

DIGITAL RIVER INC /DE

Form DEF 14A

April 23, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

DIGITAL RIVER, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
 - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**DIGITAL RIVER, INC.
9625 WEST 76TH STREET
EDEN PRAIRIE, MN 55344**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 31, 2007**

To The Stockholders Of Digital River, Inc.:

Notice Is Hereby Given that the Annual Meeting of stockholders of **Digital River, Inc.**, a Delaware corporation, will be held on Thursday, May 31, 2007, at 3:30 p.m. local time at the Sheraton Hotel, 7800 Normandale Boulevard, Bloomington, Minnesota, 55439 for the following purposes:

1. To elect three directors to hold office until the 2010 annual meeting of stockholders;
2. To approve the 2007 Equity Incentive Plan;
3. To ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP as our independent auditors for its fiscal year ending December 31, 2007; and
4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on April 12, 2007, as the record date for the determination of stockholders entitled to notice of and to vote at this Annual Meeting and at any adjournment or postponement thereof.

By Order of the Board of Directors

Kevin L. Crudden
Secretary
Eden Prairie, Minnesota
April 24, 2007

ALL STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN ORDER TO ENSURE YOUR REPRESENTATION AT THE MEETING. A RETURN ENVELOPE (WHICH IS POSTAGE PREPAID IF MAILED IN THE UNITED STATES) IS ENCLOSED FOR THAT PURPOSE. IF YOU DO NOT RETURN THE ENCLOSED PROXY, YOU MAY VOTE YOUR SHARES ON THE INTERNET BY FOLLOWING THE INSTRUCTIONS ON YOUR PROXY. EVEN IF YOU HAVE GIVEN YOUR PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN FROM THE RECORD HOLDER A PROXY ISSUED IN YOUR NAME.

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**DIGITAL RIVER, INC.
9625 WEST 76TH STREET
EDEN PRAIRIE, MN 55344**

**PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS**

May 31, 2007

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The enclosed proxy is solicited on behalf of the Board of Directors of Digital River, Inc., a Delaware corporation, for use at the Annual Meeting of stockholders to be held on May 31, 2007, at 3:30 p.m. local time, or at any adjournment or postponement of the Annual Meeting, for the purposes set forth in this proxy statement and in the accompanying Notice of Annual Meeting. The Annual Meeting will be held at the Sheraton Hotel, 7800 Normandale Boulevard, Bloomington, Minnesota, 55439. We intend to mail this proxy statement and accompanying proxy card on or about April 24, 2007 to all stockholders entitled to vote at the Annual Meeting.

Solicitation

We will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement, the proxy card and any additional information furnished to stockholders. We will furnish copies of solicitation materials to banks, brokerage houses, fiduciaries and custodians holding in their names shares of our common stock, par value \$.01 per share, beneficially owned by others to forward to the beneficial owners. We may reimburse persons representing beneficial owners of common stock for their costs of forwarding solicitation materials to the beneficial owners. Our directors, officers or other regular employees may supplement original solicitation of proxies by mail by telephone or personal solicitation. They will not be paid any additional compensation for these services. We engaged The Proxy Advisor Group, LLC to assist in the solicitation of proxies and provide related advice and informational support, for a services fee and the reimbursement of customary disbursements that are not expected to exceed \$20,000 in the aggregate.

Voting Rights and Outstanding Shares

Only holders of record of our common stock at the close of business on April 12, 2007, will be entitled to notice of and to vote at the Annual Meeting. At the close of business on April 12, 2007, we had outstanding and entitled to vote 41,334,620 shares of common stock.

Each holder of record of our common stock on that date will be entitled to one vote for each share held on all matters to be voted upon at the Annual Meeting.

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if at least a majority of the outstanding shares are represented by votes at the meeting or by proxy. All votes will be tabulated by the inspector of election appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. Abstentions will be counted towards the vote total on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether a matter has been approved.

Voting Via the Internet or by Telephone

You may grant a proxy to vote your shares by means of the telephone or on the Internet. The law of Delaware, under which we are incorporated, specifically permits electronically transmitted proxies, provided that each proxy contains or is submitted with information from which the inspectors of election can determine that this proxy was authorized by you.

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The telephone and Internet voting procedures below are designed to authenticate stockholders' identities, to allow stockholders to grant a proxy to vote their shares and to confirm that stockholders' instructions have been recorded properly. If you are granting a proxy to vote via the Internet, you should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, that must be borne by you.

