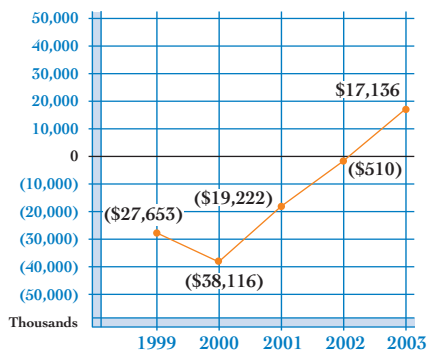




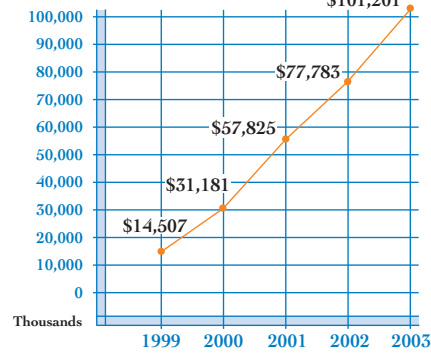
Digital River
2003 Annual Report



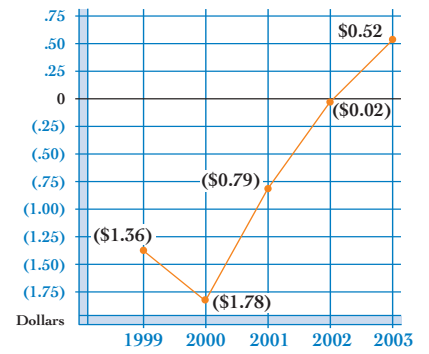
Net Income



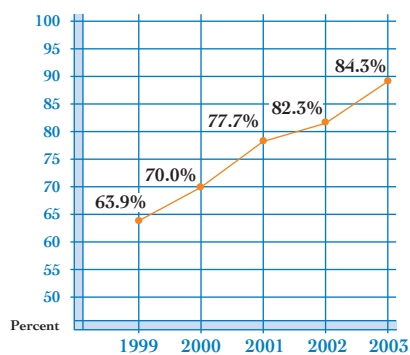
Revenue



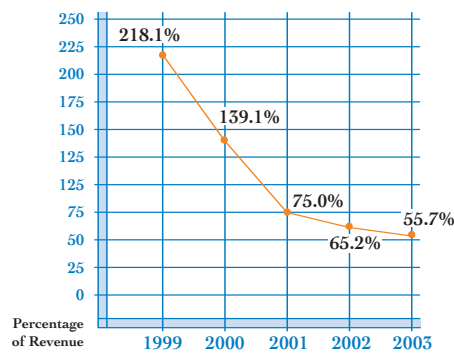
Earnings Per Share



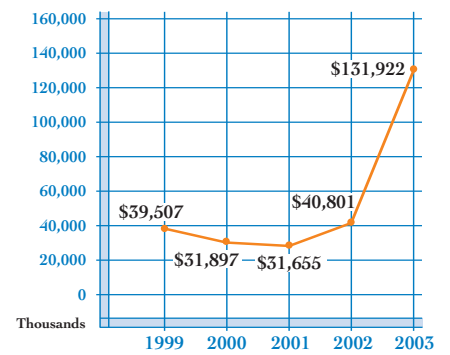
Gross Margins



Recurring Operating Expense



Cash & Investments





About Digital River, Inc.

Founded in 1994, Digital River, Inc. is a global leader in e-commerce outsourcing. The company utilizes a world-class e-commerce solution and hardware infrastructure to build and manage online businesses for nearly 35,000 companies worldwide. The Digital River® international e-commerce suite includes site development and hosting, order management, fraud prevention, site merchandising, reporting and analytics, product fulfillment, e-marketing and multi-lingual customer service. Digital River is headquartered in Eden Prairie, Minnesota, with an international office in the United Kingdom.

Acerca de Digital River, Inc.

Digital River, Inc., fundada en 1994, es un líder global en contratación externa de comercio electrónico. La compañía emplea una solución de comercio electrónico e infraestructura de hardware de clase mundial para desarrollar y administrar negocios en línea para casi 35,000 compañías a nivel mundial. La suite de comercio electrónico internacional de Digital River® incluye desarrollo y hospedaje de sitios Web, administración de pedidos, prevención de fraudes, comercialización de sitios, cobertura y análisis, satisfacción del producto, marketing electrónico y atención a clientes multilingüe. Digital River tiene su sede en Eden Prairie, Minnesota, y cuenta con una oficina internacional en el Reino Unido.

