BLACKBAUD INC
Form 10-K
February 29, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year ended December 31, 2011

or

¨ **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: 000-50600

BLACKBAUD, INC.

(Exact name of registrant as specified in its charter)

Delaware	**11-2617163**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2000 Daniel Island Drive

Charleston, South Carolina 29492

(Address of principal executive offices, including zip code)

(843) 216-6200

(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, $0.001 Par Value	**The NASDAQ Stock Market LLC (NASDAQ Global Select Market)**

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 such filing requirements for the past 90 days. YES x 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 (Section 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 x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) 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. x

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 definitions of large accelerated filer, accelerate filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant on June 30, 2011 (based on the closing sale price of $27.72 on that date), was approximately $1,086,698,096. Common stock held by each officer and director and by each person known to the registrant who owned 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant s common stock outstanding at February 10, 2012 was 44,940,623.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for the 2012 Annual Meeting of Stockholders currently scheduled to be held June 20, 2012 are incorporated by reference into Part III hereof.

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BLACKBAUD, INC.

ANNUAL REPORT ON FORM 10-K

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Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements in this report not dealing with historical results or current facts are forward-looking and are based on estimates, assumptions and projections. Statements which include the words believes, seeks, expects, may, might, should, intends, likely, targets, plans, anticipates, estimates or t those words and similar statements of a future or forward-looking nature identify forward-looking statements.

Although we attempt to be accurate in making these forward-looking statements, future circumstances might differ from the assumptions on which such statements are based. In addition, other important factors that could cause results to differ materially include those set forth under Item 1A. Risk factors and elsewhere in this report and in our other SEC filings. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. BUSINESS

Overview

We are the leading global provider of software and related services designed specifically for nonprofit organizations. Our stated company purpose is to power the business of philanthropy from fundraising to outcomes. We strive to help our customers accomplish their missions and are guided by the following corporate values:

- Our people make us great.
- Customers are at the heart of everything we do.
- We must be good stewards of our resources.
- Innovation drives success.
- Our actions are guided by honesty and integrity.
- Service to others makes the world a better place.

Our customers use our products and services to help increase donations, reduce fundraising costs, build online communities and improve communications with constituents, manage their finances and optimize operations. We have focused solely on the nonprofit market since our incorporation in 1982. At the end of 2011, we had approximately 26,000 customers spread over 60 countries. Our customers come from nearly every segment of the nonprofit sector, including education, foundations, health and human services, faith-based, arts and cultural, public and societal benefits, environment and animal welfare, and international and foreign affairs.

Nonprofit Industry

The nonprofit industry is large and diverse

There were more than 1.8 million U.S. nonprofit organizations registered with the Internal Revenue Service in 2010, including 1.3 million charitable 501(c)(3) organizations, and we estimate there are approximately another 2.0 million nonprofit organizations internationally. According to Giving USA 2011, donations to nonprofit organizations in the United States in 2010 were $290.9 billion, amounting to 2.0% of U.S. GDP, which increased from donations in 2009 of $280.3 billion. The compound annual growth rate of donations over the 40-year period from 1970 to 2010 was 6.8%, not adjusted for inflation. These organizations also receive fees for services they provide, which are estimated at more than $1 trillion annually.

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Traditional methods of fundraising are often costly and inefficient

Many nonprofits use manual methods or stand-alone software applications not designed to manage fundraising. Such methods are often costly and inefficient because of the difficulties in effectively collecting, sharing, and using donation-related information. Furthermore, general purpose and Internet-related software applications frequently have limited functionality and do not efficiently integrate multiple databases. Based on our market research, nearly a quarter of every dollar donated is used for fundraising expenses alone. Some nonprofit organizations have developed proprietary software, but doing so is expensive, requiring on-site technical personnel for development, implementation and maintenance.

The nonprofit industry faces particular operational challenges

Nonprofit organizations must efficiently:

- Solicit funds and build relationships with major donors;
- Garner small cash contributions from numerous contributors;
- Manage and develop complex relationships with large numbers of constituents;
- Communicate their accomplishments and importance of their mission;
- Comply with complex accounting, tax and reporting issues that differ from traditional businesses;
- Solicit cash and in-kind contributions from businesses to help raise money or deliver products/services;
- Provide a wide array of programs and services to individual constituents; and
- Improve the data collection and sharing capabilities of their employees, volunteers and donors by creating and providing distributed access to centralized databases.

In addition, as a result of the negative impact the recent economic environment has had on donations, we believe the nonprofit sector has an even greater need for operational efficiencies to maximize the services they can deliver. Because of these challenges, we believe nonprofit organizations can benefit from software applications specifically designed to serve their particular needs.

Blackbaud Solutions

We offer a broad suite of products and services that address the fundraising needs and operational challenges facing nonprofit organizations. We provide our customers with software and services that help them increase donations, reduce the overall costs of managing their businesses and build a strong sense of community while effectively managing communications with their constituents. We provide our solutions to nonprofit organizations in several ways. We offer our products on a perpetual license basis, a software-as-a-service (SaaS), or as hosted software offerings. We also offer a suite of analytical tools and related services that enable nonprofit organizations to extract, aggregate and analyze vast quantities of data to make better-informed operational decisions. In addition, we help our customers increase the returns on their technology investments by providing a broad range of consulting, training and professional services, as well as maintenance and technical support.

Nonprofit organizations use our products and services to increase donations

Managing the fundraising process is a critical business function for nonprofits. Our fundraising and constituent relationship management solutions allow nonprofit organizations to establish, maintain and develop their relationships with current and prospective donors and other constituents. Our fundraising products and services enable them to use a centralized database, as well as the Internet and an array of analytical tools, to facilitate and expand their fundraising efforts. In addition, we believe our products and services help nonprofit organizations increase donations by enabling them to:

- Solicit large numbers of potential donors;
- Deliver personalized messages that drive constituent action;

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- Provide an easy-to-use system for sharing and using critical fundraising information;
- Utilize our Internet-based offerings to communicate their missions and receive online donations, support online volunteer and events management, and participate in social networks; and
- Simplify and automate business processes.

Nonprofit organizations use Blackbaud software, services and tools to improve operational effectiveness

Our comprehensive suite of software, services and analytical tools help nonprofit organizations manage the key aspects of their operations. By automating business processes, our products streamline operations for our customers and help to reduce the overall costs of operating their organizations. We provide solutions that address many of the technological and business process needs of our customers, including:

- Constituent relationship management;
- Financial management and reporting;
- Cost accounting information for projects and grants;
- Integration of financial data and donor information in a centralized system;
- Internet-based fundraising;
- Event, data and information management;
- Student information systems for independent schools and small colleges;
- Ticketing management;
- Data analysis and reporting tools and services;
- Online interactive communities for social networking and relationship management;
- Management of complex volunteer networks; and
- Results tracking for multiple campaigns.

Our Strategy

Our objective is to maintain and extend our position as the leading provider of software and related services designed specifically for nonprofit organizations, supporting their missions from fundraising to outcomes. Key strategies for achieving this objective are to:

Achieve worldwide constituent relationship management (CRM) leadership for our Blackbaud CRM product

We intend to extend the penetration of our Blackbaud CRM product line to larger, more complex nonprofit organizations, leveraging our expertise with enterprise implementations to achieve worldwide leadership in CRM. We believe our Blackbaud CRM solution is a scalable solution designed specifically to meet the needs of mid- to-large-sized organizations, bringing together disparate information such as annual and capital giving, gift planning, major giving, and volunteer systems, both online and offline and across various chapters and programs within a given organization. With a single system of record that can be securely and efficiently shared, organizations can turn their data into timely, actionable information that increases the success of their fundraising efforts, better synchronizes campaigns across chapters and field offices, and strengthens relationships with constituents.

We believe that our existing proprietary software can form the foundation for a wider range of solutions for nonprofit organizations. Our current products share over half of our proprietary software code and were developed using common standards and practices. We believe this shared code allows us to more cost effectively expedite the development and rollout of product offerings and updates. In addition, we are building our future product offerings on this common platform, which we anticipate will improve our ability to create new offerings efficiently and expeditiously, while allowing our customers to seamlessly collect and analyze supporter information from a variety of sources. In the future, we plan to offer pre-packaged solutions designed to service an even larger group of nonprofit organizations.

Grow our worldwide customer base

We intend to expand our industry-leading customer base and enhance our market position. We have established a strong market presence with approximately 26,000 customers. We believe that the fragmented nature of the industry presents an opportunity for us to continue to increase our market penetration. We plan to achieve this by making use of our next generation solutions to continue transforming our business to cloud-based, which should allow us to serve the whole mid-market customer segment. We also plan to streamline our sales efforts to the small market customer segment and intend to expand our direct sales efforts, especially with regard to national, enterprise and global account-focused sales teams.

We believe the United Kingdom, Canada, Australia and Netherlands, as well as other international markets, represent growing market opportunities for our products and services. We believe the overall market of international nonprofit organizations is changing. Donations to international nonprofit organizations are becoming increasingly important in response to reductions in governmental funding. U.S.-based nonprofit organizations are growing their international activities and opening overseas locations. We believe the international marketplace is currently underserved, and we intend to increase our presence by expanding our sales and marketing efforts internationally. We plan to sell complementary products and services to our installed base of customers, and we plan to develop and offer new products tailored to international markets, including leveraging our market leading domestic analytics solutions to develop offerings tailored specifically to meet the needs of foreign and multi-national nonprofits.

Revolutionize the customer experience

We intend to make our customers experience with us effective, efficient and satisfying from the initial interest in our products and services, to purchase, to customer support and product enhancement. We continue to evolve the manner in which we package and sell our offerings to provide higher value combined with flexibility to meet the different needs of our existing and prospective customers. For example, we are increasing the number of our offerings sold under a subscription pricing model, which can make it easier for customers to purchase our solutions. We will continue to focus on providing the highest level of product support while continuing to enhance our existing products and developing new products and services designed to help allow our customers to more effectively achieve their missions.

Pursue strategic partnerships

We intend to continue to selectively pursue acquisitions, expansion of existing partnerships and the development of new strategic partnerships to enter new markets and pursue significant untapped opportunities. We intend to develop these alliances with companies that provide us with complementary technology, customers and personnel with significant relevant experience, as well as to increase our access to additional geographic and vertical markets. We have completed significant acquisitions over the past five years both in the United States and internationally and expect to continue to do so. We are also currently involved in a number of strategic relationships which allow us to provide a wider variety of offerings and provide customers with integrated solutions, further enhancing the value of our proprietary technology. We believe that our size and history of leadership in the nonprofit sector make us an attractive acquirer or partner for others in the industry.

Our Operating Structure

The nonprofit market is very diverse, with organizations that range from small, local charities to large, multinational relief organizations. The needs of nonprofits can vary greatly according to their size. To better

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serve the wide variety of nonprofits in the market, we organize our operating structure into three operating units: the Enterprise Customer Business Unit, or ECBU, the General Markets Business Unit, or GMBU, and the International Business Unit, or IBU.

Following is a description of each of our operating units:

The ECBU is focused on marketing, sales, delivery and support to large and/or strategic customers, specifically identified named prospects and customers in North America. In addition, the ECBU is focused on marketing, sales and delivery of analytic services to all prospects and customers worldwide.

The GMBU is focused on marketing, sales, delivery and support to all emerging and mid-sized prospects and customers in North America that are not specifically identified as ECBU prospects and customers.

The IBU is focused on marketing, sales, delivery and support to all prospects and customers outside of North America.

Each operating unit contains specialized sales, services, support, marketing, and finance functions. We believe this structure allows us to be more responsive to the needs of fundamentally different customer segments and to focus on developing solutions appropriate for these unique markets while leveraging the infrastructure of our broader organization and shared technology in a cost-effective manner. It also allows us to develop highly customized approaches to marketing and selling our products in the markets we serve.

Products and Services

We license software and provide various services to our customers. During 2011, we generated revenue in four reportable segments and in four geographic regions, as described in more detail in Note 15 of our consolidated financial statements.

Software products

We offer nonprofit organizations a wide variety of software products, which can be used individually to help organizations with specific functions, such as fundraising, financial management, website management and prospect research, or combined into a fully-integrated suite of tools to help them manage multiple areas of their operations.

Fundraising and Constituent Relationship Management

The Raiser s Edge

The Raiser s Edge is the leading software solution designed to manage a nonprofit organization s constituent relationship management and fundraising activity. It is used by more than 13,000 organizations worldwide and recently won the 2010 Campbell Award for User Satisfaction. The Raiser s Edge enables nonprofit organizations to communicate with their constituents, manage fundraising activities, expand their development efforts and make better informed decisions through powerful segmentation, analysis and reporting capabilities. The Raiser s Edge is highly configurable, allowing nonprofit organizations to create numerous custom views of constituent records and automate a variety of business processes. The Raiser s Edge allows an organization to access extensive biographical and demographic information about donors and prospects, process gifts, monitor solicitation activity, analyze data and publish reports. It also improves operational efficiency and effectiveness by reducing overall mailing costs, offering faster data entry and gift processing, supporting major donor cultivation and using the Internet to send email appeals and accept online donations.

Blackbaud CRM

Blackbaud CRM is a flexible, customizable, scalable and secure web-based CRM solution that addresses the unique needs of mid-size, large, and federated, chapter based nonprofit organizations. Blackbaud CRM helps organizations build deeper and more personalized relationships with constituents, build their brand through

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online engagement and multi-channel communication tools, and gain organizational efficiencies. Blackbaud CRM brings together disparate information, such as constituent involvement and engagement information, annual and capital giving, gift planning, major giving, and alumni and parent systems, across multiple locations and within the departments and programs of a mid-sized, large, or federated organization. With a single system of record that can be securely and efficiently shared, organizations are able to turn their data into timely, actionable information that maximizes their multi-channel fundraising efforts, synchronizes campaigns across departments and programs, and strengthens relationships and engagement with their constituents.

eTapestry

eTapestry is a SaaS donor management and fundraising solution built specifically for smaller nonprofits. It tracks donors, prospects and alumni while managing gifts, pledges and payments. eTapestry was built to operate in a hosted environment and to be accessed via the Internet. This technology provides a system that is simple to maintain, efficient to operate and is intuitively easy to learn without extensive training. It offers nonprofit organizations a cost-effective way to manage donors, process gifts, create reports, accept online donations and communicate with constituents. eTapestry now comes in three packages that are easy to buy, implement and use (Starter, Essential and Pro), and also offers a 30-day free trial. All packages include our database, online forms, email marketing, reporting, training, implementation and support.

Online Solutions

Blackbaud NetCommunity

Blackbaud NetCommunity is an Internet marketing and communications tool that enables organizations that utilize the Raiser s Edge software to build interactive websites and manage email marketing campaigns. With Blackbaud NetCommunity, organizations can establish online communities for social networking among constituents and also provide a platform for online giving, membership purchases, event registration and more. Because Blackbaud NetCommunity requires the Raiser s Edge database to operate, it can only be sold with Raiser s Edge or to existing Raiser s Edge customers. However, Blackbaud NetCommunity, in concert with The Raiser s Edge, provides a single source of up-to-date constituent information across an entire organization, regardless of how individual constituents interact and communicate with the organization. We also have developed versions of Blackbaud NetCommunity with reduced functionality and lower price points to provide alternatives for nonprofit organizations of all sizes and with varied needs for Internet solutions.