For Shares Registered in your Name

Stockholders of record may grant a proxy to vote shares of our common stock by using a touch-tone telephone to call 1-800-560-1965 or via the Internet by accessing the website <http://www.eproxy.com/driv>. You will be required to enter our number, a seven-digit control number (these numbers are located on the proxy card) and the last four digits of your social security number or tax identification number. If voting via the Internet, you will then be asked to complete an electronic proxy card. The votes will be generated on the computer screen and you will be prompted to submit or revise them as desired. Votes submitted by telephone or via the Internet must be received by 12:00 noon, Central Time, on May 30, 2007. Submitting your proxy by telephone or via the Internet will not affect your right to vote in person should you decide to attend the Annual Meeting.

For Shares Registered in the Name of a Broker or Bank

Most beneficial owners whose stock is held in street name receive instruction for granting proxies from their banks, brokers or other agents, rather than our proxy card. A number of brokers and banks are participating in a program provided through ADP Investor Communication Services that offers the means to grant proxies to vote shares by means of the Internet. If your shares are held in an account with a broker or bank participating in the ADP Investor Communications Services program, you may go to <http://www.proxyvote.com> to grant a proxy to vote your shares by means of the Internet. Votes submitted via the Internet must be received by 12:00 noon, Central Time, on May 30, 2007. Submitting your proxy via the Internet will not affect your right to vote in person should you decide to attend the Annual Meeting. A beneficial owner who wishes to vote at the meeting must have an appropriate proxy from his or her broker or bank appointing that beneficial owner as attorney-in-fact for purposes of voting the beneficially held shares at the meeting.

Revocability of Proxies

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. You may revoke your proxy by filing with our Corporate Secretary at our principal executive office, 9625 West 76th Street, Eden Prairie, Minnesota 55344, a written notice of revocation or a duly executed proxy bearing a later date, or you may revoke your proxy by attending the meeting and voting in person. Attendance at the meeting will not, by itself, revoke a proxy.

If you are the beneficial owner of shares held in the name of a broker or bank and you wish to vote at the Annual Meeting, you must have an appropriate proxy from your broker or bank appointing you as attorney-in-fact for purposes of voting at the meeting.

Stockholder Proposals

The deadline for submitting a stockholder proposal for inclusion in our proxy statement and form of proxy for our 2008 Annual Meeting of stockholders pursuant to Rule 14a-8 of the Securities and Exchange Commission is December 26, 2007.

For business to be properly brought before an annual meeting by a stockholder, the stockholder, wishing to submit proposals or director nominations that are not to be included in such proxy statement and proxy, must have given timely notice in writing to our Corporate Secretary. To be timely, a stockholder's notice must be delivered to or mailed and received at our principal executive offices not later than the close of business on March 2, 2008, nor earlier than the close of business on February 1, 2008. You should also review our bylaws, which contain additional requirements with respect to advance notice of stockholder proposals and director nominations.

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Proposal 1

ELECTION OF DIRECTORS

Our Restated Certificate of Incorporation and bylaws provide that the Board of Directors will be divided into three classes, with each class having a three-year term. Vacancies on the Board may be filled only by persons elected by a majority of the remaining directors. A director elected by the Board to fill a vacancy in a class (including a vacancy created by an increase in the number of directors) shall serve for the remainder of the full term of the class of directors in which the vacancy occurred and until the director's successor is elected and qualified.

The Board of Directors presently has six members and one vacancy. There are three directors in the class whose term of office expires in 2007 (Joel A. Ronning, Perry W. Steiner and J. Paul Thorin), and the Nominating and Corporate Governance Committee of the Board has nominated Messrs. Ronning, Steiner and Thorin to stand for reelection at the upcoming Annual Meeting. Set forth below is the name, age and biographical information for each person nominated. Messrs. Ronning, Steiner and Thorin are currently our directors who were previously elected by the stockholders. If elected at the Annual Meeting, Messrs. Ronning, Steiner and Thorin would serve until the 2010 annual meeting and until their respective successors are elected and have qualified, or until the director's death, resignation or removal.

Directors are elected by a plurality of the votes present in person or represented by proxy and entitled to vote at the meeting. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the nominees. In the event that the nominees should be unavailable for election as a result of an unexpected occurrence, the shares will be voted for the election of substitute nominees as the Nominating and Corporate Governance Committee may propose. The nominees have agreed to serve if elected, and the Nominating and Corporate Governance Committee and management have no reason to believe that the nominees will be unable to serve.

