

DIGITAL RIVER INC /DE
Form 10-Q
May 10, 2013
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013

OR

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

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 Number)

**10380 BREN ROAD WEST
MINNETONKA, MINNESOTA 55343**

(Address of principal executive offices)

(952) 253-1234

(Registrant's telephone number, including area code)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Exchange Act Rule 12b-2). See definition 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 Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The number of shares of common stock outstanding at April 1, 2013, was 35,267,833 shares.

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Table of Contents

DIGITAL RIVER, INC.

Form 10-Q

Index

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012

Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012

Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2013 and 2012

Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012

Notes to Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Qualitative and Quantitative Disclosure about Market Risk

Item 4. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 1A. Risk Factors

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

Item 4. Mine Safety Disclosure

Item 5. Other Information

Item 6. Exhibits

SIGNATURES

EXHIBIT INDEX

[Table of Contents](#)**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****DIGITAL RIVER, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

| | (Unaudited) March 31, 2013 | December 31, 2012 |
|---|----------------------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 500,742 | \$ 542,851 |
| Short-term investments | 144,615 | 162,794 |
| Accounts receivable, net of allowance of \$5,664 and \$5,400 | 69,947 | 60,656 |
| Deferred tax assets | 445 | 457 |
| Prepaid expenses and other | 33,375 | 33,714 |
| Total current assets | 749,124 | 800,472 |
| Property and equipment, net | 55,171 | 53,265 |
| Goodwill | 141,382 | 108,960 |
| Intangible assets, net of accumulated amortization of \$92,498 and \$91,059 | 34,386 | 11,718 |
| Long-term investments | 52,617 | 71,735 |
| Deferred income taxes | 858 | 1,724 |
| Other assets | 3,246 | 4,342 |
| TOTAL ASSETS | \$ 1,036,784 | \$ 1,052,216 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 202,421 | \$ 205,377 |
| Accrued payroll | 11,226 | 11,630 |
| Deferred revenue | 13,336 | 13,426 |
| Other accrued liabilities | 60,793 | 51,640 |
| Total current liabilities | 287,776 | 282,073 |
| NON-CURRENT LIABILITIES | | |
| Senior convertible notes | 308,555 | 309,909 |
| Other liabilities | 22,816 | 18,236 |
| Total non-current liabilities | 331,371 | 328,145 |
| TOTAL LIABILITIES | 619,147 | 610,218 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, \$.01 par value; 5,000,000 shares authorized; no shares issued or outstanding | 0 | 0 |
| Common stock, \$.01 par value; 120,000,000 shares authorized; 49,887,762 and 48,941,402 shares issued | 499 | 489 |
| Treasury stock at cost; 14,619,929 and 13,581,889 shares | (383,863) | (368,721) |

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| | | |
|---|--------------|--------------|
| Additional paid-in capital | 744,337 | 737,499 |
| Retained earnings | 64,536 | 75,901 |
| Accumulated other comprehensive income (loss) | (7,872) | (3,170) |
| Total stockholders' equity | 417,637 | 441,998 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 1,036,784 | \$ 1,052,216 |

See accompanying notes to consolidated financial statements.

Table of Contents

DIGITAL RIVER, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data; unaudited)

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2013 | 2012 |
| Revenue | \$ 113,693 | \$ 102,443 |
| Costs and expenses (exclusive of depreciation and amortization expense shown separately below): | | |
| Direct cost of services | 22,940 | 18,422 |
| Network and infrastructure | 15,261 | 12,757 |
| Sales and marketing | 30,834 | 28,728 |
| Product research and development | 17,799 | 16,003 |
| General and administrative | 18,628 | 12,170 |
| Goodwill impairment | 21,249 | |
| Depreciation and amortization | 5,030 | 5,339 |
| Amortization of acquisition-related intangibles | 1,928 | 1,849 |
| Total costs and expenses | 133,669 | 95,268 |
| Income (loss) from operations | | |