Sphere eMarketing

Sphere eMarketing, delivered as SaaS, provides organizations with an integrated system of applications to manage e-marketing, communications, programs, services and online fundraising. Sphere eMarketing enables an organization s volunteers, members, donors and staff to share real-time data and information in an online community to better manage constituent relationships. Sphere eMarketing is designed to help organizations manage sophisticated and targeted e-mail campaigns with efficiency and control. Comprehensive real-time reports are available to help organizations make strategic data-driven decisions for future marketing campaigns.

Everyday Hero

Everyday Hero is an event-based online fundraising solution in Asia-Pacific and the UK. The Everyday Hero solution is focused on meeting the peer-to-peer fundraising needs of nonprofits internationally. It is a leading donor acquisition tool, and helps nonprofits in Asia-Pacific and the UK connect with a younger, more online-focused generation of donors, a first step in helping nonprofits develop long-term relationships with their supporters. We acquired the Everyday Hero solution in 2011.

BlackbaudNow

BlackbaudNow offers small organizations and individuals a fast and simple way to develop an online presence and begin accepting online donations. It allows our customers to publish a simple website, accept donations,

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manage constituent relationships, run reports and send emails to supporters, with no upfront cost. BlackbaudNow is free to set up and users pay a per transaction fee. A PayPal® Donate button is built into the product.

Financial Management

The Financial Edge

The Financial Edge is an accounting application designed to address the specific accounting, analytical and financial reporting needs of nonprofit organizations. It integrates with The Raiser s Edge to simplify gift entry processing and relate information from both systems in an informative manner to eliminate redundant tasks. The Financial Edge improves the transparency and accountability of organizations by allowing them to track and report from multiple views, measure the effectiveness of programs and other initiatives, use budgets as monitoring and strategic planning tools and supervise cash flow. As a result, The Financial Edge provides nonprofit organizations with the means to help manage fiscal and fiduciary responsibility, enabling them to be more accountable to their constituents. In addition, The Financial Edge is designed specifically to meet governmental accounting and financial reporting requirements prescribed by the Financial Accounting Standards Board, or FASB, and Governmental Accounting Standards Board, or GASB.

As with The Raiser s Edge, with the Financial Edge, we have built extended applications to address the specific functional needs of our customers.

School Management

The Education Edge

The Education Edge is a comprehensive student information management system designed principally to organize an independent school s admissions and registrar processes, including capturing detailed student information, creating class schedules, managing attendance records and performance/grades, producing demographic, statistic, and analytical reports and printing report cards and transcripts. With The Education Edge, an organization can keep biographical and address information for students, parents, and constituents consistent across all of its Blackbaud software products. This integrated system allows an independent school to reduce data-entry time and ensure that information is current and accurate throughout the school.

Blackbaud s Student Information System

Blackbaud s Student Information System is a complete software solution designed for small colleges and other institutions of higher education with a full-time enrollment of less than 5,000. The solution links student information across all campus offices and includes functionality designed specifically to organize the admissions and registrar s processes. In addition, Blackbaud s Student Information System can be combined with other applications to offer integration across back-office functions, providing one-time entry for biographical information, financial reliability, and audit trail functionality. This helps significantly reduce time spent on data maintenance and creation of class schedules and allows institutions to communicate efficiently with prospects, students and alumni.

Blackbaud for Small Schools

Blackbaud for Small Schools is a SaaS solution designed for independent schools with less than 500 students. It includes modules to help schools with their registration process, and give parents, students and faculty secure online access to assignments, grades and other relevant school information. As a school s needs grow and change, these can be integrated with other solutions like The Raiser s Edge and The Financial Edge.

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Ticketing

The Patron Edge

The Patron Edge is a comprehensive ticketing management solution specifically designed to help large or small performing arts organizations, museums, zoos and aquariums increase attendance and revenue. The Patron Edge can be integrated with The Raiser s Edge to allow for a complete profile view of patrons, donors or visitors. The Patron Edge offers a variety of ticketing methods and allows customers to save time and costs by streamlining ticketing, staffing, scheduling, event and membership management and other administrative tasks.

General Admissions Management

Altru

Altru is an arts and cultural solution suite provided to our customers as SaaS. Altru helps general admissions arts and cultural organizations gain a clear, 360-degree view of their organization, operate more efficiently, engage and cultivate patrons and supporters, streamline external and internal communication efforts, and reduce IT costs. It contains tools for constituent and membership management, program sales, retail sales and ticketing, volunteer management, and events management. It also has sophisticated reporting functionality and tools to manage marketing, communications and fundraising.

Direct Marketing

Blackbaud Direct Marketing

Blackbaud Direct Marketing allows nonprofit organizations to achieve integrated campaign planning by managing direct marketing campaigns with multiple types of media and channels. It delivers campaign management capabilities including planning and budgeting, predictive analysis and list segmentation, campaign execution, and performance measurement and reporting. The result is that nonprofit organizations can more easily manage their marketing campaigns while maximizing the return on investment of their direct marketing efforts. Nonprofit organizations can integrate Blackbaud Direct Marketing with Blackbaud CRM or The Raiser s Edge to combine fundraising functions with direct marketing campaigns.

Events Management

Sphere Friends Asking Friends

The Sphere Friends Asking Friends software product enables organizations to quickly and easily launch and manage online event fundraising websites. Sphere Friends Asking Friends facilitates growth in donations and participation levels by providing participants tools to become fundraisers and recruiters on behalf of nonprofit organizations. It also allows event participants to reach out to their Facebook® and Twitter® networks, expanding the fundraising and marketing potential of virtual events. It is used by organizations of all sizes and budgets to manage regional to national events.

Consulting and education services

Our consultants provide conversion and implementation services for each of our software products. These services include:

- System implementation, including all aspects of installation and configuration, to ensure a smooth transition from the customer s legacy system and to create a more streamlined business workflow;

- Management of the data conversion process to ensure data is a reliable and powerful source of information for an organization;

Business process analysis and application customization to ensure that the organization s system is properly aligned with an organization s processes and objectives;

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- Removal of duplicate records, database merging and enrichment, information cleansing and consolidation, and secure credit card transaction processing;

- Database production activities, including direct marketing, business intelligence, cultivation and stewardship processes; and

- Website design services, Internet strategy consulting and specialized services, such as email marketing and search engine optimization.

In addition, we apply our industry knowledge and experience, combined with expert knowledge of our products, to evaluate an organization s needs and consult on how to improve a business process. This work is performed by consultants who have extensive and relevant domain experience in all aspects of nonprofit management, accounting, project management and IT services. This experience and knowledge allows us to make recommendations and implement best practices to help our customers reach their goals. In addition, we offer software customization services to organizations that do not have the time or in-house resources to create customized solutions for our core products. We believe that no other software company provides this broad a range of consulting and technology services and solutions dedicated to the nonprofit industry.

We provide a variety of classroom, onsite, distance-learning and self-paced training services to our customers relating to the use of our software products and application of best practices. Our software instructors have extensive training in the use of our software and present course material that is designed to include hands-on lab exercises, as well as course materials with examples and problems to solve.

Analytics services

Target Analytics

We formed Target Analytics in early 2008 by combining Blackbaud s prospect research division with the then newly acquired Target Analysis Group. We further added to the offerings in 2008 with the P!N wealth screening service from Kintera, Inc. Target Analytics offers a comprehensive range of products and services for nonprofit organizations analytics needs. These include solutions for donor acquisition, identifying best prospects, assessing donor performance and measuring success. Target Analytics offers software, solutions, and services including the following:

Acquisition Lists Target Analytics acquisition mailing lists are built using a proprietary cooperative database designed exclusively for nonprofit mailing lists and response modeling. We developed the database to help locate the best prospects for each organization and make donor acquisition efforts more productive.

Target Tags A direct marketing data modeling solution that allows organizations to increase response rates and net revenue by identifying best prospects for direct mail and telemarketing campaigns.

ProspectPoint A custom data modeling solution that delivers critical information on a prospect s or donor s likelihood to make a gift to an organization. It analyzes current and historical data from external sources and behavioral trends to identify an organization s best potential annual, planned and major giving prospects, as well as recommends appropriate ask amounts and gift types.

WealthPoint A database screening solution that delivers detailed wealth identification information on prospects. WealthPoint provides initial prospect qualification, assists with prospect cultivation and delivers information on financial capacity.

ResearchPoint A web-based prospect management software solution that combines public data with donor information from a nonprofit s database of records to build a complete view of prospects, enabling it to better target and secure gifts. This includes enabling organizations to help uncover major and planned giving prospects within a nonprofit s database.

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donorCentrics A set of strategic analytic and benchmarking tools designed to drive fundraising at nonprofit organizations. These reports uncover strengths and weaknesses in fundraising programs, highlight opportunities for growth and facilitate strategy-sharing across organizations.

Data Enrichment Services Services that enrich the quality of the data in our customers databases. These include a service that finds outdated address files in the database and makes corrections based on the requirements and certifications of the United States Postal Service, as well as services that use known fields in an organization s constituent records to search and find key demographic and contact information such as age, email address, and phone number.

Merge-purge Services Blackbaud specializes in providing sophisticated and customized merge/purge services for file de-duplication in donor acquisition efforts. Nonprofit organizations use these services to identify data quality issues, handle large numbers and sizes of files and deliver files under tight timeframes.

Maintenance

Most of our customers enroll in one of our maintenance and support programs. In each of the past five years, more than 95% of our customers have renewed their maintenance plans. Customers enrolled in the programs enjoy fast, reliable customer support, receive regular software updates, stay up-to-date with support newsletters and have unlimited, around-the-clock access to support resources, including our extensive knowledgebase and forums. Customers who enroll in upgraded maintenance plans receive enhanced benefits such as call support priority and dedicated support resources.

Payment Processing

Our products provide our customers payment processing capabilities that enable their donors to make donations and purchase goods and services using numerous payment options, including credit card and ACH checking transactions, through secure online transactions. Through our Sphere products, we provide payment processing services in which we collect funds on behalf of our customers for a processing fee. Blackbaud Merchant Services provides credit card processing services to our customers and is integrated into most other Blackbaud solutions. It includes a gateway, processor and a merchant account. Blackbaud Merchant Services offers one rate across all transactions types and all credit cards, which we believe is unique in the payment processing industry.

Customers

We have customers in every principal vertical market within the nonprofit industry. At the end of 2011, we had approximately 26,000 active customers ranging from small, local charities, to healthcare and higher education organizations to the largest national health and human services organizations. No one customer accounted for more than 2% of our 2011 revenue. In addition to our 26,000 active customers, at the end of 2011, we had approximately 10,000 nonprofit organizations that utilize our products and services at no charge.

Sales and Marketing

The majority of our software and related services are sold through direct sales forces. Our direct sales forces are complemented by a team of account development representatives responsible for sales lead generation and qualification. These sales and marketing professionals are located in Charleston, South Carolina; Cambridge, Massachusetts; near Indianapolis, Indiana; and in San Diego, California. We also employ remote sales staff in metropolitan areas throughout the United States, the United Kingdom, Netherlands, Canada, Australia and New Zealand. As of December 31, 2011, we had 233 direct sales employees. We plan to continue expanding our direct sales force in the Americas, Europe, Australia and Asia as our operations grow internationally and market demand continues to recover from the current economic environment.

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Each of our three operating units contains sales teams focused on the needs of its different customer segments. The GMBU sales teams focus on emerging and mid-sized accounts in North America. Our ECBU sales teams focus exclusively on large, enterprise-wide accounts. The IBU sales teams focus on all accounts outside of North America. Within each operating unit, the sales force is divided into two main areas of responsibility:

- Selling products and services to existing customers; and

- Acquiring new customers.

Sales representatives for ECBU and IBU sell all of our products and services. In general, GMBU sales representatives handle one product line in a designated geographic area. However, sales representatives for the K-12 independent schools market, small college market and the arts and cultural market sell all of our software products. In addition, we have a group of sales engineers who support both new and existing customers in the various market segments.

We generally begin a customer relationship with the sale of one of our primary products or services, such as The Raiser s Edge, Blackbaud CRM or Sphere eMarketing, and then offer additional products and services to the customer as the organization s needs increase.

We conduct marketing programs to create brand recognition and market awareness for our products and services. Our marketing efforts include participation at tradeshows, technical conferences and technology seminars, publication of technical and educational articles in industry journals and preparation of competitive analyses. Our customers and strategic partners provide references and recommendations that we often feature in our advertising and promotional activities.

We believe relationships with third parties can enhance our sales and marketing efforts. We have and will continue to establish additional relationships with companies that provide services to the nonprofit industry, such as consultants, educators, publishers, financial service providers, complementary technology providers and data providers. These companies promote or complement our nonprofit solutions and provide us access to new customers.

Corporate Philanthropy and Volunteerism

We believe that service to others makes the world a better place and champion this value through our global corporate philanthropy and employee-focused programs. In addition to having employees select grant recipients for our endowment fund, we celebrate individual acts of service through a competitive grant program that honors excellent examples of volunteerism and benefits the organizations they serve.

Competition

The market for software and related services in the nonprofit sector is highly competitive, and the market is highly fragmented. For certain areas of the market, entry barriers are low. However, we believe our experience and product depth makes us a strong competitor. We expect to continue to see new competitors as the market matures and as nonprofit organizations become more aware of the advantages and efficiencies attainable through the use of specialized software. A number of diversified software enterprises have made acquisitions or developed products for the market, including SunGuard, Sage and Campus Management. Other companies that compete with us, such as Microsoft, Salesforce.com and Oracle, have greater marketing resources, revenue and market recognition than we do. They offer some products that are designed specifically for nonprofits, in addition to some of their products which have a degree of functionality for nonprofits that could be considered competitive. These larger companies could decide to focus more on the market with new, directly competitive products or through acquisitions of our current competitors.

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We mainly face competition from four sources:

- Software developers offering specialized products designed to address specific needs of nonprofit organizations, some of which are sold with subscription pricing;
- Providers of traditional, less automated fundraising services such as services that support traditional direct mail campaigns, special events fundraising, telemarketing and personal solicitations;
- Custom-developed products created either internally or outsourced to custom service providers; and
- Software developers offering general products not designed to address specific needs of nonprofit organizations.

We compete with several software developers that provide specialized products, such as on-demand software specifically designed for nonprofit use. In addition, we compete with custom-developed solutions created either internally by the nonprofit organization or outside by custom service providers. We believe that we compete successfully, because building efficient, highly functional custom solutions equal to ours requires technical resources that are beyond the capabilities or cost-effectiveness of custom solution providers or that might not be available within the nonprofit organization. In addition, the nonprofit organization s legacy database and software system may not have been designed to support the increasingly complex and advanced needs of today s growing community of nonprofit organizations.