Abstentions will be counted towards a quorum and towards the vote total for this proposal and will have the same effect as negative votes. Broker non-votes are counted towards a quorum but are not counted towards the vote total for this proposal.

Nominees for Election for a Three-Year Term Expiring at the 2010 Annual Meeting:

Joel A. Ronning

Mr. Ronning (50) founded Digital River in February 1994 and has been Chief Executive Officer and a director since that time. From February 2001 to February 2004, Mr. Ronning was a member of the Office of the President, and from February 1994 to July 1998, he also was our President. From May 1995 to December 1999, Mr. Ronning served as Chairman of the Board of Directors of Tech Squared, Inc., a direct catalog marketer of software and hardware products, and from May 1995 to July 1998, he served as Chief Executive Officer, Chief Financial Officer and Secretary of Tech Squared, Inc. From May 1995 to August 1996, Mr. Ronning also served as President of Tech Squared, Inc. Mr. Ronning founded MacUSA, Inc., formerly a wholly owned subsidiary of Tech Squared, Inc., and he served as a director of MacUSA, Inc. from April 1990 to December 1999. From April 1990 to July 1998, Mr. Ronning also served as the Chief Executive Officer of MacUSA, Inc.

Perry W. Steiner

Mr. Steiner (41) has served as our director since April 1998 and served as our President from August 1998 to February 2001. Since February 2001, Mr. Steiner has been a Partner with Arlington Capital Partners, a private equity fund.

Prior thereto, Mr. Steiner served as a senior member of Wasserstein Perella & Co., Inc., an investment banking firm, and as a principal of TCW Capital, a group of leveraged buyout funds managed by Trust Company of the West. Mr. Steiner serves as a director of Main Line Broadcasting, Cherry Creek Radio and Long Island Radio.

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J. Paul Thorin

Mr. Thorin (63) has served as our director since June 1996. Since July 2005, Mr. Thorin has been in private legal practice in Santa Clara, California. From September 2000 to June 2005, Mr. Thorin served as Vice President and General Counsel of ArrayComm, Inc., a wireless technology company.

**The Board of Directors Recommends
a Vote in Favor of the Named Nominees**

Directors Continuing in Office until the 2008 Annual Meeting:

Thomas F. Madison

Mr. Madison (71) has served as our director since August 1996 and our Lead Director since February 2005. Since January 1993, he has been the President and Chief Executive Officer of MLM Partners, a consulting and small business investment company. From December 1996 to March 1999, Mr. Madison served as Chairman of Communications Holdings, Inc., a communications and systems integration company. From August 1999 to March 2000, Mr. Madison served as Chairman of AetherWorks, Inc., a provider of Internet telephony and data networking solutions for the telecommunications industry. From February 1994 to September 1994, Mr. Madison served as Vice Chairman and Chief Executive Officer at Minnesota Mutual Life Insurance Company. From June 1987 to December 1992, Mr. Madison was President of US WEST Communications Markets, a division of US WEST, Inc. From 1985 to 1987, Mr. Madison served as President and Chief Executive Officer of Northwestern Bell Telephone Co. Mr. Madison serves as a director of Valmont Industries Inc., Delaware Group of Funds, CenterPoint Energy and Rimage Corporation.

Directors Continuing in Office until the 2009 Annual Meeting:

William J. Lansing

Mr. Lansing (49) has served as our director since November 1998. Since 2004, Mr. Lansing has been the Chief Executive Officer and a member of the Board of Directors of ValueVision Media, Inc. Mr. Lansing was a general partner at General Atlantic Partners from September 2001 to December 2003. Mr. Lansing served as Chief Executive Officer at NBCi from April 2000 to August 2001. From May 1998 to March 2000, Mr. Lansing was an executive officer with Fingerhut Companies, Inc. including Chief Executive Officer. From October 1996 to May 1998, Mr. Lansing served as Vice President for Business Development for General Electric Corporation. From January 1996 to October 1996, he was Chief Operating Officer at Prodigy Services Company. From September 1986 to December 1995, Mr. Lansing was employed by McKinsey & Co. Mr. Lansing is a member of the Board of Directors of RightNow Technologies, Inc. and Fair Isaac Corporation.

Frederic M. Seegal

Mr. Seegal (59) has served as our director since June 2000. Since March 2007, Mr. Seegal has been President of Seegal Benson Leucadia Partners, a New York-based merchant banking firm. From September 2002 to March 2007, Mr. Seegal served as Executive Vice President of Stephens Inc., an investment bank. From 1994 to 2001, Mr. Seegal served as President of Dresdner Kleinwort Wasserstein, Inc. and its predecessors, an investment bank. From 1990 to 1994, Mr. Seegal was Managing Director/Co-Head of Domestic Corporate Finance at Salomon Brothers. Prior to that, Mr. Seegal was in charge of Lehman Brothers' investment banking activities in the Media & Communications Industries. Mr. Seegal is on the Board of the New York City Center.

