (in thousands):

	For the Years Ended December 31,	
	2012	
Current assets of discontinued operations	\$	7,365
Long-term assets of discontinued operations		196
Total assets of discontinued operations	\$	7,561
Current liabilities of discontinued operations	\$	5,753
Non-current liabilities of discontinued operations		

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Total liabilities of discontinued operations \$ 5,753

In the fourth quarter of 2012, we sold CCNow, Inc. to Snorrason Holdings, a privately held e-commerce service provider. Proceeds from the sale totaled \$0.5 million and a gain of \$0.2 million was recorded in conjunction with the divestiture. The operations of CCNow and the gain on the sale are not considered to be material to our consolidated financial statements and thus are not separately disclosed within discontinued operations.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our periodic reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2013. The term "disclosure controls and procedures" means controls and other procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on their evaluation of our disclosure controls and procedures as of December 31, 2013, our Chief Executive Officer and our Chief Financial Officer concluded that as of that date, our disclosure controls were effective at the reasonable assurance level.

Management's Annual Report on Internal Control over Financial Reporting

Our management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining an adequate system of internal control over financial reporting. This system of internal accounting controls is designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization and financial statements are prepared in accordance with generally accepted accounting principles. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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Management has elected to exclude LML Payment Systems, Inc., which was acquired on January 10, 2013 and is included in our December 31, 2013 consolidated financial statements, from management's assessment of the effectiveness of our internal control over financial reporting for the year ended December 31, 2013 as permitted by the Securities and Exchange Commission. As of December 31, 2013, total assets attributable to LML represented approximately 4.0% of our total assets. Total revenue attributable to LML represented approximately 6.2% of net revenue for the year ended December 31, 2013.

Management conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the system of internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (COSO). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2013, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Ernst & Young LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2013, as stated in their report in which they expressed an unqualified opinion, which is included herein.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Digital River, Inc.

We have audited Digital River, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Digital River, Inc.'s and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of LML Payment Systems, Inc., acquired by Digital River, Inc. on January 10, 2013, the results of which are included in the 2013 consolidated financial statements of Digital River, Inc. since the date of acquisition and constituted 4.0% of total assets as of December 31, 2013, and 6.2% of revenue for the year then ended. Our audit of internal control over financial reporting of Digital River, Inc. also did not include an evaluation of the internal control over financial reporting of LML Payments Systems, Inc.

In our opinion, Digital River, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of December 31, 2013 and December 31, 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the three years in the period ended December 31, 2013, and our report dated February 27, 2014, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
Minneapolis, Minnesota
February 27, 2014

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ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required in Part III of this report is incorporated by reference to our Proxy Statement in connection with our 2014 Annual Meeting to be filed in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

The information relating to directors and the Audit Committee of the Board of Directors required by this item will be contained under the captions Proposal 1. "Election of Directors" and "Board Committees and Meetings" in a definitive proxy statement involving the election of directors, by reference to the Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed within 120 days after the end of the Company's fiscal year.

The information required by Items 405, 407(d)(4) and 407(d)(5) of Regulation S-K will be included under the captions "Section 16(a) Beneficial Ownership Reporting Compliance" and "Board Committees and Meetings" in the 2014 Proxy Statement, and that information is incorporated by reference herein.

Executive Officers

The information relating to executive officers required by this item is included herein in Part I under the caption "Executive Officers."

Code of Conduct

We have adopted a Code of Conduct and Ethics, a copy of which we undertake to provide to any person, without charge, upon request. Such requests can be made in writing to the attention of Corporate Secretary at our principal executive offices address. To the extent permitted by the rules promulgated by NASDAQ, we intend to disclose any amendments to, or waivers from, the Code provisions applicable to our principal executive officer or senior financial officers, including our chief financial officer and controller, or with respect to the required elements of the Code, on our website, www.digitalriver.com under the "Investor Relations" link.