We also compete with providers of traditional, less automated fundraising services, including parties providing services in support of traditional direct mail campaigns, special events fundraising, telemarketing and personal solicitations. Although there are numerous general software developers marketing products that have some application in the nonprofit market, these competitors have generally neglected to focus specifically on this market and typically lack the domain expertise to cost effectively build or implement integrated solutions for the market s needs. We believe we compete successfully against these traditional fundraising services, primarily because our products and services are more automated, more robust and more efficient.

Research and Development

We have made substantial investments in research and development and expect to continue to do so as a part of our strategy to introduce additional products and services. As of December 31, 2011, we had 368 employees working on research and development. Our research and development expenses for the years ending on December 31, 2011, 2010 and 2009 were $47.7 million, $45.5 million and $45.5 million, respectively.

Technology and Architecture

We have products, such as Blackbaud CRM and Blackbaud Direct Marketing, that are built on the Microsoft .Net framework platform. These products are web-delivered applications utilizing a Service Oriented Architecture built on Internet standards and protocols such as HTTP, XML and SOAP. This architecture is designed to support flexible deployment scenarios including both on-premise, as well as hosted by Blackbaud in a cloud-based model. The applications expose web service application programming interfaces so that functionality and business logic can be accessed programmatically from outside the context of an interactive user application. This allows our customers to extend and modify the functionality of our applications without requiring them to make any source code or data modifications themselves. This is important for customers who want to customize our applications by incorporating their own business logic into key areas of the applications. The end result is a robust customization platform through which the application can be modified and extended without requiring source code alteration.

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Our version 7.x generation products utilize a three-tier client server architecture built on the Microsoft Component Object Model, or COM. The architecture of both our .Net and COM-based development models ensure our applications are:

Flexible. Our component-based architecture is programmable and easily customized by our customers without requiring modification of the source code, ensuring that the technology can be extended to accommodate changing demands of our clients and the market.

Adaptable. The architecture of our applications allows us to easily add features and functionality or to integrate with third-party applications in order to adapt to our customers needs or market demands.

Scalable. We combine a scalable architecture with the performance, capacity and load balancing of industry-standard web servers and databases used by our customers to ensure that the applications can scale to the needs of larger organizations.

We have and intend to continue to license technologies from third parties that are integrated into our products. We believe that the loss of any third-party technologies currently integrated into our products would not have a material adverse effect on our business, but this might change in the future.

Intellectual Property and Other Proprietary Rights

To protect our intellectual property, we rely on a combination of patent, trademark, copyright, and trade secret laws in various jurisdictions, as well as employee and third-party nondisclosure agreements and confidentiality procedures. We have a number of registered trademarks, including Blackbaud, The Raiser s Edge and Blackbaud CRM. We have applied for additional trademarks. We currently have three active patents on our technology.

Employees

As of December 31, 2011, we had 2,256 employees, consisting of 479 in sales and marketing, 368 in research and development, 597 in consulting and professional services, 296 in customer support, 302 in subscriptions and 214 general and administrative personnel. None of our employees are represented by unions or are covered by collective bargaining agreements. We are not involved in any material disputes with any of our employees, and we believe that relations with our employees are satisfactory.

Available Information

Our website address is www.blackbaud.com. We make available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as is reasonably practicable after such material is electronically filed with or furnished to the SEC, but other information on our website is not incorporated into this report. The SEC maintains an Internet site that contains these reports at www.sec.gov.

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Executive Officers

The following table sets forth information concerning our executive officers as of December 31, 2011:

Name	Age	
Marc E. Chardon	56	President and Chief Executive Officer
Anthony W. Boor	49	Senior Vice President and Chief Financial Officer
Charles T. Cumbaa	59	President, Enterprise Customer Business Unit
Kevin Mooney	53	President, General Markets Business Unit
Brad J. Holman	50	President, International Business Unit
Jana B. Eggers	43	Senior Vice President, Products and Marketing
Charles L. Longfield	55	Senior Vice President, Chief Scientist
John J. Mistretta	56	Senior Vice President of Human Resources
Heidi H. Strenck	42	Senior Vice President, Controller, Assistant Treasurer and Assistant Secretary

Marc E. Chardon joined us as President and Chief Executive Officer in November 2005. Previously, Mr. Chardon served as Chief Financial Officer for the $11 billion Information Worker business group at Microsoft, where he was responsible for the core functions of long-term strategic financial planning and business performance management. He joined Microsoft in August 1998 as General Manager of Microsoft France. During his three-year leadership, the subsidiary remained one of the three most admired companies by French professionals and achieved increased customer satisfaction. Prior to joining Microsoft, Mr. Chardon was General Manager of Digital France. He joined Digital in 1984, and held a variety of international marketing and business roles within the company. In 1994, Mr. Chardon was named Director, Office of the President, with responsibility for Digital s corporate strategy development. Mr. Chardon is an American/French dual national. He is an economics honors graduate from Harvard University.

Anthony W. Boor joined us as Senior Vice President and Chief Financial Officer in November 2011. Prior to joining us, he served as an executive with Brightpoint, Inc. beginning in 1999, most recently as its Executive Vice President, Chief Financial Officer and Treasurer. He also served as the interim President of Europe, Middle East and Africa during Brightpoint s significant restructuring of that region. Mr. Boor served as Director of Business Operations for Brightpoint North America from August 1998 to July 1999. Prior to joining Brightpoint, Mr. Boor was employed in various financial positions with Macmillan Computer Publishing, Inc., Day Dream Publishing, Inc., Ernst & Young LLP, Expo New Mexico, KPMG LLP and Ernst & Whinney LLP. He holds a BS in accounting from New Mexico State University.

Charles T. Cumbaa has served as our President, Enterprise Customer Business Unit since January 2010. From May 2001 to December 2009, he served as Senior Vice President of Products and Services. Prior to joining us, Mr. Cumbaa was Executive Vice President with Intertech Information Management from December 1998 until October 2000. From 1992 until 1998, he was President and Chief Executive Officer of Cognitech, Inc., a software company he founded. From 1984 to 1992 he was Executive Vice President of Sales and Services at Sales Technologies. Prior to that, he was employed by McKinsey & Company. Mr. Cumbaa holds a BA from Mississippi State University and an MBA from Harvard Business School.

Kevin Mooney has served as our President, General Markets Business Unit since January 2010. He joined us in July 2008 as our Senior Vice President of Sales & Marketing and Chief Commercial Officer. Before joining Blackbaud, Mr. Mooney was a senior executive at Travelport GDS from August 2007 to May 2008. As Chief Commercial Officer of Travelport GDS, one of the world s largest providers of information services and transaction processing to the travel industry, Mr. Mooney was responsible for global sales, marketing, training, service and support activities. Prior to that he was Chief Financial Officer for Worldspan from March 2005 until it was acquired by Travelport in August 2007. Mr. Mooney has also held key executive positions in the telecommunications industry and he is a member of the Board of Directors of tw telecom, a publicly traded company. Mr. Mooney graduated from Seton Hall University and holds an MBA in Finance from Georgia State University.

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Brad J. Holman, President of the International Business Unit, joined us in November 2010. Prior to joining Blackbaud, Mr. Holman served as Partner and Chief Commercial Officer at ATI Business Group, a Jakarta-based company that provides outsourcing and technical services to the aviation and travel sectors, from February 2010 to October 2010. Prior to that, from June 2006 to February 2010, Mr. Holman served as President of Travelport s Asia Pacific operations, which provides information services and transaction processing to the travel industry. From July 2001 to May 2006, Mr. Holman held various senior management roles at Travelport, including Senior Vice President of airline services in Asia Pacific and Managing Director of operations in Europe, Middle East and Africa. Mr. Holman holds a BC from University of Western Australia.

Jana B. Eggers, our Senior Vice President of Products and Marketing, joined us in November 2010. Prior to joining Blackbaud, Ms. Eggers served as Chief Executive Officer of Germany-based Spreadshirt from October 2006 to November 2010. Prior to that, Ms. Eggers served as Director for Intuit from April 2002 to October 2006, where she founded and led the company s corporate Innovation Lab, which researched and designed new offerings. From March 2003 to October 2006, Ms. Eggers also served as General Manager for Intuit s QuickBase business, serving the Fortune 100, where it became Intuit s fastest-growing business unit. Ms. Eggers has also held executive and technology leadership positions at internationalization firm Basis Technology, American Airline s Sabre, Los Alamos National Laboratory and several acquired start-ups. Ms. Eggers holds a BS in Mathematics and Computer Science from Hendrix College.

Charles L. Longfield has served as our Senior Vice President, Chief Scientist since January 2010. He joined us in January 2007 as our Chief Scientist as part of our acquisition of the Target Companies, both of which he founded and then led as Chief Executive Officer since the early 1990s. Mr. Longfield has extensive experience designing and implementing national as well as international constituency databases that address the fundraising information needs at many of the world s largest nonprofit organizations. Mr. Longfield holds a BA in Mathematics and a M.Ed. from Harvard University and has over 30 years of experience helping nonprofits automate their fundraising operations.

John J. Mistretta, our Senior Vice President of Human Resources, joined us in August 2005. Prior to joining us, Mr. Mistretta was an Executive Vice President of Human Resources and Alternative Businesses at National Commerce Financial Corporation from 1998 to 2005. Earlier in his career, Mr. Mistretta held various senior Human Resources positions over a thirteen year period at Citicorp. Mr. Mistretta holds a Master s of Science in Counseling and a BA in Psychology from the State University of New York at Oswego.

Heidi H. Strenck has served as our Senior Vice President and Controller since January 2007. From October 2002 until January 2007, Ms. Strenck served as our Vice President and Controller. Ms. Strenck joined us in September 1996 and held key management roles as Accounting Manager from 1996 until 1997 and as Controller until 2002. Prior to joining us, she served as a Senior Associate with Coopers & Lybrand and as Internal Auditor for The Raymond Corporation. Ms. Strenck holds a BA from Hartwick College.

Item 1A. RISK FACTORS

Our business operations face a number of risks. These risks should be read and considered with other information provided in this report.

Risks Related to the Proposed Acquisition of Convio

The proposed acquisition of Convio might not be completed within the expected timeframe, or at all, and the failure to complete such acquisition could adversely affect our stock price and our future business and financial results.

On January 16, 2012, we entered into an Agreement and Plan of Merger with Convio. The Agreement is an executory contract subject to numerous closing conditions beyond our control including, but not limited to, approval by the United States Federal Trade Commission and Department of Justice, whose review of the transaction has required us to extend our tender offer and delay closing. There is no guarantee that these

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conditions will be satisfied in a timely manner or at all. If any of the conditions to our proposed acquisition of Convio are not satisfied (or waived by Convio), we may not complete the proposed acquisition or realize the anticipated benefits thereof. Disputes regarding interpretations of the Agreement could also delay or prevent the closing. In addition, the market price of our common stock may reflect various market assumptions as to whether and when the proposed acquisition will occur. Consequently, the failure to complete the proposed acquisition within the expected timeframe, or at all, could result in a significant change in the market price of our common stock.

The announcement and pendency of the proposed acquisition might cause disruptions in our business, which could have an adverse effect on our business, financial condition or results of operations following completion of the acquisition.

The announcement and pendency of the proposed acquisition could cause disruptions in our business and/or the business of Convio. Specifically:

- Current and prospective employees might experience uncertainty about their future roles, which might adversely affect our ability to retain key Blackbaud and Convio personnel and attract new personnel;

- Current and prospective customers might experience uncertainty about our ability to meet their needs, which might cause customers to seek other suppliers for the products and services; and

- Management s attention might be focused on the proposed acquisition, which would divert management s attention from the core business and other opportunities that could have been beneficial to our stockholders.

This could have an adverse effect on the business, financial condition or results of operations of Blackbaud and/or Convio prior to the completion of the proposed acquisition and on us following the completion of the proposed acquisition. These disruptions could be exacerbated by further delay in the completion of the proposed acquisition.

Convio might have liabilities that are not known, probable or estimable at this time.

As a result of the acquisition, Convio will become our subsidiary, and we will effectively assume all of its liabilities, whether or not asserted. There could be unasserted claims or assessments that we failed or were unable to discover or identify in the course of performing due diligence investigations of Convio. In addition, there might be liabilities that are neither probable nor estimable at this time which become probable and estimable in the future. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business. We might learn additional information about Convio that adversely affects us, such as unknown, unasserted or contingent liabilities and issues relating to compliance with applicable laws.

The proposed acquisition might not be accretive and might cause dilution to the combined company s earnings per share, which could negatively impact the price of our common stock following the completion of the proposed acquisition.

We currently anticipate that the proposed acquisition will be accretive to the non-GAAP earnings per share (EPS) of the combined company during the first full calendar year after the acquisition is completed. This expectation is based on preliminary estimates of certain synergies expected to be realized by the combined company during such time, including the elimination of Convio s expenses related to operating as a publicly traded company and excluding the impact of merger-related expenses. Such estimates and assumptions could materially change due to the failure to realize any or all of the benefits expected in the acquisition or other factors beyond our control or the control of Convio. All of these factors could delay, decrease or eliminate the expected accretive effect of the acquisition and cause resulting dilution to our non-GAAP EPS or to the price of our common stock.

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We significantly increased our leverage in connection with the financing of the proposed acquisition of Convio.

We amended and restated our credit agreement in February 2012 to increase our borrowing capacity to $325.0 million. We expect to incur a substantial amount of indebtedness in connection with our acquisition of Convio. As a result of this indebtedness, our interest payment obligations will increase. The degree to which we are leveraged could have adverse effects on our business, including the following:

- Making it difficult for us to satisfy our obligations under our credit facility and contractual and commercial commitments;
- Requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, dividends and other general corporate purposes;
- Limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- Restricting us from making additional strategic acquisitions or exploiting business opportunities;
- Placing us at a competitive disadvantage compared to our competitors that have less debt;
- Limiting our ability to borrow additional funds; and
- Decreasing our ability to compete effectively or operate successfully under adverse economic and industry conditions.

If we incur additional debt, these risks will intensify. Our ability to meet our debt service obligations will depend upon our future performance, which will be subject to the financial, business and other factors affecting our operations, many of which are beyond our control.

We might experience difficulties in integrating Convio s business and realizing the expected benefits of the proposed acquisition.

Our ability to achieve the benefits we anticipate from the proposed acquisition will depend in large part on whether we are able to integrate Convio s business into our business in an efficient and effective manner. We might not be able to integrate Convio s business smoothly or successfully, and the process might take longer than expected. The integration of operations and the differences in operational culture following the proposed acquisition will require the dedication of significant management resources, which might distract management s attention from day-to-day business operations. If we are unable to successfully integrate the operations of Convio s business into our business, we will not realize the revenue growth, synergies and other anticipated benefits we expect to achieve as a result of the proposed acquisition and our business and results of operations could be adversely affected.

Risks Related to Our Business Currently

General economic factors, both domestically and internationally, might adversely affect our financial performance.