Board Committees and Meetings

The Board has four standing committees: an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee and a Finance Committee. In addition, in February 2005, the Board of Directors appointed Thomas F. Madison as the Lead Director of the Board for the purposes of overseeing and

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evaluating matters of corporate and Board governance. Each of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee has a written charter which may be viewed on our Web site at www.digitalriver.com under the Investor Relations link. The charters include information regarding the committees composition, purpose and responsibilities.

During the fiscal year ended December 31, 2006, there were a total of five meetings of the Board and each of the directors attended at least 75% of the total meetings of the Board and of the committees on which he served and which were held during the period he was a director or committee member. We encourage, but do not require, directors to attend the Annual Meeting of our stockholders. In 2006, Messrs. Ronning and Madison attended the annual meeting.

The following table summarizes the membership of the Board and each of its Committees as well as the number of times each met during fiscal year 2006.

Director	Board	Audit	Compensation	Nominating and Corporate Governance	Finance
Mr. Ronning	Chair				
Mr. Madison (Lead)	Member	Chair	Member	Chair	
Mr. Lansing	Member		Chair	Member	Member
Mr. Seegal	Member		Member	Member	Chair
Mr. Steiner	Member	Member		Member	
Mr. Thorin	Member	Member		Member	

Number of Meetings in Fiscal Year 2006:

Meetings	Board	Audit	Compensation	Corporate Governance and Nominating	Finance
Regular	4	5	2	2	1
Special	1	0	0	0	0

Audit Committee

The Audit Committee of our Board of Directors oversees our corporate accounting and financial reporting processes and audits of our financial statements. For this purpose, the Audit Committee performs several functions. The Audit Committee evaluates the performance of and assesses the qualifications of the independent auditors; determines the engagement and compensation of the independent auditors; determines whether to retain or terminate the existing independent auditors or to engage new independent auditors; reviews and approves the retention of the independent auditors to perform any proposed permissible non-audit services; monitors the rotation of partners of the independent auditors on our engagement team as required by law; reviews the financial statements to be included in our Annual Report on Form 10-K; and discusses with management and the independent auditors the results of the annual audit and the results of the quarterly financial statement reviews. Mr. Madison serves as the Chair of the Audit Committee and our Board has determined that Mr. Madison is an audit committee financial expert as defined in rules promulgated by the SEC.

Compensation Committee

The Compensation Committee reviews and approves our overall compensation strategy and policies. The Compensation Committee reviews and approves corporate performance goals and objectives relevant to the compensation of our executive officers; reviews and approves the compensation and other terms of employment of our Chief Executive Officer; and administers our stock option and purchase plans, pension and profit sharing plans, stock bonus plans, deferred compensation plans and other similar programs. Mr. Lansing serves as the Chair of the Compensation Committee.

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Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee identifies, reviews, evaluates, recommends and approves candidates for membership on the Board and its various committees, and also is responsible for oversight of corporate governance issues. Mr. Madison serves as the Chair of the Nominating and Corporate Governance Committee.

Our bylaws contain provisions that address the process by which a stockholder may nominate an individual to stand for election to our Board at our Annual Meeting of stockholders. These requirements are separate from and in addition to the SEC requirements that must be met by a stockholder in order to have a stockholder proposal included in our proxy statement. See *Information Concerning Solicitation and Voting Stockholder Proposals*. To date, we have not received any recommendations from stockholders requesting that the Nominating and Corporate Governance Committee consider a candidate for inclusion among the slate of nominees presented at our Annual Meeting of stockholders. The Nominating and Corporate Governance Committee will consider qualified candidates for director suggested by the stockholders. Stockholders can suggest qualified candidates for director by writing to the attention of our Corporate Secretary at 9625 West 76th Street, Eden Prairie, Minnesota 55344. We will forward submissions that we receive which meet the criteria outlined below to the Nominating and Corporate Governance Committee for further review and consideration. We encourage you to forward any stockholder submissions to our Corporate Secretary prior to November 30, 2007, to ensure time for meaningful consideration of the nominee. See also *Information Concerning Solicitation and Voting Stockholder Proposals* for applicable deadlines. The Nominating and Corporate Governance Committee also may develop other more formal policies regarding stockholder nominations.