Other Disclosures

Other disclosures required by this Item will be incorporated herein by reference to the Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed within 120 days after the end of the Company's fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning "Executive Compensation," including information concerning "Compensation Committee Interlocks" and "Compensation Committee Report," will be incorporated herein by reference to the Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed within 120 days after the end of the Company's fiscal year.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information as to "Securities Authorized for Issuance under Equity Compensation Plans" and "Security Ownership of Certain Beneficial Owners and Management" will be incorporated herein by reference to the Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed within 120 days after the end of the Company's fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information as to "Certain Relationships and Related Transactions," and "Director Independence" will be incorporated herein by reference to the Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed within 120 days after the end of the Company's fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information as to principal accountant fees and services will be incorporated herein by reference to the Proxy Statement for the 2014 Annual Meeting of Shareholders to be filed within 120 days after the end of the Company's fiscal year.

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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 filed as part of this report under Item 8 Financial Statements and Supplementary Data.

<u>Report of Independent Registered Public Accounting Firm</u>	<u>59</u>
<u>Consolidated Balance Sheets</u>	<u>60</u>
<u>Consolidated Statements of Operations</u>	<u>61</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>62</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>63</u>
<u>Consolidated Statements of Cash Flows</u>	<u>64</u>
<u>Notes to Consolidated Financial Statements</u>	<u>65</u>

(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.

See exhibits listed under the Exhibit Index below.

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Signature	Title	Date
<u>/s/ EDMOND I. EGER III</u> Edmond I. Eger III	Director	February 27, 2014
<u>/s/ TIMOTHY J. PAWLENTY</u> Timothy J. Pawlenty	Director	February 27, 2014
<u>/s/ CHERYL F. ROSNER</u> Cheryl F. Rosner	Director	February 27, 2014
<u>/s/ DOUGLAS M. STEENLAND</u> Douglas M. Steenland	Director	February 27, 2014
<u>/s/ PERRY W. STEINER</u> Perry W. Steiner	Director	February 27, 2014

Digital River, Inc.

Valuation and Qualifying Accounts
For Years Ended December 31, 2013, 2012 and 2011
(in thousands)

	Balance at Beginning of Year	Additions		Deductions	Balance at End of Year
		Charged (Credited) to Costs and Expenses	Charged (Credited) to Other Accounts		
2013					
Allowance for doubtful accounts	\$ 4,834	\$ (242)		\$ (1,386)	\$ 3,206
Notes receivable reserve	627				627
Accrued chargeback reserve	688	16,961		(17,317)	332
Allowance for deferred tax assets	37,860	18,825	(2,865)		53,820
2012					
Allowance for doubtful accounts	\$ 4,269	\$ 2,146		\$ (1,581)	\$ 4,834
Notes receivable reserve			627		627
Accrued chargeback reserve	452	19,719		(19,483)	688
Allowance for deferred tax assets	3,812	33,311	737		37,860
2011					
Allowance for doubtful accounts	\$ 4,863	\$ 2,967		\$ (3,561)	\$ 4,269
Accrued chargeback reserve	1,936	10,175		(11,659)	452
Allowance for deferred tax assets	816	(279)	3,275		3,812

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INDEX TO EXHIBITS

Exhibit Number	Description of Document
3.1(1)	Amended and Restated Certificate of Incorporation of the Registrant, as currently in effect.
3.2(3)	Amended and Restated Bylaws of the Registrant, as currently in effect.
4.1(4)	Specimen Stock Certificate.
4.2(8)	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 2004 Note.
4.3(16)	Indenture dated as of November 1, 2010, between Digital River, Inc. and Wells Fargo Bank, N.A. as trustee, including therein the form of the 2010 Note.
10.1(4)	Form of Indemnity Agreement between Registrant and each of its directors and executive officers.
10.3(4)	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(2)	Assignment of Lease dated April 21, 1998, by and between Intranet Integration Group, Inc. and Registrant.
10.5(2)	Lease Agreement dated January 18, 2000, between Property Reserve, Inc. and Registrant.
10.6(3)	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(5)	1998 Stock Option Plan, as amended and superseded by Exhibit 10.17.*
10.8(6)	1999 Stock Option Plan, formerly known as the 1999 Non-Officer Stock Option Plan, as amended and superseded by Exhibit 10.17.*
10.9(5)	2000 Employee Stock Purchase Plan, as amended, and offering.*
10.11(7)	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(7)	Second Amendment of Lease dated April 28, 2003, to that certain Lease dated January 18, 2000, between Property Reserve Inc. and Registrant.
10.15(8)	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.
10.16(12)	Summary of Compensation Program for Non-Employee Directors.
10.17(9)	1998 Equity Incentive Plan (formerly known as 1998 Stock Option Plan).*
10.18(12)	Change of Control and Severance Agreement for Thomas M. Donnelly.*
10.19(10)	Form of Amendment to Non-Qualified Stock Option Agreement.*
10.20(11)	Inducement Equity Incentive Plan.*
10.21(13)	2007 Equity Incentive Plan.*
10.22(12)	Change of Control and Severance Agreement for Kevin L. Crudden.*