General economic conditions, globally or in one or more of the markets we serve, might adversely affect our financial performance. Weakness in the financial and housing markets, inflation, higher levels of unemployment, unavailability of consumer credit, higher consumer debt levels, volatility in credit, equity and foreign exchange markets, higher tax rates and other changes in tax laws, overall economic slowdown and other economic factors could adversely affect donations to non-profits, reducing their revenue and therefore possibly their demand for the products and services we sell and lengthen our sales and payment cycles. Higher interest rates, inflation, higher costs of labor, insurance and healthcare, higher tax rates and other changes in tax laws, changes in other laws and regulations and other economic factors in the United States could increase our cost of sales and

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operating, selling, general and administrative expenses, and otherwise adversely affect our operations and operating results. These factors affect not only our operations, but also the operations of suppliers from whom we purchase or license products and services, a factor that could result in an increase in the cost to us of our products and services, reducing our margins.

A substantial portion of our revenue is currently derived from The Raiser s Edge and Blackbaud CRM, and a decline in sales or renewals of these or similar products and related services could harm our business.

We derive a substantial portion of our revenue from the sale of The Raiser s Edge and Blackbaud CRM, and other products that help customers manage constituent relationships and related services, and revenue from these products and related services is expected to continue to account for a substantial portion of our total revenue for the foreseeable future. For example, revenue from the sale of The Raiser s Edge and related services represented approximately 35%, 38% and 38% of our total revenue in 2011, 2010 and 2009, respectively. Revenue from the sale of Blackbaud CRM and related services represented approximately 9%, 6% and 4%, of our total revenue in 2011, 2010 and 2009, respectively. Because we sell licenses to our products on a perpetual basis and deliver new versions and enhancements to customers who purchase annual maintenance and support, our future license, services and maintenance revenue are substantially dependent on sales to new customers. In addition, we frequently sell The Raiser s Edge or similar products to new customers and then attempt to generate incremental revenue from the sale of additional products and services. If demand for The Raiser s Edge, Blackbaud CRM or similar products declines significantly, our business would suffer.

We encounter lengthy sales cycles which could have an adverse effect on the amount, timing and predictability of our revenue and sales.

Potential customers, particularly our larger enterprise-wide clients, generally commit significant resources to an evaluation of available software and require us to expend substantial time, effort and money educating them as to the value of our software and services. Sales of our software products to these larger customers often require an extensive education and marketing effort. We could expend significant funds and management resources during the sales cycle and ultimately fail to close the sale. Historically, our software product sales cycle averages approximately two months for sales to existing customers and from six to nine months for sales to new customers and large enterprise-wide sales. Recently, we have experienced longer sales cycle times, delays and postponements of purchasing decisions by our current and prospective customers as a result of challenges posed upon nonprofit organizations by the weak economic environment. Our sales cycle for all of our products and services is subject to significant risks and delays over which we have little or no control, including:

- Our customers budgetary constraints;
- The timing of our clients budget cycles and approval processes;
- The impact of the macroeconomic environment on our customers;
- Our clients willingness to replace their current methods or software solutions;
- Our need to educate potential customers about the uses and benefits of our products and services; and
- The timing and expiration of our clients current license agreements or outsourcing agreements for similar services.

If we are unsuccessful in closing sales after expending significant funds and management resources or if we experience delays as discussed above, it could have a material adverse effect on the amount, timing and predictability of our revenue.

We encounter long and complex implementation cycles, particularly for our largest customers, which could have an adverse effect on our profitability and the timing and predictability of our revenue.

The implementation of our products and services, particularly in our large CRM engagements, frequently involves complex configuration, business process reengineering and system interfaces and can extend for a year or more. Our Blackbaud CRM product offering is relatively new, and we may not have historical experience with unanticipated implementation challenges or complexities that could arise in these engagements. Further, these projects typically are heavily dependent on customer participation, communication and timely responsiveness throughout the implementation cycle. As the complexity of these engagements increase, our revenues and profitability could suffer from delays in project completion and having to perform unplanned incremental services at rates substantially below our normal hourly rates or make investments in the form of non-billable service hours. If we are unsuccessful in implementing our products or if we experience delays, it could have a material adverse effect on our profitability and the timing and predictability of our revenue.

If our customers do not renew their annual maintenance and support agreements or subscriptions for our products or if they do not renew them on terms that are favorable to us, our business might suffer.

Most of our maintenance agreements and subscriptions are for a one year term. As the end of the annual period approaches, we pursue the renewal of the agreement with the customer. Historically, maintenance and subscriptions renewals have represented a significant portion of our total revenue. Because of this characteristic of our business, if our customers choose not to renew their maintenance and support agreements or subscriptions with us on beneficial terms, our business, operating results and financial condition could be harmed. Our customers renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our services and their ability to continue their operations and spending levels.

We might not generate increased business from our current customers, which could limit our revenue in the future.

Our business model is highly dependent on the success of our efforts to sell additional products and services to our existing customers. Many of our customers initially make a purchase of only one or a limited number of our products or only for a single department within their organization. These customers might choose not to expand their use of or make additional purchases of our products and services. If we fail to generate additional business from our current customers, our revenue could grow at a slower rate or even decrease. In addition, as we deploy new applications and features for our existing products or introduce new products and services, our current customers could choose not to purchase these new offerings.

The offering of our products on a subscription basis is evolving and demand by our customers for these offerings is increasing. Our failure to manage this evolution and demand could lead to lower than expected revenues and profits.

In recent years, much of our revenue growth was derived from increased subscription offerings, including SaaS. This business model depends heavily on achieving economies of scale because the initial upfront investment is costly and the associated revenue is recognized on a ratable basis. If we fail to achieve appropriate economies of scale or if we fail to manage or anticipate the evolution and demand for the subscription software pricing models, then our business and operating results could be adversely affected. The additional investments required to meet customer demand will increase our cost base, which will make it more difficult for us to offset any future revenue shortfalls by reducing expenses in the short term.

Defects, delays or interruptions in our SaaS and hosting services could diminish demand for these services and subject us to substantial liability.

We currently utilize data center hosting facilities to provide SaaS and hosting services to our customers. Any damage to, or failure of, our data center systems generally could result in interruptions in service to our customers, notwithstanding any disaster recovery arrangements that may currently be in place at these facilities. Because our SaaS, Internet-based and hosting service offerings are complex, and we have incorporated a variety of new computer hardware and software at the data centers, our services might have errors or defects that users identify after they begin using our services. This could result in unanticipated downtime for our customers and harm our reputation and our business. Internet-based services frequently contain undetected errors when first

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introduced or when new versions or enhancements are released. We have from time to time found defects in our Internet-based services and new errors might again be detected in the future. In addition, our customers might use our Internet-based offerings in unanticipated ways that cause a disruption in service for other customers attempting to access their data.

Because our customers use these services for important aspects of their business, any defects, delays or disruptions in service or other performance problems with our services could hurt our reputation and damage our customers businesses. If that occurs, customers could elect to cancel their service, or delay or withhold payment to us, we could lose future sales or customers might make claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation. Any of these could harm our business and our reputation.

The market for software and services for nonprofit organizations might not grow and nonprofit organizations might not continue to adopt our products and services.

Many nonprofit organizations have not traditionally used integrated and comprehensive software and services for their nonprofit-specific needs. We cannot be certain that the market for such products and services will continue to develop and grow or that nonprofit organizations will elect to adopt our products and services rather than continue to use traditional, less automated methods, attempt to develop software internally, rely upon legacy software systems, or use generalized software solutions not specifically designed for the nonprofit market. Nonprofit organizations that have already invested substantial resources in other fundraising methods or other non-integrated software solutions might be reluctant to adopt our products and services to supplement or replace their existing systems or methods. In addition, the implementation of one or more of our core software products can involve significant time and capital commitments by our customers, which they may be unwilling or unable to make. If demand for and market acceptance of our products and services does not increase, we might not grow our business as we expect.

Because a significant portion of our revenue is recognized ratably over the terms of the contract, downturns in sales may not be immediately reflected in our revenue.

We recognize our maintenance and subscriptions revenue monthly over the term of the customer agreement. The term of the customer agreement is typically 12 months, although it can extend up to five years. As a result, much of the revenue we report in each quarter is attributable to agreements entered into during previous quarters. Consequently, a decline in sales to new customers, renewals by existing customers or market acceptance of our products in any one quarter will not necessarily be fully reflected in the revenues in that quarter and will negatively affect our revenues and profitability in future quarters.

If the security of our software is breached, we fail to securely collect, store and transmit customer information, or we fail to safeguard confidential donor data our products and services might be perceived as not being secure and our reputation and business could suffer.

Fundamental to the use of our products is the secure collection, storage and transmission of confidential donor and end user information. Although we have commercially available network and application security, internal control measures, and physical security procedures to safeguard our systems, there can be no assurance that a security breach, intrusion, loss or theft of personal information will not occur, which may harm our business, customer reputation and future financial results and may require us to expend significant resources to address these problems, including notification under data privacy regulations.

A compromise of our software or other problems that results in customer or donor personal information being obtained by unauthorized persons could adversely affect our reputation with our customers and others, as well as our operations, results of operations, financial condition and liquidity and could result in litigation against us or the imposition of penalties. In addition, a security breach could require that we expend significant additional resources related to our information security systems and could result in a disruption of our operations, particularly our online sales operations. The existence of vulnerabilities, even if they do not result in a security breach, may harm customer confidence and require substantial resources to address, and we may not be able to discover or remedy such security vulnerabilities before they are exploited. Also, computers, including those that use our software, are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays or loss of data. We might be required to expend significant capital and other resources to protect further against security breaches or to rectify problems caused by any security breach.

Privacy and security concerns, including evolving government regulation in the area of consumer data privacy, could adversely affect our business and operating results.

The effectiveness of our software products relies on our customers storage and use of data concerning their customers, including financial, personally identifying and other sensitive data. Our customers collection and use of this data for donor profiling might raise privacy and security concerns and negatively impact the demand for our products and services. For example, our custom modeling and analytical services, including ProspectPoint, WealthPoint and donorCentrics, rely heavily on securing and making use of data we gather from various sources and privacy laws could jeopardize our ability to market and profit from those services. If a breach of customer data security were to occur, our products may be perceived as less desirable, which would negatively affect our business and operating results.

Governments in some jurisdictions have enacted or are considering enacting consumer data privacy legislation, including laws and regulations applying to the solicitation, collection, processing and use of consumer data. This legislation could reduce the demand for our software products if we fail to design or enhance our products to enable our customers to comply with the privacy and security measures required by the legislation. Moreover, we may be exposed to liability under existing or new consumer data privacy legislation. For example, we might be subject to the privacy provisions of the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the Gramm-Leach-Bliley Act and related regulations. Even technical violations of these laws can result in penalties that are assessed for each non-compliant transaction. As part of the American Recovery and Reinvestment Act of 2009, Congress passed the Health Information Technology for Economic and Clinical Health Act, or HI-TECH Act. The HI-TECH Act expands the reach of data privacy and security requirements of HIPAA to service providers. HIPAA and associated United States Department of Health and Human Services regulations permit our customers in the healthcare industry to use certain demographic protected health information (such as name, email or physical address and dates of service) for fundraising purposes and to disclose that subset of protected health information to their service providers for fundraising. We may be included in this service provider group under the revised HIPAA regulations by virtue of our service provider relationship with our customers in the healthcare industry. In general, we are seeking to prohibit contractually our healthcare industry customers from uploading other types of health information of their clients into our systems because HIPAA does not permit this information to be used for fundraising without certain permissions, but we believe monitoring our healthcare customers compliance with such prohibitions is not legally required of service providers and would be cost prohibitive. The law and regulations under HI-TECH are new and still subject to change or interpretation by legal authorities who could cause additional compliance burdens. If we or our customers were found to be subject to and in violation of any of these laws or other data privacy laws or regulations, our business would suffer and we and/or our customers would likely have to change our business practices. In addition, these laws and regulations could impose significant costs on us and our customers and make it more difficult for donors to make online donations.

If we are unable, or customers believe we are unable, to detect and prevent unauthorized use of credit cards and safeguard confidential donor data, we could be subject to financial liability, our reputation could be harmed and customers may be reluctant to use our products and services.

Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments could result in a compromise or breach of the technology we use to protect sensitive transaction data. If any such compromise of our security, or the security of our customers, were to occur, it could result in misappropriation of

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proprietary information or interruptions in operations and have an adverse impact on our reputation or the reputation of our customers. All of our products are currently certified as Payment Application Data Security Standard compliant. Currently some of our products are not fully compliant with Payment Card Industry Data Security Standard, or PCI DSS. This or other factors could make customers believe we are unable to detect and prevent unauthorized use of credit cards or confidential donor data, which could harm our business. Additionally, these factors could make issuing banks believe the transactions of our customers are compromised and refuse to process those transactions, which could harm the reputation of our products and our business.

Conforming our products and services to PCI DSS is expensive and time-consuming. Our failure to maintain compliance with PCI DSS could make customers believe we are unable to detect and prevent unauthorized use of credit cards and bank account numbers or protect confidential donor data and our reputation and business might be harmed.

Our subscriptions and services revenue produces substantially lower gross margins than our license revenue, and changes in the relative mix of these and other sources of revenue could negatively affect our overall gross margins.

Our subscriptions revenue, which includes fees for providing access to hosted applications, application hosting services and access to certain data services and our online subscription training offerings, has experienced the largest percentage revenue growth over the last three years. Subscriptions revenue was approximately 28%, 26% and 24% of our revenue for 2011, 2010 and 2009, respectively. Our subscriptions revenue has substantially lower gross margins than our product license revenue. For the years ended December 31, 2011, 2010 and 2009, our subscriptions margin was 59%, 63% and 61%. A continued increase in the percentage of total revenue represented by subscriptions revenue could adversely affect our overall gross margins and operating results if we are unable to achieve economies of scale in our subscription based offerings. Additionally, if nonprofits in general, and specifically our customers and prospects, desire to adopt our subscription offerings much more rapidly than we currently anticipate and we are unable to respond in a timely fashion, we could encounter significant effects to our business, including substantial capital expenditures, reduction in profitability, decrease in revenue growth and/or we could become potentially less competitive, resulting in a loss of market share.

Our services revenue, which includes fees for consulting, implementation, training, data and technical services and analytics, was approximately 29%, 27% and 28% of our revenue for 2011, 2010 and 2009, respectively. Our services revenue has substantially lower gross margins than our product license revenue. For the years ended December 31, 2011, 2010 and 2009, our services margin was 27%, 24% and 29%, respectively. An increase in the percentage of total revenue represented by services revenue without an improvement in services margin could adversely affect our operating results.

Certain of our services are contracted under fixed fee arrangements, which we base on estimates. If our estimated fees are less than our actual costs, our operating results would be adversely affected. Services revenue as a percentage of total revenue has varied significantly from quarter to quarter due to fluctuations in licensing revenue, economic changes, changes in the average selling prices for our products and services, our customers acceptance of our products and our sales force execution. In addition, the volume and profitability of services can depend in large part upon:

- Competitive pricing pressure on the rates that we can charge for our services;
- The complexity of the customers information technology environment and the existence of multiple non-integrated legacy databases;
- The resources directed by customers to their implementation projects; and
- The extent to which outside consulting organizations provide services directly to customers.

A decrease in the demand for services could adversely affect our profitability and operating results.

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Our quarterly financial results fluctuate and might be difficult to forecast and, if our future results are below either any guidance we might issue or the expectations of public market analysts and investors, the price of our common stock might decline.