Although the Nominating and Corporate Governance Committee has not formally adopted minimum criteria for director nominees, the Nominating and Corporate Governance Committee does seek to ensure that the members of our Board possess both exemplary professional and personal ethics and values and an in-depth understanding of our business and industry. The Nominating and Corporate Governance Committee also believes in the value of professional diversity among members of the Board, and it feels that it is appropriate for members of our senior management to participate as members of the Board. The Nominating and Corporate Governance Committee requires that at least one member of the Board qualify as an audit committee financial expert as defined by SEC rules, and that a majority of the members of the Board meet the definition of independence under rules promulgated by the NASD.

The Nominating and Corporate Governance Committee identifies nominees for the class of directors being elected at each Annual Meeting of stockholders by first evaluating the current members of the class of directors willing to continue in service. Current members of the Board with skills and experience that are relevant to our business and who are willing to continue to serve on our Board are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with the benefits of bringing on members with new perspectives. If any member of the class of directors does not wish to continue in service or if the Nominating and Corporate Governance Committee decides not to re-nominate a member of such class of directors for reelection, the Nominating and Corporate Governance Committee will review the skills and experience of a new nominee in light of the criteria above.

Finance Committee

The Finance Committee advises senior management with respect to various strategic undertakings, including capital raising activities, acquisitions and other financial matters. The Finance Committee is composed of Messrs. Seegal and Lansing and it meets only occasionally as may be necessary to assist senior management. Mr. Seegal serves as the Chair of the Finance Committee. All members are independent, as independence is currently defined in the rules promulgated by the NASD. The Finance Committee has not adopted a written charter.

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Director Independence

The Board has reviewed director independence. As a result of this review, the Board determined that five of the six directors, including two of the three directors being nominated for re-election at the Annual Meeting, are independent of us and our management, as independence is currently defined in rules promulgated by the NASD. All members of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee qualify as independent directors, as independence is currently defined in rules promulgated by the NASD, and, in the case of the Audit Committee, the SEC and the NASD. The independent directors are Messrs. Madison, Lansing, Steiner, Seegal and Thorin. Mr. Ronning is considered an inside director because of his continued employment as our senior executive.

Executive Sessions

During the fiscal year ended December 31, 2006, the non-management independent directors met in executive sessions without management on four occasions. Mr. Madison presided over these executive sessions as the Lead Director.

Corporate Governance Guidelines

We have adopted Corporate Governance Guidelines that outline, among other matters, the role and functions of the Board, the responsibilities of various Board committees, and the procedures for reporting concerns to the Board.

The Guidelines provide, among other things, that:

a majority of the directors must be independent.

the Board designate a lead independent director who, among other duties, is responsible for presiding over executive sessions of independent directors.

the Board appoint all members of the Board committees.

the independent directors meet in executive sessions without the presence of the non-independent directors or members of our management at least four times a year during regularly scheduled Board meeting days and from time to time as deemed necessary or appropriate.

As the operation of the Board is a dynamic process, the Board regularly reviews changing legal and regulatory requirements, evolving best practices and other developments. The Board may modify the Guidelines from time to time, as appropriate.

Copies of Governance Guidelines, Code Of Conduct and Ethics and Board Committee Charters

Copies of our Corporate Governance Guidelines, Code of Conduct and Ethics and all Board Committee Charters can be viewed on and downloaded from our website at www.digitalriver.com, under the Investor Relations link. You may request free print copies of each of them by writing to our Corporate Secretary at the address listed below under the heading Communications with the Board of Directors.

Code of Conduct and Ethics

We have adopted a Code of Conduct and Ethics that applies to our Chief Executive Officer and senior financial officers, including our Chief Financial Officer and our Controller, as well as our Board of Directors and all employees. We will provide a copy of the Code to any person, without charge, upon request. These requests can be made in writing to our Corporate Secretary at 9625 West 76th Street, Eden Prairie, Minnesota 55344. To the extent permitted by the rules promulgated by the NASD, we intend to disclose any amendments to, or waivers from, the Code provisions applicable to our Chief Executive Officer and 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.