Digital River, Inc. 简介

Digital River, Inc. 成立于1994年，是一家电子商务外保业务全球领先公司。本公司利用世界级电子商务解决方案和硬件基础设施，为世界各地近35,000家公司建立和管理联机业务。Digital River® 国际电子商务套件包括现场开发与主机管理、订购管理、欺诈预防、现场商品销售、报告与分析、产品交付、电子营销以及多语种客户服务。Digital River, Inc. 的总部设在明尼苏达州 Eden Prairie市，并在英国设有一处国际办事处。





Photo: Marc Norberg

2003: Another Year of Firsts

Last year was another year of “firsts” for Digital River. From a financial point of view, we continued to grow, exceeding \$100 million of revenue for the first time in the ten-year history of this company. More importantly, we enjoyed our first full year of profitability.

But the firsts didn't stop there. Several operational and strategic milestones were achieved last year. In 2003, we:

- Rolled out our first client sites in the Asian and Pacific Rim marketplace;
- Opened our first international data center just outside London;
- Fully integrated the enterprise software license management and subscriptions tools into our platform;
- Completed and integrated seven acquisitions; and
- Included the increasingly important try-before-you-buy sales model into the Digital River Sales Network.

2003 Financial Results

For the year, Digital River reported revenues of \$101.2 million, an increase of more than 30 percent from 2002. Net income totaled \$17.1 million, or \$0.52 per diluted share, as compared to a net loss of \$0.5 million, or \$0.02 per basic share, in 2002.

Additionally, in the third quarter we took steps to enhance our competitive positioning by strengthening our balance sheet through a \$44 million secondary common stock offering. As a result, we exited 2003 with approximately \$132 million in cash and investments, and increased our working capital nearly six-fold over the course of the year.

Our year-over-year financial performance also was supported by some key metrics:

- We increased revenue per employee by nearly 32 percent;
- Reported a more than 200 basis point improvement in gross margins; and
- Improved our net income margins to nearly 17 percent, from a net loss of one percent in 2002.

We believe that these financial results indicate a well-managed business. They can be attributed to the scalability of the world-class platform that we have created and the e-marketing expertise we have acquired over the past 10 years. They reflect the quality of our seasoned team of professionals and our ability to successfully perform against a set of key growth initiatives.



2003 Growth Drivers

Winning new clients

Helping companies build, manage and grow successful, international online businesses is our goal. Last year, we signed clients in our target markets, including software and content publishing, trialware, manufacturing and online retailing.

Growing our existing client base

Located around the world, our clients range in size from small and mid-sized businesses to large enterprises. Last year we supported millions of transactions in more than 15 currencies and provided customer service in 12 languages. We also managed nearly 600 million promotional e-mails. These promotions combined with heavy e-marketing activities across our client network drove approximately half of our total online revenue in 2003.

Acquiring companies and technologies

In 2003, we made seven acquisitions that opened new market opportunities and supported key areas of our business. Through two of these acquisitions, we extended our market among enterprise software vendors and content publishers. We also acquired digital rights management technologies to enhance our e-commerce capabilities and support our international expansion efforts. In 2004, we intend to continue taking advantage of industry consolidation.

Key Market Opportunities in 2004

Looking to 2004, we will remain focused on our strategic initiatives, while drilling deeper to maximize opportunities on international fronts and across multiple e-commerce channels.

International expansion

My conversations with many CEOs in 2003 reinforced what we believe will continue to be an important e-commerce trend in 2004 – the shift from physical to digital fulfillment. Once companies make this digital shift, their Internet presence automatically opens the door to global markets. In order to compete in global online markets, companies must be prepared to compete regionally by selling at local levels. It's at these local levels – which represent uncharted business territories for many companies – where Digital River will continue to take charge.



We intend to be the global e-commerce guide for our clients, leading them through the very complex issues involved in running an international online operation. With our world-class e-commerce platform and a decade of experience, we have the infrastructure to help clients handle anti-piracy, international currency and taxation management, multi-lingual customer service, unique payment methods and localized and cultural approaches to online purchasing.

The Digital River Sales Network

Our online sales network not only represents future incremental revenue growth opportunities, but also serves as a competitive differentiator for Digital River. Over the past 10 years we have established relationships with tens of thousands of software publishers, as well as more than 600 online retailers, content publishers and portal sites. On their behalf, we represent hundreds of thousands of digital products in what we believe is one of the largest software catalogs and most powerful online networks in the world.