Our quarterly revenue and results of operations are difficult to forecast. We have experienced, and expect to continue to experience, fluctuations in revenue and operating results from quarter to quarter. As a result, we believe that quarter-to-quarter comparisons of our revenue and operating results are not necessarily meaningful and that such comparisons might not be accurate indicators of future performance. The reasons for these fluctuations include but are not limited to:

- The size and timing of sales of our software, including the relatively long sales cycles associated with many of our larger software sales;
- Budget and spending decisions by our customers;
- The degree of judgment required to estimate large consulting service engagements;
- Scheduling considerations by our customers as they impact the delivery of purchased services;
- Utilization of our professional services personnel;
- Market acceptance of new products we release;
- Market acceptance of products we acquire;
- The amount and timing of operating costs related to the expansion of our business, operations and infrastructure;
- Changes in our pricing policies or our competitors pricing policies;
- Seasonality in our revenue;
- General economic conditions; and
- Costs related to acquisitions of technologies or businesses.

Our operating expenses, which include sales and marketing, research and development and general and administrative expenses, are based on our expectations of future revenue and are, to a large extent, fixed in the short term. If revenue falls below our expectations in a quarter and we are not able to quickly reduce our operating expenses in response, our operating results for that quarter could be adversely affected. It is possible that in some future quarter our operating results may be below either any guidance we might issue or the expectations of public market analysts and investors and, as a result, the price of our common stock might fall.

Our failure to compete successfully could cause our revenue or market share to decline.

Our market is fragmented, highly competitive and rapidly evolving and there are limited barriers to entry for some aspects of this market. We mainly face competition from four sources:

- Software developers offering specialized products designed to address specific needs of nonprofit organizations, some of which are sold with subscription pricing;

- Providers of traditional, less automated fundraising services such as services that support traditional direct mail campaigns, special events fundraising, telemarketing and personal solicitations;

- Custom-developed products created either internally or outsourced to custom service providers; and

- Software developers offering general products not designed to address specific needs of nonprofit organizations.

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The companies we compete with and other potential competitors may have greater financial, technical and marketing resources and generate greater revenue and better name recognition than we do. Companies such as Microsoft, Salesforce.com and Oracle offer some products that are designed specifically for nonprofit organizations, in addition to some of their products which have a degree of functionality for nonprofit organizations that could be considered competitive. Also, if one or more of our competitors or potential competitors were to merge or partner with one of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. For example, a large diversified software enterprise, such as Microsoft, Oracle or Salesforce.com, could decide to enter the market directly, including through acquisitions. Competitive pressures can adversely impact our business by limiting the prices we can charge our customers and making the adoption and renewal of our solutions more difficult.

Our competitors might also establish or strengthen cooperative relationships with resellers and third-party consulting firms or other parties with whom we have had relationships, thereby limiting our ability to promote our products. These competitive pressures could cause our revenue and market share to decline.

If we fail to respond to technological changes to be competitive, our business could suffer.

The software industry is characterized by technological change, evolving industry standards in hardware and software technology, changes in customer requirements and frequent new product introductions and enhancements. The introduction of products encompassing new technologies can render existing products obsolete and unmarketable. As a result, our future success will depend, in part, upon our ability to continue to enhance existing products and develop and introduce in a timely manner or acquire new products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance. There is no assurance that we will successfully identify new product opportunities and develop and bring new products to market in a timely and cost-effective manner. Further, there can be no assurance that the products, capabilities or technologies developed by others will not render our products or technologies obsolete or noncompetitive. In addition, because our service is designed to operate on a variety of network hardware and software platforms using a standard browser, we will need to continuously modify and enhance our service to keep pace with changes in Internet-related hardware, software, communication, browser and database technologies. We have made and continue to make significant working capital investments in accordance with evolving industry and customer requirements. These concentrations of working capital increase our risk of loss due to product or technology obsolescence. If we are unable to develop or acquire on a timely and cost-effective basis new software products or enhancements to existing products or if such new products or enhancements do not achieve market acceptance, our business, results of operations and financial condition may be materially adversely affected.

Because competition for highly qualified personnel is intense, we might not be able to attract and retain the employees we need to support our planned growth.

To execute our continuing growth plans, we need to increase the size and maintain the quality of our sales force, software development staff and our professional services organization. To meet our objectives successfully, we must attract and retain highly qualified personnel with specialized skill sets focused on the nonprofit industry. Competition for qualified personnel can be intense, and we might not be successful in attracting and retaining them. The pool of qualified personnel with experience working with or selling to nonprofit organizations is limited overall and specifically in Charleston, South Carolina, where our principal office is located. Our ability to maintain and expand our sales, product development and professional services teams will depend on our ability to recruit, train and retain top quality people with advanced skills who understand sales to, and the specific needs of, nonprofit organizations. For these reasons, we have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications for our business. In addition, it takes time for our new sales and services personnel to become productive, particularly with respect to obtaining and supporting major customer accounts. In particular, we plan to continue to increase the number of services personnel to attempt to meet the needs of our customers and potential new customers. In addition to hiring services personnel to meet our needs, we might also engage

additional third-party consultants as contractors, which could have a negative impact on our earnings. If we are

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unable to hire or retain qualified personnel, or if newly hired personnel fail to develop the necessary skills or reach productivity slower than anticipated, it would be more difficult for us to sell our products and services, we could experience a shortfall in revenue or earnings and not achieve our planned growth.

Further, in the past, we have used equity incentive programs as part of our overall employee compensation arrangements to both attract and retain personnel. A decline in our stock price could negatively impact the value of these equity incentive and related compensation programs as retention and recruiting tools. We may need to create new or additional equity incentive programs and/or compensation packages to remain competitive, which could be dilutive to our existing stockholders and/or adversely affect our results of operations.

If we do not successfully address the risks inherent in the expansion of our international operations, our business could suffer.

We currently have operations in Canada, United Kingdom, Netherlands, Australia and Asia, and we intend to expand further into international markets. We have limited experience in international operations and might not be able to compete effectively in international markets. Our international offices generated revenues of approximately $53.6 million, $44.1 million and $39.8 million for the years ended December 31, 2011, 2010 and 2009, respectively. Accordingly, international revenue increased 21.5% and 10.8% in 2011 and 2010, respectively. Expansion of our international operations will require a significant amount of attention from our management and substantial financial resources and might require us to add qualified management in these markets. Our direct sales model requires us to attract, retain and manage qualified sales personnel capable of selling into markets outside the United States. In some cases, our costs of sales might increase if our customers require us to sell through local distributors.

If we are unable to grow our international operations in a cost effective and timely manner, our business and operating results could be harmed. Doing business internationally involves additional risks that could harm our operating results, including:

- Difficulties associated with and costs of staffing and managing international operations;
- Differing technology standards;
- Difficulties in collecting accounts receivable and longer collection periods;
- Political and economic instability;
- Imposition of currency exchange controls;
- Potentially adverse tax consequences;
- Reduced protection for intellectual property rights in certain countries;
- Dependence on local vendors;
- Protectionist laws and business practices that favor local competition;
- Compliance with multiple conflicting and changing governmental laws and regulations;

Seasonal reductions in business activity specific to certain markets;

Longer sales cycles;

Restrictions on repatriation of earnings or new taxation thereon;

Differing labor regulations;

Restrictive privacy regulations in different countries, particularly in the European Union;

Restrictions on the export of technologies such as data security and encryption;

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- Compliance with U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to government officials; and

- Import and export restrictions and tariffs.

We expect that an increasing portion of our international software license, consulting services and maintenance services revenues will be denominated in foreign currencies, subjecting us to fluctuations in foreign currency exchange rates. If we expand our international operations, exposures to gains and losses on foreign currency transactions may increase.

If our products fail to perform properly due to undetected errors or similar problems, our business could suffer.

Complex software such as ours often contains undetected errors or bugs. Such errors are frequently found after introduction of new software or enhancements to existing software. We continually introduce or acquire the rights to new products and release new versions of our products. If we detect any errors before we ship a product, we might have to delay product shipment for an extended period of time while we address the problem. We might not discover software errors that affect our new or current products or enhancements until after they are deployed, and we may need to provide enhancements to correct such errors. Therefore, it is possible that, despite testing by us, errors may occur in our software. These errors could result in:

- Harm to our reputation;

- Lost sales;

- Delays in commercial release;

- Product liability claims;

- Delays in or loss of market acceptance of our products;

- License terminations or renegotiations; and

- Unexpected expenses and diversion of resources to remedy errors.

Furthermore, our customers may use our software together with products from other companies. As a result, when problems occur, it might be difficult to identify the source of the problem. Even when our software does not cause these problems, the existence of these errors might cause us to incur significant costs, divert the attention of our technical personnel from our product development efforts, impact our reputation and cause significant customer relations problems.

Our failure to obtain licenses for third-party technologies could harm our business.

We expect to continue licensing technologies from third parties, including applications used in our research and development activities, technologies which are integrated into our products and products that we resell. Although we believe that the loss of any third-party technologies currently integrated into our products would not have a material adverse effect on our business, this might change in the future. Our inability in the future to obtain any third-party licenses on commercially reasonable terms, or at all, could delay future product development until equivalent technology can be identified, licensed or developed and integrated. This inability in turn would harm our business and operating results. Our use of third-party technologies exposes us to increased risks including, but not limited to, risks associated with the integration of new technology into our products, the diversion of our resources from development of our own proprietary technology and our inability to generate revenue from licensed technology sufficient to offset associated acquisition and maintenance costs.

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We rely upon trademark, copyright, patent and trade secret laws to protect our proprietary rights, which might not provide us with adequate protection.

Our success and ability to compete depends to a significant degree upon the protection of our software and other proprietary technology rights. We might not be successful in protecting our proprietary technology and our proprietary rights might not provide us with a meaningful competitive advantage. To protect our core proprietary technology, we rely on a combination of patent, trademark, copyright and trade secret laws, as well as nondisclosure agreements, each of which affords only limited protection. We have no patent protection for The Raiser s Edge, which is one of our core products and responsible for a significant portion of our revenue. Any inability to protect our intellectual property rights could seriously harm our business, operating results and financial condition. It is possible that:

- Any patents issued to us may not be timely or broad enough to protect our proprietary rights;
- Any issued patent could be successfully challenged by one or more third parties, which could result in our loss of the right to prevent others from exploiting the inventions claimed in those patents; and
- Current and future competitors may independently develop similar technologies, duplicate our products or design around any of our patents.

In addition, the laws of some foreign countries do not protect our proprietary rights in our products to the same extent as do the laws of the United States. Despite the measures taken by us, it may be possible for a third party to copy or otherwise obtain and use our proprietary technology and information without authorization. Policing unauthorized use of our products is difficult, and litigation could become necessary in the future to enforce our intellectual property rights. Any litigation could be time consuming and expensive to prosecute or resolve, and could result in substantial diversion of management attention and resources, and materially harm our business, financial condition and results of operations.

Restrictions in our revolving credit facility may limit our activities, including dividend payments, share repurchases and acquisitions.

At December 31, 2011, we had no borrowings under our credit facility with Wells Fargo Bank, N.A. dated June 17, 2011. On February 9, 2012, we amended and restated this credit facility with a syndicate of financial institutions, and JPMorgan Chase Bank, N.A., as administrative agent. At February 29, 2012, we had no borrowings under the revolving credit facility, but we expect to draw a significant portion of the facility to close the Convio acquisition. The credit facility contains restrictions, including covenants limiting our ability to incur additional debt, grant liens, make acquisitions and other investments, prepay specified debt, consolidate, merge or acquire other businesses, sell assets, pay dividends and other distributions, repurchase stock and enter into transactions with affiliates. There can be no assurance that we will be able to remain in compliance with the covenants to which we are subject in the future and, if we fail to do so, that we will be able to obtain waivers from our lenders or amend the covenants.

In the event of a default under our credit facility, we could be required to immediately repay all outstanding borrowings, which we might not be able to do. In addition, certain of our material domestic subsidiaries will be required to guarantee amounts borrowed under the credit facility, and we have pledged the shares of certain of our subsidiaries as collateral for our obligations under the credit facility. Any such default could have a material adverse effect on our ability to operate, including allowing lenders under the credit facility to enforce guarantees of our subsidiaries, if any, or exercise their rights with respect to the shares pledged as collateral.

We have recorded a significant deferred tax asset, and we might never realize the full value of our deferred tax asset, which would result in a charge against our earnings.

In connection with the initial acquisition of our common stock as part of our recapitalization in 1999, we recorded approximately $107.0 million as a deferred tax asset. Our deferred tax asset balance of $30.9 million, of which $20.9 million relates to our 1999 recapitalization, was approximately 8% of our total assets as of December 31, 2011.

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Realization of our deferred tax asset is dependent upon our generating sufficient taxable income in future years to realize the tax benefit from that asset. Deferred tax assets are reviewed at least annually for realizability. A charge against our earnings would result if, based on the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. This could be caused by, among other things, deterioration in performance, loss of key contracts, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the products sold by our business and a variety of other factors. If a deferred tax asset was determined to be not realizable in a future period, the charge to earnings would be recognized as an expense in our results of operations in the period the determination is made.

Depending on future circumstances, it is possible that we might never realize the full value of our deferred tax asset. Any future determination of impairment of a significant portion of our deferred tax asset would have an adverse effect on our financial condition and results of operations.

Our ability to utilize our net operating loss carryforwards may be limited.

Included in our deferred tax asset balance is $14.4 million related to federal net operating loss carryforwards, which is approximately 47% of our total deferred tax assets at December 31, 2011. Our federal net operating loss carryforwards are subject to limitations on how much may be utilized on an annual basis. The use of the net operating loss carryforwards may have additional limitations resulting from certain future ownership changes or other factors under Section 382 of the Internal Revenue Code. If our net operating loss carryforwards are further limited, and we have taxable income which exceeds the available net operating loss carryforwards for that period, we would incur an income tax liability even though net operating loss carryforwards may be available in future years prior to their expiration, which would have an adverse affect our future cash flow, financial condition and results of operations.

We might face challenges in integrating our completed acquisitions and, as a result, might not realize the expected benefits of these acquisitions.

We have completed significant acquisitions over the past five years and are in the process of acquiring Convio. Managing and integrating the operations and personnel of an acquired company can be a complex process. The integration might not be completed rapidly or achieve the anticipated benefits of the acquisition. The successful integration of the acquired companies will require, among other things, coordination of various departments, including product development, engineering, sales and marketing and finance. Further, a successful integration of the acquired companies internal control structure will be required. The diversion of the attention of management and any difficulties encountered in this process could cause the disruption of, or a loss of momentum in, sales or product development. The inability to successfully integrate the operations and personnel of our recently acquired companies, or any significant delay in achieving integration, could have a material adverse effect on our business and on the market price of our common stock.

Future acquisitions could prove difficult to integrate, disrupt our business, dilute stockholder value and strain our resources.