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Communications with the Board of Directors

If you wish to communicate with the Board of Directors, with the independent directors as a group or with the Lead Director, you may send your communication in writing to our Corporate Secretary at 9625 West 76th Street, Eden Prairie, Minnesota 55344. You must include your name and address and indicate whether you are a stockholder of Digital River. The Corporate Secretary will compile all communications, summarize all lengthy, repetitive or duplicative communications and forward them to the appropriate director or directors. For example, the Corporate Secretary will forward stockholder communications recommending potential director nominees to the chairman of the Nominating and Corporate Governance Committee. The Corporate Secretary will not forward non-substantive communications or communications that pertain to personal grievances, but instead will forward them to the appropriate department for resolution. In this case, the Corporate Secretary will retain a copy of the communication for review by any director upon his request.

Director Nominations

The Nominating and Corporate Governance Committee is the standing committee responsible for identifying and recommending nominees for election to the Board of Directors. The Nominating and Corporate Governance Committee determines the required selection criteria and qualifications of director nominees based upon our needs at the time nominees are considered. A candidate must exhibit strong personal integrity, character, ethics and judgment. When evaluating prospective candidates, the Committee will consider, in accordance with its charter, such factors as:

The candidate's business skills and experience

The candidate's satisfaction of independence and qualification requirements of the NASD

The mix of directors and their individual skills and experiences

Core competencies that should be represented on the Board

When current Board members are considered for nomination for re-election, the Nominating and Corporate Governance Committee assesses the contributions of those directors, their performance and their attendance at Board and respective Committee meetings.

The Nominating and Corporate Governance Committee will consider qualified candidates for possible nomination that are submitted by shareholders. Any shareholder wishing to propose a nominee should submit a recommendation in writing to our Corporate Secretary, at 9625 West 76th Street, Eden Prairie, Minnesota, 55344, indicating the nominee's qualifications and other relevant biographical information and providing confirmation of the nominee's consent to serve as a director. These proposals for nominees will be given due consideration by the Nominating and Corporate Governance Committee for recommendations to the Board based on the nominee's qualifications.

No candidates for director nominations were submitted to the Nominating and Corporate Governance Committee by any shareholder in connection with the 2007 Annual Meeting. We encourage you to forward any stockholder submissions to our Corporate Secretary prior to November 30, 2007, to ensure time for meaningful consideration of the nominee. See also Information Concerning Solicitation and Voting Stockholder Proposals for applicable deadlines.

Report of the Audit Committee of the Board of Directors

The following is the report of the Audit Committee with respect to our audited financial statements for the fiscal year ended December 31, 2006, which include our consolidated balance sheets as of December 31, 2006 and 2005, and the consolidated statements of operations, stockholders' equity and cash flows for each year in the periods ended December 31, 2006, 2005 and 2004, and the related notes.

The Audit Committee reviews our consolidated financial statements, corporate accounting and financial reporting process and internal controls on behalf of the Board of Directors. All of the members of the Audit Committee are independent under the current requirements of the Nasdaq listing standards and SEC rules and

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regulations. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal control over financial reporting. In fulfilling its oversight responsibilities with respect to our corporate accounting and financial reporting process, the Audit Committee regularly reviews and discusses the financial statements with management, including the discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The Audit Committee also regularly meets with our independent auditors who have unrestricted access to the Audit Committee. During the fiscal year ended December 31, 2006, the Audit Committee actively participated in overseeing our efforts in maintaining and testing internal controls over financial reporting in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, in connection with which our independent auditors issued an unqualified opinion in March 2007.

The Audit Committee determines the engagement and compensation of the independent auditors, evaluates the performance of and assesses the qualifications of the independent auditors, reviews and pre-approves the retention of the independent auditors to perform any proposed permissible non-audit services and monitors the rotation of partners of the independent auditors on our engagement team. The Audit Committee reviewed and discussed with Ernst & Young LLP, our independent auditors who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of our accounting principles and such other matters as are required to be discussed with the Audit Committee by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1 AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T (Communication with Audit Committees). In addition, the Audit Committee has discussed with Ernst & Young LLP their independence from us and our management and the Audit Committee has received the written disclosures and the letter from the independent accountants required by the Independence Standards Board Standard No. 1 (Independence Discussion With Audit Committees), as adopted by the Public Company Accounting Oversight Board in Rule 3600T, and considered the compatibility of any non-audit services with the independence of Ernst & Young LLP.

The Audit Committee discussed with our independent auditors the overall scope and plans for their audit. The Audit Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of our internal control and the overall quality of our financial reporting. During the last fiscal year, the Audit Committee met with the independent auditors four times without management present in connection with the foregoing matters.

Based upon the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the SEC on March 1, 2007.

The information contained in this report shall not be deemed to be soliciting material or filed with the SEC or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act or the Exchange Act.