In 2004, we will continue to work with our clients to help them create unique marketing and sales partnerships that otherwise would be difficult for them to develop on their own. For publishers, we can help them increase market exposure for their products. For our channel partners, we provide access to ready-made software catalogs that they can resell online to generate additional traffic, create new revenue streams and increase customer loyalty. Our network strategy is a natural extension of what we do best – enabling global e-commerce.

Our Goal: The Global Leader in E-Commerce Outsourcing

Digital River continues to live up to its mission – to be the global leader in e-commerce outsourcing. In 2003, we demonstrated the tremendous capacity of this organization. We broke revenue records, exceeded earnings expectations, significantly increased our profitability, advanced our e-commerce infrastructure, opened new markets and won new client contracts.

As we close 2003 and look forward to 2004, we want to say thank you to our loyal employees, clients and stockholders for your ongoing support. We believe we have never been in a better position to capitalize on the worldwide expansion of the Internet and increasing acceptance of online purchasing.



-Joel Ronning, CEO

Board of Directors

William J. Lansing (2, 3, 4)

Partner
General Atlantic Partners

Thomas F. Madison (1, 2, 3)

President and
Chief Executive Officer
MLM Partners

Joel A. Ronning

Chief Executive Officer
Digital River, Inc.

Frederic M. Seegal (2, 3, 4)

Managing Executive
Stephens Financial Group

Perry W. Steiner (1, 3)

Managing Director
Arlington Capital Partners

J. Paul Thorin (1, 3)

Vice President and General Counsel
ArrayComm, Inc.

(1) Audit Committee member

(2) Compensation Committee member

(3) Nominating Committee member

(4) Finance Committee member

Executive Officers

Joel A. Ronning

Chief Executive Officer

Carter D. Hicks

Chief Financial Officer

Corporate Headquarters

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Suite 150
Eden Prairie, MN 55344

Worldwide Offices

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United Kingdom

Market Listing

Nasdaq National Market
Symbol: DRIV

Transfer Agent and Registrar

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161 North Concord Exchange
South St. Paul, MN 55075
800.468.9716

Independent Auditors

Ernst & Young LLP
Minneapolis, MN

General Counsel

Howard Rice Nemerovski
Canady Falk & Rabkin,
A Professional Corporation
San Francisco, CA

Form 10-K

Additional information constituting part of this 2003 Annual Report is contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the Securities and Exchange Commission, a copy of which is included herewith. Additional copies of the form 10-K may be obtained without charge upon written request to Investor Relations at the corporate address or e-mail address.

Annual Meeting

The Company's Annual Meeting of stockholders will be held at 3:30 p.m. local time on Monday, May 24, 2004, at the Radisson Plaza Hotel, 35 South 7th Street, Minneapolis, MN.

Shareholders

As of March 15, 2004, the Company had 397 shareholders of record (this does not include beneficial owners whose stock is held in street name by brokerage houses).

Investor Relations

Alfred A. Galgano
Vice President of Investor Relations
952.253.1234
investorrelations@
digitalriver.com

Dividends

The Company has never declared or paid any cash dividends on its Common Stock. The Board of Directors currently intends to retain any future earnings to support operations and to finance the growth and development of the Company's business and does not anticipate paying cash dividends for the foreseeable future.

Common Stock Information

The Company's Common Stock has traded on the Nasdaq National Market under the symbol DRIV since August 11, 1998. Prior to that date there was no public market for Digital River Common Stock. The quotations set forth below reflect the high, low and closing prices for the Company's Common Stock on the Nasdaq National Market for each of the identified periods.

2002	High	Low	Close
Qtr. 1	\$21.94	\$10.85	\$14.81
Qtr. 2	9.50	4.25	9.19
Qtr. 3	9.94	6.40	7.67
Qtr. 4	15.00	7.41	11.95
2003	High	Low	Close
Qtr. 1	\$14.57	\$8.83	\$13.69
Qtr. 2	20.10	10.48	19.35
Qtr. 3	31.50	18.50	27.37
Qtr. 4	34.30	21.10	22.10

Forward-Looking Statements

In addition to the historical information contained herein, this report contains forward-looking statements, including statements regarding the Company's anticipated future growth and financial performance as well as statements containing the words, "believes," "anticipates," "expects," and similar words. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: the Company's limited operating history and variability of operating results; competition in the electronic commerce market; and other risk factors referenced in the Company's public filings with the Securities and Exchange Commission.



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