As part of our business strategy, we have made acquisitions in the past, and, in addition to the proposed acquisition of Convio, we might acquire additional companies, services and technologies that we feel could complement or expand our business, augment our market coverage, enhance our technical capabilities, provide us with important customer contacts or otherwise offer growth opportunities. Acquisitions and investments involve numerous risks, including:

- Difficulties in integrating operations, technologies, services, accounting and personnel;
- Difficulties in supporting and transitioning customers of our acquired companies;
- Diversion of financial and management resources from existing operations;
- Risks of entering new sectors of the nonprofit industry;

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- Potential loss of key employees; and
- Inability to generate sufficient revenue to offset acquisition or investment costs.

Acquisitions also frequently result in recording of goodwill and other intangible assets, which are subject to potential impairments in the future that could harm our operating results. In addition, if we finance acquisitions by issuing equity securities or securities convertible into equity securities, our existing stockholders would be diluted which, in turn, could affect the market price of our stock. Moreover, we could finance any acquisition with debt, resulting in higher leverage and interest costs. As a result, if we fail to evaluate and execute acquisitions or investments properly, we might not achieve the anticipated benefits of any such acquisition and we may incur costs in excess of what we anticipate. Furthermore, if we incur debt to fund acquisitions and are unable to service our debt obligation we may have a greater risk of default under our credit facility.

If we are not able to manage our anticipated growth effectively, our operating costs may increase and our operating margins may decrease.

We will need to grow our infrastructure to address the proposed acquisition of Convio and other potential market opportunities. Our growth will continue to place, to the extent that we are able to sustain such growth, a strain on our management, administrative, operational and financial infrastructure. If we continue to grow our operations, by way of additional business combinations or otherwise, we may not be effective in enlarging our physical facilities and our systems and our procedures or controls may not be adequate to support such expansion or our business generally. If we are unable to manage our growth, our operating costs may increase and our operating margins may decrease.

Increasing government regulation could affect our business.

We are subject, not only to regulations applicable to businesses generally, but also to laws and regulations directly applicable to electronic commerce and other regulations. Although there are currently few such laws and regulations, state, federal and foreign governments may adopt laws and regulations applicable to our business. Any such legislation or regulation could dampen the growth of the Internet and decrease its acceptance. If such a decline occurs, companies may decide in the future not to use our products and services. Any new laws or regulations in the following areas could affect our business:

- User privacy;
- The pricing and taxation of goods and services offered over the Internet;
- Taxation of foreign earnings;
- The content of websites;
- Copyrights;
- Consumer protection, including the potential application of do not call registry requirements on our customers and consumer backlash in general to direct marketing efforts of our customers;
- The online distribution of specific material or content over the Internet; and
- The characteristics and quality of products and services offered over the Internet.

Pending and enacted legislation at the state and federal levels, including those related to fundraising activities, may also restrict further our information gathering and disclosure practices, for example, by requiring us to comply with extensive and costly registration, reporting or disclosure requirements.

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Our operations might be affected by the occurrence of a natural disaster or other catastrophic event.

We depend on our principal executive offices and other facilities for the continued operation of our business. Although we have contingency plans in effect for natural disasters or other catastrophic events, these events, including terrorist attacks and natural disasters such as earthquakes, which our San Diego operations in particular might experience, and hurricanes, which have been known to threaten Charleston, where our headquarters are, could disrupt our operations. Even though we carry business interruption insurance policies and typically have provisions in our contracts that protect us in certain events, we might suffer losses as a result of business interruptions that exceed the coverage available under our insurance policies or for which we do not have coverage. Any natural disaster or catastrophic event affecting us could have a significant negative impact on our operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We lease our headquarters in Charleston, South Carolina which consists of approximately 230,000 square feet. The lease on our Charleston headquarters expires in October 2024, and we have the option for two 5-year renewal periods. We also lease facilities near Indianapolis, Indiana and in San Diego, California; Cambridge, Massachusetts; Washington D.C.; Denver, Colorado; Alexandria, Virginia; Miami, Florida; Almere, Netherlands; Glasgow, Scotland; London, England; East Brisbane, Australia; and Sydney, Australia. We believe that our properties are in good operating condition and adequately serve our current business operations for all of our business segments. We also anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

Item 3. LEGAL PROCEEDINGS

From time to time we may become involved in litigation relating to claims arising from our ordinary course of business. We do not believe that there are any claims or actions pending or threatened against us, the ultimate disposition of which would have a material adverse affect on us.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock began trading on the NASDAQ National Market under the symbol BLKB on July 26, 2004. On July 1, 2006, our common stock began trading on NASDAQ s newest market tier, the NASDAQ Global Select Market. The following table sets forth the high and low prices for shares of our common stock, as reported by NASDAQ for the periods indicated. The prices are based on quotations between dealers, which do not reflect retail markup, mark-down or commissions.

Blackbaud quarterly high and low stock prices

	High	Low
Fiscal year ended December 31, 2011		
First quarter	$ 27.24	$ 24.87
Second quarter	30.00	25.62
Third quarter	28.86	22.27
Fourth quarter	30.15	21.02
Fiscal year ended December 31, 2010		
First quarter	$ 26.33	$ 21.17
Second quarter	26.87	21.39
Third quarter	24.61	20.82
Fourth quarter	28.31	23.81

As of February 10, 2012, there were 200 stockholders of record and approximately 15,000 beneficial owners of our common stock. On February 10, 2012, the closing price of our common stock was $31.69.

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Stock performance graph

The following performance graph compares the performance of our common stock to the NASDAQ Composite Index and the NASDAQ Computer and Data Processing Index. The graph covers the most recent five-year period ending December 31, 2011. The graph assumes that the value of the investment in our common stock and each index was $100 at December 31, 2006, and that all dividends are reinvested.

	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Blackbaud, Inc.	**100.00**	**109.35**	**53.78**	**96.60**	**107.91**	**117.59**
NASDAQ Composite	**100.00**	**110.38**	**65.58**	**95.27**	**112.22**	**110.58**
NASDAQ Computer & Data Processing	**100.00**	**120.57**	**69.03**	**109.41**	**121.30**	**118.07**

Issuer purchases of issuer securities

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plan or programs (in thousands)
Beginning balance, October 1, 2011				$ 50,000
October 1, 2011 through October 31, 2011	1,870	$ 28.65		$ 50,000
November 1, 2011 through November 30, 2011	140,958	$ 28.93		$ 50,000
December 1, 2011 through December 31, 2011	4,308	$ 29.98		$ 50,000
Total	147,136	$ 28.95		$ 50,000

(1) During the period of October 1, 2011 through December 31, 2011, there were no shares repurchased. The shares in the table represent shares withheld by us to satisfy the tax obligations of employees due upon vesting of restricted stock and exercise of stock appreciation rights during the period.

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Dividend policy and restrictions

Our Board of Directors has adopted a dividend policy which reflects an intention to distribute to our stockholders a portion of the cash generated by our business that exceeds our operating needs and capital expenditures as regular quarterly dividends. This policy reflects our judgment that we can provide greater value to our stockholders by distributing to them a portion of the cash generated by our business.

In accordance with this dividend policy, we paid quarterly dividends at an annual rate of $0.48 and $0.44 per share in 2011 and 2010, respectively, resulting in an aggregate dividend payment to stockholders of $21.4 million and $19.5 million in 2011 and 2010, respectively. In February 2012, our Board of Directors approved an annual dividend rate of $0.48 per share for 2012. We declared a first quarter dividend of $0.12 per share payable on March 15, 2012, to stockholders of record on March 5, 2012, and currently intend to pay quarterly dividends at an annual rate of $0.48 per share of common stock for each of the remaining fiscal quarters in 2012. Dividends at this rate would total approximately $21.1 million in the aggregate on the common stock in 2012 (assuming 44.0 million shares of common stock are outstanding, net of treasury stock).

Dividends on our common stock will not be cumulative. Consequently, if dividends on our common stock are not declared and/or paid at the targeted level, our stockholders will not be entitled to receive such payments in the future. We are not obligated to pay dividends, and as described more fully below, our stockholders might not receive any dividends as a result of the following factors:

- Our credit facility limits the amount of dividends we are permitted to pay;
- Our Board of Directors could decide to reduce dividends or not to pay dividends at all, at any time and for any reason;
- The amount of dividends distributed is subject to state law restrictions; and
- We might not have enough cash to pay dividends due to changes to our operating earnings, working capital requirements and anticipated cash needs.

Assumptions and considerations

We estimate that the cash necessary to fund dividends on our common stock for 2012 at an annual rate of $0.48 per share is approximately $21.1 million (assuming 44.0 million shares of common stock are outstanding, net of treasury stock).

We have a stock repurchase program that authorizes us to purchase up to $50.0 million of our outstanding shares of common stock. The program does not have an expiration date. The shares could be purchased in conjunction with a public offering of our stock, from time to time on the open market or in privately negotiated transactions depending upon market conditions and other factors, all in accordance with the requirements of applicable law. Any open market purchases under the repurchase program will be made in compliance with Rule 10b-18 of the Securities Exchange Act of 1934 and all other applicable securities regulations. We might not purchase any additional shares of common stock and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, to cancel the stock repurchase program.

We believe that our cash on hand and the cash flows we expect to generate from operations will be sufficient to meet our liquidity requirements through 2012, including dividends and purchases under our stock repurchase program. See Management s discussion and analysis of financial conditions and results of operations Liquidity and capital resources in this report.

If our assumptions as to operating expenses, working capital requirements and capital expenditures are too low or if unexpected cash needs arise that we are not able to fund with cash on hand or with borrowings under our credit facility, we would need to either reduce or eliminate dividends. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash available for future dividends and other purposes, which could negatively impact our stock price, financial condition, results of operations and ability to maintain or expand our business.

We have estimated our dividend only for 2012, and we cannot assure our stockholders that during or following such periods that we will pay dividends at the estimated levels, or at all. We are not required to pay dividends and our Board of Directors may modify or revoke our dividend policy at any time. Dividend payments are within the absolute discretion of our Board of Directors and will be dependent upon many factors and future developments that could differ materially from our current expectations. Indeed, over time our capital and other cash needs, including unexpected cash needs, will invariably change and remain subject to uncertainties, which could impact the level of any dividends we pay in the future.

We believe that our dividend policy could limit, but not preclude, our ability to pursue growth as we intend to retain sufficient cash after the distribution of dividends to permit the pursuit of growth opportunities that do not require material capital investments. In order to pay dividends at the level currently anticipated under our dividend policy and to fund any substantial portion of our stock repurchase program, we expect that we could require financing or borrowings to fund any significant acquisitions or to pursue growth opportunities requiring capital expenditures significantly beyond our anticipated capital expenditure levels. Management will evaluate potential growth opportunities as they arise and, if our Board of Directors determines that it is in our best interest to use cash that would otherwise be available for distribution as dividends to pursue an acquisition opportunity, to materially increase capital spending or for some other purpose, the Board would be free to depart from or change our dividend policy at any time.

Restrictions on payment of dividends

Under Delaware law, we can only pay dividends either out of surplus (which is defined as total assets at fair market value minus total liabilities, minus statutory capital) or out of current or the immediately preceding year s earnings. As of December 31, 2011, we had $52.5 million in cash and cash equivalents. In addition, we anticipate that we will have sufficient earnings in 2012 to pay dividends at the level described above. Although we believe we will have sufficient surplus and earnings to pay dividends at the anticipated levels for 2012, our Board of Directors will seek periodically to assure itself of this sufficiency before actually declaring any dividends.

We entered into an amended and restated credit facility on February 9, 2012. The amended credit facility restricts our ability to declare and pay dividends on our common stock. In order to pay any cash dividends and/or repurchase shares of stock: (1) no default or event of default shall have occurred and be continuing under the credit facility, and (2) we must be in compliance with a leverage ratio set forth in the credit agreement.

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Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with Management s discussion and analysis of financial condition and results of operations and our financial statements and the related notes included elsewhere in this report.

The selected consolidated financial data below has been revised to reflect the corrections of immaterial errors in previously reported financial results. See Note 1 of the consolidated financial statements included in this annual report for a detailed discussion. The net income impact of the revisions was a decrease in net income of $0.6 million, $0.9 million, $1.5 million and $2.2 million for the year ended December 31, 2010, 2009, 2007 and 2006, respectively, and an increase in net income of $0.9 million for the year ended December 31, 2008.

The following data, insofar as it relates to each of the years ended December 31, 2011, 2010 and 2009, has been derived from the audited annual financial statements, including the consolidated balance sheets at December 31, 2011 and 2010, and the related consolidated statements of operations, cash flows and stockholders equity and comprehensive income for the three years ended December 31, 2011, 2010 and 2009 and notes thereto appearing elsewhere herein. The following data, insofar as it relates to each of the years ended December 31, 2008 and 2007, and the consolidated balance sheet as of December 31, 2009, 2008 and 2007 are derived from financial statements not included in this report.

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As described in Note 3 of the consolidated financial statements included in this annual report, we made business acquisitions which could affect the comparability of the information presented.

	Years ended December 31,				
(in thousands, except per share data)	**2011**	**2010**	**2009**	**2008**	**2007**
Consolidated statements of operations data:					
Revenue					
License fees	$ 19,475	$ 23,719	$ 25,656	$ 35,484	$ 37,569
Subscriptions	103,544	83,912	73,194	49,773	25,389
Services	108,781	87,663	87,239	101,015	89,944
Maintenance	130,604	124,559	116,413	107,308	94,602
Other revenue	8,464	6,712	6,968	8,730	8,102
Total revenue	370,868	326,565	309,470	302,310	255,606
Cost of revenue					
Cost of license fees	3,345	3,003	3,697	3,388	2,919
Cost of subscriptions(1)	42,536	31,155	28,158	20,564	10,306
Cost of services(1)	79,086	66,755	61,585	63,810	54,798
Cost of maintenance(1)	25,178	24,123	21,594	20,175	17,119
Cost of other revenue	7,049	7,103	6,098	8,368	7,274
Total cost of revenue	157,194	132,139	121,132	116,305	92,416
Gross profit	213,674	194,426	188,338	186,005	163,190
Operating expenses					
Sales and marketing(1)	75,361	69,469	63,495	65,573	56,761
Research and development(1)	47,672	45,499	45,520	38,497	28,378
General and administrative(1)	36,933	32,636	33,383	33,904	26,144
Impairment of cost method investment	1,800				
Amortization	980	798	768	713	491
Total operating expenses	162,746	148,402	143,166	138,687	111,774
Income from operations	50,928	46,024	45,172	47,318	51,416
Interest income	183	84	637	526	813
Interest expense	(200)	(74)	(962)	(1,526)	(1,164)
Other income (expense), net	346	(98)	220	(194)	(503)
Income before provision for income taxes	51,257	45,936	45,067	46,124	50,562
Income tax provision	18,037	16,749	17,547	17,185	20,389
Net income	$ 33,220	$ 29,187	$ 27,520	$ 28,939	$ 30,173
Earnings per share					
Basic	$ 0.76	$ 0.68	$ 0.64	$ 0.67	$ 0.69
Diluted	$ 0.75	$ 0.67	$ 0.63	$ 0.66	$ 0.68
Common shares and equivalents outstanding					
Basic weighted average shares	43,523	43,145	42,771	42,959	43,619
Diluted weighted average shares	44,149	43,876	43,600	43,959	44,595
Dividends per share	$ 0.48	$ 0.44	$ 0.40	$ 0.40	$ 0.34
Summary of stock-based compensation:					

Cost of subscriptions	$ 571	$ 392	$ 387	$ 283	$ 274
Cost of services	1,966	1,742	1,433	1,442	627
Cost of maintenance	741	814	750	534	234
Total included in cost of revenue	3,278	2,948	2,570	2,259	1,135
Sales and marketing	1,325	1,366	1,605	1,607	831
Research and development	3,039	2,844	2,944	2,396	1,219
General and administrative	7,242	5,901	5,291	5,700	3,749
Total included in operating expenses	11,606	10,111	9,840	9,703	5,799
Total stock-based compensation	$ 14,884	$ 13,059	$ 12,410	$ 11,962	$ 6,934

(1) Includes stock-based compensation as set forth in tabular summary of stock-based compensation for all periods presented.