Audit Committee

Thomas F. Madison, Chairman
Perry W. Steiner
J. Paul Thorin

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Proposal 2

APPROVAL OF THE DIGITAL RIVER, INC. 2007 EQUITY INCENTIVE PLAN

On April 4, 2007, the Board of Directors unanimously approved and adopted the Digital River, Inc. 2007 Equity Incentive Plan (the 2007 Plan), authorized 2,000,000 shares of our common stock for issuance under the 2007 Plan and directed that the 2007 Plan be submitted to our stockholders for approval. The 2007 Plan will become effective when it is approved by the stockholders. The purposes of the 2007 Plan are to support our ongoing efforts to attract, retain and develop exceptional talent and to enable us to provide incentives directly linked to our short-term and long-term objectives and to increases in stockholder value. In addition, under the 2007 Plan, we will have the ability to grant performance-based compensation awards that meet the requirements of Section 162(m) of the Internal Revenue Code, thereby preserving our ability to receive federal income tax deductions for the awards.

The 2007 Plan will be in addition to the Digital River, Inc. 1998 Equity Incentive Plan (the 1998 Plan). The 1998 Plan was initially adopted by our stockholders in 1998 and amended and restated in 2005, which amendment was adopted by our stockholders in 2005. The 1998 Plan provides for the award of stock options and stock-based awards to our elected officers, outside directors, and employees. As set forth under Equity Compensation Plan Information on page 32, at December 31, 2006, 1,540,200 shares of our common stock remained available for future issuance under the 1998 Plan. As of March 31, 2007, after taking into account awards made in 2007, as well as the expiration, termination or forfeiture of existing awards, 851,594 shares were available for issuance under the 1998 Plan. As of March 31, 2007, there were 3,268,664 shares subject to issuance upon exercise of outstanding options under the 1998 Plan, at a weighted average exercise price of \$26.55, and with a weighted average remaining life of 7.1 years. The 1998 Plan will terminate on June 8, 2008 and all options or awards originally granted under the 1998 Plan shall continue to be governed by the terms and conditions of the 1998 Plan, except that to the extent that any options or other stock award expires or terminates before the stock underlying the award has been issued under the 1998, the shares otherwise set aside of those awards shall become available for issuance under the 2007 Plan such that more than 2,000,000 shares could ultimately be issued under the 2007 Plan.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the meeting will be required to approve the 2007 Plan. Abstentions will be counted toward the tabulation of votes cast on the proposal presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

**The Board of Directors Recommends
a Vote in Favor of Proposal 2**

The description of the 2007 Plan below is qualified in its entirety by reference to the provisions of the 2007 Plan itself, which is attached as Appendix A to these proxy materials.

As of April 2, 2007 the fair market value per share of our common stock was \$55.31.

Purpose of the 2007 Plan

The purpose of the 2007 Plan is to provide a means by which eligible participants may be given the opportunity to benefit from increases in value of our common stock, to secure and retain the services of eligible participants, to provide incentives for eligible participants to exert maximum efforts for our success, and to align the interests of eligible participants with the interests of our stockholders.

2007 Plan Basics

Eligible participants:

All of our employees, directors and consultants and those of our subsidiaries. As of April 1, 2007 approximately 1,070 persons were eligible for stock awards under the 2007 Plan.

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Types of awards:	Incentive stock options Nonstatutory stock options
Restricted stock awards	
Restricted stock unit awards	
Performance shares	
Share reserve:	Subject to capitalization adjustments, 2,000,000 shares of our common stock are reserved under the 2007 Plan. 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.
Limitations:	For any two shares of our common stock issued in connection with a full value award that does not provide for full payment in cash or property by the participant, three fewer shares will be available for issuance in connection with future awards. No more than 400,000 shares of our common stock subject to stock awards may be granted to an eligible participant in any calendar year.
Capitalization adjustments:	Share reserve, limitations, purchase price and number of shares subject to outstanding stock awards will be adjusted in the event of a stock split, reverse stock split, stock dividend, merger, consolidation, reorganization, recapitalization, or similar transaction.
Repricing:	Not permitted without stockholder approval.
Stock Options	
Term:	Not more than 10 years from the date of grant.
Exercise price:	Not less than 100% of fair market value on the date of grant.
Consideration:	Cash Net exercise
Delivery of our common stock	
Any other form of legal consideration	
Transferability:	Nontransferable; except upon death or divorce (nonstatutory stock options only).
Vesting:	To be determined by the Board at the time of grant.
Termination of service:	7 days following termination for cause 90 days following termination without cause Additional time if termination due to death or disability

Restricted Stock Awards; Restricted Stock Unit Awards; and Performance Shares

Purchase price:	Determined by Board at the time of grant; may be zero.
Consideration:	Determined by Board at the time of grant; may be in any form permissible under applicable law.
Vesting:	Determined by Board at time of grant; may be based on achievement of performance objectives; provided that if the vesting schedule is a time-based vesting schedule, such shares shall vest not earlier than the first anniversary of the date of grant.