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Exhibit Number	Description of Document
10.23(14)	Microsoft Operations Digital Distribution Agreement, by and among Digital River, Inc. and Microsoft Corporation effective September 1, 2006
10.24(14)	Direct Reseller Addendum to the Microsoft Operations Digital Distribution Agreement, by and among Digital River, Inc. and Microsoft Corporation effective September 1, 2006
10.25(14)	Omnibus Amendment to the Microsoft Operations Digital Distribution Agreement, by and among Digital River, Inc. and Microsoft Corporation effective October 4, 2007
10.26(14)	Amendment to the Microsoft Operations Digital Distribution Agreement, by and among Digital River, Inc. and Microsoft Corporation effective December 2, 2008
10.27(14)	Amendment to the Microsoft Operations Digital Distribution Agreement, by and among Digital River, Inc. and Microsoft Corporation effective September 9, 2009
10.28(15)	Purchase Agreement, dated as of October 26, 2010, among Digital River, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated, as representatives of the initial purchasers named in Schedule A thereto.
10.29(16)	Second Omnibus Amendment to the Microsoft Operations Digital Distribution Agreement
10.30(16)	Third Omnibus Amendment to the Microsoft Operations Digital Distribution Agreement effective May 8, 2012
10.31++	Offer Letter to Theodore "Ted" R. Cahall, Jr.*
10.32++	Offer Letter to Thomas E. Peterson*
10.33++	Change in Control and Severance Agreement for Theodore "Ted" R. Cahall, Jr.*
10.34++	Change in Control and Severance Agreement for Thomas E. Peterson*
12.1++	Computation of Ratio of Earnings to Fixed Charges.
21.1++	Subsidiaries of Digital River, Inc.
23.1++	Consent of Independent Registered Public Accounting Firm, dated February 27, 2014.
24.1++	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.
101(18)	The following financial information from Digital River, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheet, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Stockholders' Equity, and (vi) Notes to Condensed Consolidated Financial Statements.

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Filed herewith.

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- 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 June 1, 2006.
 - (2) 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.
 - (3) 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.
 - (4) Incorporated by reference from the Company's Registration Statement on Form S-1 (File No. 333-56787), declared effective on August 11, 1998.
 - (5) Incorporated by reference from the Company's Registration Statement on Form S-8 (File No. 333-105864) filed on June 5, 2003.
 - (6) 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.
 - (7) 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.
 - (8) Incorporated by reference from the Company's Current Report on Form 8-K filed on July 13, 2004.
 - (9) Incorporated by reference from the Company's Current Report on Form 8-K filed on May 31, 2005.
 - (10) 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.
 - (11) Incorporated by reference from the Company's Current Report on Form 8-K filed on December 20, 2005.
 - (12) Incorporated by reference from the Company's Current Report on Form 8-K filed on March 10, 2008.
 - (13) 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.
 - (14) Incorporated by reference from the Company's Annual Report on Form 10-K/A for the year ended December 31, 2009, filed on August 19, 2010.
 - (15) Incorporated by reference from the Company's Current Report on Form 8-K filed on November 1, 2010.
 - (16)

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Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed on November 2, 2010.

(17) Incorporated by reference from the Company's Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2012, filed on January 23, 2013.

(18) Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.