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	December 31,				
(in thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Consolidated balance sheet data					
Cash and cash equivalents	$ 52,520	$ 28,004	$ 22,769	$ 16,361	$ 14,775
Deferred tax asset, including current portion	30,927	47,478	59,284	70,100	52,174
Working (deficit) capital	(52,093)	(57,056)	(74,458)	(113,464)	(49,113)
Total assets	392,590	323,806	299,927	311,087	235,210
Deferred revenue	163,437	150,661	137,950	122,023	97,506
Total liabilities	252,588	207,337	189,634	225,354	125,887
Common stock	54	53	52	51	50
Additional paid-in capital	175,401	158,372	134,643	116,688	105,579
Total stockholders equity	$ 140,002	$ 116,469	$ 110,293	$ 85,733	$ 109,323

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Item 1.A Risk Factors and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This report contains forward-looking statements within the meaning of Section 21E of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements reflect our current view with respect to future events and financial performance and are subject to risks and uncertainties, including those set forth under Item 1A. Risk factors , under Cautionary statement included in this Management s discussion and analysis of financial condition and results of operations and elsewhere in this report, that could cause actual results to differ materially from historical or anticipated results.

Executive summary

We provide on-premise and cloud-based software solutions and related services designed specifically for nonprofit organizations, and provide products and services that enable nonprofit organizations to increase donations, reduce fundraising costs, improve communications with constituents, manage their finances and optimize internal operations. At the end of 2011, we had approximately 26,000 active customers distributed across multiple verticals within the nonprofit market including education, foundations, health and human services, religion, arts and cultural, public and societal benefits, environment and animal welfare and international foreign affairs.

We derive revenue from selling perpetual licenses or charging for the use of our software products in a hosted environment and providing a broad offering of services, including consulting, training, installation and implementation, as well as ongoing customer support and maintenance. Consulting, training and implementation are generally not essential to the functionality of our software products and are sold separately. Furthermore, we derive revenue from providing hosting services, performing donor prospect research engagements, selling lists of potential donors, and providing benchmarking studies and data modeling services.

Overall, revenue in 2011 increased 14% compared to 2010. When removing the impact of foreign currency translation, revenue increased 13% when comparing 2011 to 2010. This increase was principally the result of continued growth in our services and subscriptions revenue. The increase in services revenue was primarily as a result of an increase in demand for our consulting services associated with our Blackbaud CRM offering. Additionally, our recurring revenue, which is comprised of subscription offerings and maintenance and represented 63% of our 2011 revenue on a combined basis, contributed to the growth in revenue. The growth in subscriptions revenue is principally attributable to increased demand for our hosting services, online fundraising and data management offerings and the shift in our business towards hosted solutions. The growth in maintenance revenue is principally driven by maintaining high renewal rates, new maintenance contracts associated with new license arrangements and existing client increases. Revenue associated with our core perpetual license offerings decreased in 2011 when compared to 2010 as a result of the continuing decreases in sales of our perpetual license offerings to the mid-market customer base, which is principally the result of customers opting to purchase our solutions under alternative packaging with more flexible subscription-based pricing. We believe this trend will continue, and may accelerate, in the future.

Income from operations for 2011 increased by 11%, or $4.9 million, compared to 2010. The increase in income from operations is primarily attributable to the increase in services and subscriptions gross profit which is driven by the continued strong retention rate of our solutions that are offered under recurring revenue arrangements and the scalability of our infrastructure that supports these services. The increase in income from operations of 11% was less than the increase in revenue of 14% during 2011 primarily due to the investment in the infrastructure that supports our subscription-based offerings.

We ended 2011 with cash and cash equivalents totaling $52.5 million and no outstanding borrowings on our credit facility. During 2011, we generated $85.5 million in cash flow from operations, which we used to purchase $23.4 million of acquired companies, pay $21.4 million in dividends and purchase $18.2 million of equipment.

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Blackbaud, Inc.

Item 7. Management s discussion and analysis of financial condition and results of operations (Continued)

During 2011, we experienced overall growth in revenue and have begun to see increases in charitable giving levels. However, we continue to believe the pace and impact of economic recovery on the nonprofit market remains uncertain. We expect that our operating environment will continue to be challenging in 2012 as existing and prospective customers remain cautious in their expenditure decisions. Notwithstanding these conditions, we remain focused on execution of our key growth initiatives and strengthening our leadership position, while achieving our targeted level of profitability. We also plan to continue to invest in our back office processes and the infrastructure that supports our subscription-based offerings to achieve optimal scalability of our operations as we execute on our key growth initiatives.

Recent developments

Convio acquisition

On January 16, 2012, we entered into an Agreement and Plan of Merger with Convio, Inc. (Convio), a leading provider of on-demand constituent engagement solutions that enable nonprofit organizations to more effectively raise funds, advocate for change and cultivate relationships. Under the terms of the agreement, we will acquire all of the outstanding shares of common stock of Convio for $16.00 per share, representing a premium of 49% compared to Convio s closing price prior to the announcement of the proposed acquisition and an enterprise value of approximately $275.0 million (based on dilutive shares). We will finance the deal through a combination of cash on hand and debt.

Amended and restated credit facility

We amended and restated our credit facility to a $325.0 million five-year credit facility on February 9, 2012. The credit facility includes the following facilities: a dollar and a designated currency revolving credit facility with sublimits for letters of credit and swingline loans, and a delayed draw term loan. The credit facility is secured by the stock and limited liability company interests of certain of our subsidiaries that were pledged as part of the closing. Amounts outstanding under the credit facility will be guaranteed by our material domestic subsidiaries, if any. We plan to use borrowings under the credit facility to partially finance our proposed acquisition of Convio.

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Blackbaud, Inc.

Item 7. Management s discussion and analysis of financial condition and results of operations (Continued)

Consolidated statements of operations, percent of revenue

	Years ended December 31,		
	2011	**2010**	**2009**
Revenue			
License fees	5.3%	7.3%	8.3%
Subscriptions	27.9	25.7	23.7
Services	29.3	26.8	28.2
Maintenance	35.2	38.1	37.6
Other revenue	2.3	2.1	2.2
Total revenue	100.0%	100.0%	100.0%
Cost of revenue			
Cost of license fees	0.9	0.9	1.2
Cost of subscriptions	11.5	9.5	9.1
Cost of services	21.3	20.4	19.9
Cost of maintenance	6.8	7.4	7.0
Cost of other revenue	1.9	2.2	2.0
Total cost of revenue	42.4	40.5	39.2
Gross profit	57.6	59.5	60.8
Operating expenses			
Sales and marketing	20.3	21.3	20.5
Research and development	12.9	14.0	14.7
General and administrative	10.0	10.0	10.8
Impairment of cost method investment	0.5		
Amortization	0.2	0.2	0.2
Total operating expenses	43.9	45.5	46.2
Income from operations	13.6	14.0	14.6
Interest income	1.0		0.2
Interest expense	(0.1)		(0.3)
Other income, net	0.1		0.1
Income before provision for income taxes	13.8	14.1	14.6
Income tax provision	4.8	5.1	5.7
Net income	9.0%	8.9%	8.9%

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Blackbaud, Inc.

Item 7. Management s discussion and analysis of financial condition and results of operations (Continued)

Results of operations

During the fourth quarter of 2011, we revised previously issued financial statements to correct errors identified principally related to revenue recognition, accounting for income taxes and the capitalization of software development costs. None of the revisions were considered material to the periods impacted, as disclosed in Note 1 of the consolidated financial statements included in this annual report. All amounts in Item 7 of this filing are provided as revised.

During 2011, 2010 and 2009, we acquired companies that provided us with strategic opportunities to expand our share of the nonprofit market through the integration of complimentary products and services to serve the changing needs of our customers. Following are the companies we acquired and their respective acquisition date:

- RLC Customer Centric Technology B.V. April 29, 2009;
- Target America, Inc. May 12, 2010;
- NOZA, Inc. October 1, 2010;
- Public Interest Data, LLC, or PIDI February 1, 2011; and
- Everyday Hero Pty. Ltd., or EDH October 6, 2011.

The results of operations of the acquired companies are included in our consolidated results of operations from the date of their respective acquisition as noted above, which impacts the comparability of our results of operations when comparing 2011 to 2010 and 2010 to 2009. We have noted in the discussion below, to the extent meaningful, the impact on the comparability of our results of operations due to the inclusion of the acquired companies for only a partial year in the year of acquisition.

Comparison of the years ended December 31, 2011 and 2010

Revenue

The table below compares revenue from our statement of operations for the years ended December 31, 2011 and 2010.

(in millions)	Years ended December 31, 2011	2010	Change	% Change
License fees	$ 19.5	$ 23.7	$ (4.2)	(18)%
Subscriptions	103.5	83.9	19.6	23%
Services	108.8	87.7	21.1	24%
Maintenance	130.6	124.6	6.0	5%
Other	8.5	6.7	1.8	27%

Total revenue	$ 370.9	$ 326.6	$ 44.3	14%

Total revenue increased $44.3 million, or 14%, in 2011 compared to 2010. This increase in revenue is primarily attributable to growth in our subscriptions and services revenue. The increase in subscriptions revenue is primarily attributable to an increase in demand for our hosted offerings, hosting services, online fundraising and data management offerings. This increase has been driven by the ongoing evolution of our product offerings from a license-based to subscription-based business model. Services revenue growth is primarily due to an increase in demand for consulting services associated with our Blackbaud CRM offering and online fundraising offerings.

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Item 7. Management s discussion and analysis of financial condition and results of operations (Continued)

The increase in maintenance revenue is attributable to new maintenance contracts associated with new license agreements sold over the last twelve months and increases in contracts with existing customers. These increases are offset by a decrease in license fees which is principally attributable to a smaller contribution in 2011 from Blackbaud CRM perpetual license arrangements with upfront revenue recognition than in 2010. Additionally, we continue to experience a shift in our customers buying preference away from perpetual licenses towards hosted solutions.

Operating results

License fees

(in millions)	Years ended December 31, 2011	2010	Change	% Change
License fees revenue	$ 19.5	$ 23.7	$ (4.2)	(18)%
Cost of license fees	3.3	3.0	0.3	10%
License fees gross profit	$ 16.2	$ 20.7	$ (4.5)	(22)%
License fees gross margin	83%	87%		

Revenue from license fees is derived from the sale of our software products, under a perpetual license agreement. We are increasingly experiencing a shift in our customers buying preference away from solutions offered under perpetual license arrangements towards subscription-based hosted applications. In addition, we continue to experience longer sales cycle times, delays and postponements of purchasing decisions and overall caution exercised by existing and prospective customers as a result of continued challenges posed by the weak economic environment. During 2011, revenue from license fees to existing customers decreased by $0.9 million and sales to new customers decreased by $3.3 million. The decrease in license fees is largely the result of a smaller contribution in 2011 from Blackbaud CRM sales with upfront revenue recognition when compared to 2010 due to credits provided to certain Blackbaud CRM early adopters.

Cost of license fees is principally comprised of third-party software royalties, variable reseller commissions, amortization of software development costs and amortization of intangibles from business combinations. The increase in cost of license fees in 2011 compared to 2010 is principally attributable to an increase in reseller commissions. A greater portion of our software license sales in 2011 were completed through our reseller channels when compared to 2010.

The decrease in license fees gross margin in 2011 compared to 2010 is the result of an increase in the sale of products that are sold through our reseller channels.

Subscriptions

(in millions)	Years ended December 31, 2011	2010	Change	% Change
Subscriptions revenue	$ 103.5	$ 83.9	$ 19.6	23%
Cost of subscriptions	42.5	31.2	11.3	36%
Subscriptions gross profit	$ 61.0	$ 52.7	$ 8.3	16%

Subscriptions gross margin	59%	63%

Revenue from subscriptions is principally comprised of revenue from providing access to hosted applications and hosting services, access to certain data services and our online subscription training offerings, and variable

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Blackbaud, Inc.

Item 7. Management s discussion and analysis of financial condition and results of operations (Continued)

transaction fees associated with the use of our products to fundraise online. Revenue from acquired companies contributed $6.2 million to the growth in subscriptions revenue during 2011. The remaining increase in subscriptions revenue during 2011 is principally attributable to the increase in demand for online fundraising offerings, data management offerings and hosting services. Additionally, revenue from our hosting services continues to increase as the demand for these services continues to grow from both our existing and new perpetual license customers. We continue to experience growth in our hosted applications business and are increasingly experiencing a shift in our customers buying preference away from perpetual licenses towards subscription based-offerings.

Cost of subscriptions is primarily comprised of human resource costs, stock-based compensation expense, third-party royalty and data expenses, hosting expenses, an allocation of depreciation, facilities and IT support costs, amortization of intangibles from business combinations and other costs incurred in providing support and services to our customers. The increase in cost of subscriptions in 2011 when compared to 2010 is principally attributable to an increase in headcount. The increase in headcount is due to both the inclusion of acquired companies and the investments we are making in our infrastructure to support the growth in our subscription offerings. Human resource costs increased $6.9 million as a result of an increase in headcount, of which $3.6 million relates to our acquisition of PIDI in February 2011. Hosting costs also increased by $2.8 million due to the increase in required hosting capacity as a result of the increase in demand for hosting and other online services.

The decrease in subscriptions gross margin 2011 compared to 2010 is due to an increase in the investments we are making in the infrastructure to support the growth in our subscription offerings.

Services

(in millions)	Years ended December 31, 2011	2010	Change	% Change
Services revenue	$ 108.8	$ 87.7	$ 21.1	24%
Cost of services	79.1	66.8	12.3	18%
Services gross profit	$ 29.7	$ 20.9	$ 8.8	42%
Services gross margin	27%	24%		

Services revenue consists of consulting, installation, implementation, education and analytic services. Consulting, installation and implementation services involve converting data from a customer s existing system, assistance in file set up and system configuration, and/or process re-engineering. Education services involve customer training activities. Analytic services are comprised of donor prospect research, selling lists of potential donors, benchmarking studies and data modeling services. These services involve the assessment of current and prospective donor information of the customer and are performed using our proprietary analytical tools. The end product enables organizations to more effectively target their fundraising activities. We recognize services revenue attributable to consulting services for implementation of our hosted applications and subscription offerings ratably over the period the customer benefits from those services. We also recognize the direct and incremental costs associated with consulting services revenue ratably over the same period. However, we continue to expense indirect costs in the period the implementation services are provided.