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Performance objectives:	Total shareholder return Earnings per share Stock price Return on equity Net earnings Related return ratios Cash flow
Net earnings growth	
Return on assets	
Revenues	
Expenses	
Funds from operations	
Funds from operations per share	
Earnings before interest, taxes, depreciation, and amortization	
Payment:	Payable only in shares of our common stock.
Termination of service:	Unvested portion of the stock award is forfeited.
Dividend equivalents:	Dividend equivalents may be credited in respect of shares of common stock equivalents underlying restricted stock unit awards and performance shares.
Transferability:	Stock awards are transferable as provided in the stock award agreement.
Deferral of award payment:	Board may establish one or more programs to permit selected participants to elect to defer receipt of consideration upon exercise of a stock award, the satisfaction of performance objectives, or other events which would entitle the participant to payment, receipt of our common stock or other consideration.

Additional 2007 Plan Terms

Administration. The 2007 Plan will be administered by the Compensation Committee, which will have the power to interpret the plan and to adopt such rules and guidelines for carrying out the plan as it may deem appropriate. The Compensation Committee will have the authority to adopt such modifications, procedures and subplans as may be necessary or desirable to comply with the laws, regulations, compensation practices and tax and accounting principles of the countries in which we or one of our subsidiaries may operate to assure the viability of the benefits of awards made to individuals employed in such countries and to meet the objectives of the 2007 Plan. Subject to the terms of the 2007 Plan, the Compensation Committee will have the authority to determine those individuals eligible to receive awards and the amount, type and terms of each award and to establish and administer any performance goals applicable to such awards.

Stock options granted under the 2007 Plan will qualify as performance-based compensation under Section 162(m). Other stock awards may, but need not, include performance objectives that satisfy the requirements of Section 162(m). To the extent that stock awards (other than stock options) are intended to qualify as performance-based compensation under Section 162(m), the performance objectives will be one of the objectives listed as performance objectives in the preceding section of this plan summary. The Compensation Committee will determine which performance objectives

shall apply to specific stock awards.

Tax withholding. Tax withholding obligations may be satisfied by the eligible participant by (i) tendering a cash payment; (ii) authorizing us to withhold shares of our common stock from the shares otherwise issuable as a result of the exercise or acquisition of common stock under the Stock Award; or (iii) delivering to us owned and unencumbered shares of common stock.

Corporate Transactions; Securities Acquisition. In the event of a corporate transaction, the surviving corporation may assume, continue or substitute outstanding stock awards. To the extent that the stock awards are not assumed, continued or substituted, the vesting (and exercisability if applicable) of the stock awards held by eligible participants who are in continuous service with Digital River prior to the effective time of the corporate transaction shall be accelerated and, if applicable, terminated at the effective time of the corporate transaction if not exercised prior to the effective time. In the event of certain securities acquisitions involving more than 50% of our outstanding securities, the vesting (and exercisability if applicable) of all outstanding

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stock awards shall be accelerated. The acceleration of the vesting of stock awards in the event of an acquisition or similar corporate event may be viewed as an anti-takeover provision, which may have the effect of discouraging a proposal to acquire or otherwise obtain control of Digital River.

Amendment; Termination. The Board may amend the 2007 Plan at any time, provided, that the amendment does not impair the rights of any eligible participant with respect to any outstanding award. Some amendments may require stockholder approval. The Board may suspend or terminate the 2007 Plan at any time. No stock awards will be granted under the 2007 Plan after it is suspended or terminated. Unless sooner terminated by the Board, the 2007 Plan will terminate on April 4, 2017.

Federal Income Tax Consequences

The following is only a brief summary of the effect of U.S. federal income taxation on us and the 2007 Plan participants. This summary does not discuss the income tax laws of any other jurisdiction (such as municipality or state) in which the recipient of the award may reside. For purposes of this discussion Code is the Internal Revenue Code of 1986, as amended.

Incentive Stock Options. No tax will be payable by us or the participant at the time of grant or exercise of an incentive st