The increase in services revenue during 2011 when compared to 2010 is principally attributable to an increase in consulting services revenue of $14.4 million, analytic services of $3.8 million and education services of $2.9 million. Revenue from acquired companies represented $0.8 million of consulting services and $1.9 million of analytic services revenue growth during 2011 compared to 2010. The increase in consulting services revenue

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Item 7. Management s discussion and analysis of financial condition and results of operations (Continued)

is primarily due to an increase in the demand for consulting, installation and implementation services associated with our Blackbaud CRM offering and our internet based fundraising offerings. This increase in consulting services revenue resulting from an increase in volume was partially offset by an increase in our investment, in the form of non-billable implementation hours, in early adopters of our Blackbaud CRM offering and a reduction in the rates we charge as a result of a higher level of discounts on the consulting services provided during 2011 compared to 2010. The rates we charge for our education and analytic service offerings have remained relatively constant year over year and, as such, the change in revenue is principally the result of an increase in the volume of services provided.

Cost of services is principally comprised of human resource costs, stock-based compensation expense, third-party contractor expenses, classroom rentals, other costs incurred in providing consulting, installation and implementation services and customer training, data expense incurred to perform analytic services, an allocation of depreciation, facilities and IT support costs and amortization of intangibles from business combinations.

The increase in cost of services in 2011 when compared to 2010 is primarily attributable to an increase in human resource costs and third-party contractor costs. The increase in human resource costs and third-party contractor costs is principally attributable to the need for additional resource capacity to meet the increasing consulting services demands of our customers and the additional headcount from acquired companies.

The services gross margin increased in 2011 compared to 2010 primarily as a result of an increase in demand for consulting services associated with our Blackbaud CRM offering and a shift in the mix of consulting engagements to higher margin projects.

Maintenance

(in millions)	Years ended December 31, 2011	2010	Change	% Change
Maintenance revenue	$ 130.6	$ 124.6	$ 6.0	5%
Cost of maintenance	25.2	24.1	1.1	5%
Maintenance gross profit	$ 105.4	$ 100.5	$ 4.9	5%
Maintenance gross margin	81%	81%		

Revenue from maintenance is comprised of annual fees derived from maintenance contracts associated with new software licenses and annual renewals of existing maintenance contracts. These contracts provide customers with updates, enhancements and upgrades to our software products and online, telephone and email support. During 2011, the increase in maintenance revenue is principally comprised of $11.3 million of maintenance from new customers associated with new license agreements and increases in contracts with existing customers and $3.8 million from maintenance contract inflationary rate adjustments, offset by $9.1 million from maintenance contracts that were not renewed.

Cost of maintenance is primarily comprised of human resource costs, stock-based compensation expense, third-party contractor expenses, third-party royalty costs, an allocation of depreciation, facilities and IT support costs, amortization of intangibles from business combinations and other costs incurred in providing support and services to our customers. The increase in cost of maintenance in 2011 when compared to 2010 is principally attributable to an increase in human resource costs of $1.5 million partially offset by a $0.2 million decrease in third-party royalty costs and $0.2 million decrease in amortization of intangibles from business combinations. Human resource costs increased due to salary merit increases and an increase in headcount associated with the

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Item 7. Management s discussion and analysis of financial condition and results of operations (Continued)

continued growth in our customer support function commensurate with maintenance revenue growth. Additionally, we continue to experience a shift to higher skilled support resources that carry a higher cost to meet the needs of our enterprise customers.

Other revenue

(in millions)	Years ended December 31, 2011	2010	Change	% Change
Other revenue	$ 8.5	$ 6.7	$ 1.8	27%
Cost of other revenue	7.0	7.1	(0.1)	(1)%
Other gross profit	$ 1.5	$ (0.4)	$ 1.9	(475)%
Other gross margin	18%	(6)%		

Other revenue includes the sale of business forms that are used in conjunction with our software products, reimbursement of travel-related expenses, primarily incurred during the performance of services at customer locations, fees from user conferences and third-party software referral fees. Other revenue increased in 2011 when compared to 2010 primarily due to an increase in revenue from third-party software referral fees and in reimbursement of travel-related expenses associated with the growth in services revenue.

Cost of other revenue includes human resource costs, costs of business forms, costs of user conferences, reimbursable expenses relating to the performance of services at customer locations, an allocation of depreciation, facilities and IT support costs and amortization of intangibles from business combinations. In total, cost of other revenue in 2011 when compared to 2010 decreased by $0.1 million due to a reduction in user conference expenses offset by an increase in reimbursable expenses.

Other gross margin increased in 2011 when compared to 2010 due to an increase in revenue from third-party software referral fees and a reduction in the cost of user conferences.

Operating expenses

Sales and marketing

(in millions)	Years ended December 31, 2011	2010	Change	% Change
Sales and marketing expense	$ 75.4	$ 69.5	$ 5.9	8%
% of revenue	20%	21%		

Sales and marketing expense includes salaries and related human resource costs, stock-based compensation expense, travel-related expenses, sales commissions, advertising and marketing materials, public relations and an allocation of depreciation, facilities and IT support costs. During 2011, sales and marketing expense increased by $5.9 million when compared to 2010 primarily due to an increase of $3.6 million in human resource costs and $2.0 million in commission expense. The increase in human resource costs is a result of additional headcount to support the increase in selling and marketing efforts of our growing operations. The increase in commission expense is principally attributable to an increase in commissionable revenue in 2011. Additionally, marketing programs increased by $0.3 million relating to the launch of our new corporate branding and an increase in marketing costs associated with our new packaged offerings.

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Item 7. Management s discussion and analysis of financial condition and results of operations (Continued)

As a percentage of revenue, sales and marketing expense in 2011 when compared to 2010 decreased principally as a result of our ability to leverage our sales support and marketing resources as we standardize and simplify our packaged offerings.

Research and development

(in millions)	Years ended December 31, 2011	2010	Change	% Change
Research and development expense	$ 47.7	$ 45.5	$ 2.2	5%
% of revenue	13%	14%		

Research and development expense includes human resource costs, stock-based compensation expense, third-party contractor expenses, software development tools and other expenses related to developing new products, upgrading and enhancing existing products, and an allocation of depreciation, facilities and IT support costs. During 2011, human resource and third-party costs increased by $3.0 million partially offset by an increase in the amount of software development costs that were capitalized of $0.8 million. Human resource and third-party contractor costs have increased as we continue to invest in our product development efforts. The increase in amount of costs that are capitalized is primarily due to development efforts with our events management solution.

Research and development costs as a percentage of revenue decreased in 2011 when compared to 2010 principally due to the increase in the amount of development costs that were capitalized in 2011 as compared to 2010.

General and administrative

(in millions)	Years ended December 31, 2011	2010	Change	% Change
General and administrative expense	$ 36.9	$ 32.6	$ 4.3	13%
% of revenue	10%	10%		

General and administrative expense consists primarily of human resource costs for general corporate functions, including senior management, finance, accounting, legal, human resources, corporate development, stock-based compensation expense, third-party professional fees, insurance, an allocation of depreciation, facilities and IT support costs, acquisition related expense and other administrative expenses. During 2011, general and administrative expense increased primarily due to $1.3 million and $1.1 million increases in stock-based compensation expense and human resource costs, respectively, a $0.8 million increase in acquisition-related expenses, $0.5 million in third-party professional consulting fees and $0.3 million in recruiting costs associated with hiring key executives in 2011. Acquisition-related costs related primarily to the acquisition of PIDI, EDH and the pending acquisition of Convio. Stock-based compensation increased due to a change in the type of equity awards granted to certain executives to be performance-based, for which expense is recognized on an accelerated basis.

Non-GAAP income from operations

The operating results analyzed below are presented on a non-GAAP basis in that the results exclude the impact of stock-based compensation expense, amortization expense, acquisition-related expenses, impairment of cost

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Item 7. Management s discussion and analysis of financial condition and results of operations (Continued)

method investment and gain on sale of assets. We believe that the exclusion of these costs allows us and investors to better understand our operating expenses and cash needs, particularily when evaluating current performance against prior periods.

(in millions)	Years ended December 31, 2011	2010	Change	% Change
GAAP income from operations	$ 50.9	$ 46.0	$ 4.9	11%
Non-GAAP adjustments:				
Add: Stock-based compensation expense	14.9	13.1	1.8	14%
Add: Amortization of intangibles from business combinations	7.6	7.1	0.5	7%
Add: Acquisition-related expenses	1.8	1.0	0.8	80%
Add: Impairment of cost method investment	1.8		1.8	0%
Less: Gain on sale of assets	(0.5)		(0.5)	0%
Total Non-GAAP adjustments	25.6	21.2	4.4	21%
Non-GAAP income from operations	$ 76.5	$ 67.2	$ 9.3	14%
Non-GAAP operating margin	21%	21%		

The increase in non-GAAP income from operations is consistent with the overall increase in revenue of 14% and is principally attributable to the growth in gross profit in our subscriptions and services operations as discussed above, partially offset by investments, in the form of non-billable implementation hours, we made during 2011 in early adopters of our Blackbaud CRM offering.

Comparison of the years ended December 31, 2010 and 2009

Revenue

The table below compares revenue from our statement of operations for the years ended December 31, 2010 and 2009.

(in millions)	Years ended December 31, 2010	2009	Change	% Change
License fees	$ 23.7	$ 25.7	$ (2.0)	(8)%
Subscriptions	83.9	73.2	10.7	15%
Services	87.7	87.2	0.5	1%
Maintenance	124.6	116.4	8.2	7%
Other	6.7	7.0	(0.3)	(4)%
Total revenue	$ 326.6	$ 309.5	$ 17.1	6%

The total revenue increased $17.1 million, or 6% in 2010 compared to 2009. The increase in revenue is primarily attributable to growth in our subscriptions and maintenance revenue. The increase in subscriptions revenue is primarily attributable to an increase in demand for our hosted offerings, hosting services, online fundraising and data management offerings. This increase has been driven, in part, by the ongoing evolution of our product offerings from a license-based to subscription-based business model. The increase in maintenance revenue is attributable to new maintenance contracts associated with new license agreements sold over the last twelve months and increases in contracts with existing customers. These increases are offset by a decrease in license fees which is principally attributable to a smaller contribution in 2010 from Blackbaud CRM perpetual license arrangements with upfront revenue recognition. Additionally, we continue to experience a shift in our customers buying preference away from perpetual licenses towards hosted solutions.

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Operating results

License fees

(in millions)	Years ended December 31, 2010	2009	Change	% Change
License fees revenue	$ 23.7	$ 25.7	$ (2.0)	(8)%
Cost of license fees	3.0	3.7	(0.7)	(19)%
License fees gross profit	$ 20.7	$ 22.0	$ (1.3)	(6)%
License fees gross margin	87%	86%		

During 2010, revenue from license fees to existing customers increased $0.8 million and sales to new customers decreased by $2.8 million. The decrease in license fees is largely the result of a smaller contribution in 2010 from Blackbaud CRM sales with upfront revenue recognition when compared with 2009 and the continued shift in our customers buying preference away from solutions offered under perpetual license arrangements towards subscription-based hosted applications.

The decrease in cost of license fees in 2010 compared to 2009 is primarily attributable to lower third-party software royalty costs, which is directly the result of the reduction in sales of perpetual licenses in 2010 when compared with 2009.

The increase in license fee gross margin in 2010 compared to 2009 is the result of a change in the mix of products sold. During 2010, we sold fewer products with associated third-party software royalty costs.

Subscriptions

(in millions)	Years ended December 31, 2010	2009	Change	% Change
Subscriptions revenue	$ 83.9	$ 73.2	$ 10.7	15%
Cost of subscriptions	31.2	28.2	3.0	11%
Subscriptions gross profit	$ 52.7	$ 45.0	$ 7.7	17%
Subscriptions gross margin	63%	61%		

The increase in subscriptions revenue during 2010 is principally attributable to the increase in demand for online fundraising offerings, data management offerings and hosting services. We continue to experience growth in our hosted applications business and are increasingly experiencing a shift in our customers buying preference away from perpetual licenses towards subscription based-offerings. Additionally, revenue from our hosting services continues to increase as demand for these services continues to grow from both our existing and new perpetual license customers.

The increase in cost of subscriptions in 2010 when compared to 2009 is principally due to an increase in human resource costs of $2.1 million as a result of an increase in headcount. Data expense and hosting costs also increased resulting from an increase in the demand for hosting and other online services.

The subscriptions gross margin increased during 2010 due to the increase in demand of our subscription-based offerings and our ability to support the growth in demand without increasing costs.

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Services

(in millions)	Years ended December 31, 2010	2009	Change	% Change
Services revenue	$ 87.7	$ 87.2	$ 0.5	1%
Cost of services	66.8	61.6	5.2	8%
Services gross profit	$ 20.9	$ 25.6	$ (4.7)	(18)%
Services gross margin	24%	29%		

The increase in services revenue during 2010 when compared to 2009 is principally attributable to an increase in consulting services revenue of $2.1 million and analytic services of $0.4 million, partially offset by a decrease in education services revenue of $2.0 million. The increase in consulting services revenue is largely due to an increase in the demand for consulting services associated with our Blackbaud CRM offering and our internet- based fundraising offerings. The increase in consulting services revenue resulting from an increase in volume was partially offset by an increase in our investment, in the form of non-billable implementation hours, in early adopters of our Blackbaud CRM offering and a reduction in the rates we charge as a result of a higher level of discounts on the consulting services provided during 2010 compared to 2009. The rates we charge for our education and analytic service offerings have remained relatively constant year over year and, as such, the change in revenue is principally the result of a change in the volume of services provided.

The increase in cost of services in 2010 is primarily attributable to an increase in human resource costs of $3.8 million, third-party contractor costs of $1.8 million and stock-based compensation expense of $0.3 million, partially offset by a decrease in training-related costs and data expense of $0.8 million. The increase in costs is principally attributable to the need for additional resource capacity to meet the increasing consulting services demands of our customers.

The services gross margin decreased in 2010 compared to 2009 primarily as a result of investments made in the form of non-billable implementation hours for the benefit of early adopters of our Blackbaud CRM offering and additional headcount to meet the increasing consulting services demands of our customers.

Maintenance

(in millions)	Years ended December 31, 2010	2009	Change	% Change
Maintenance revenue	$ 124.6	$ 116.4	$ 8.2	7%
Cost of maintenance	24.1	21.6	2.5	12%
Maintenance gross profit	$ 100.5	$ 94.8	$ 5.7	6%
Maintenance gross margin	81%	81%		

During 2010, the increase in maintenance revenue is principally comprised of $8.9 million of maintenance from new customers associated with new license agreements and increases in contracts with existing customers and $3.3 million from maintenance contract inflationary rate adjustments, offset by $4.1 million from maintenance contracts that were not renewed.

The increase in cost of maintenance in 2010 when compared to 2009 is principally attributable to an increase in human resource costs of $1.4 million and third-party royalty costs of $1.2 million. Human resource costs increased due to salary merit increases and an increase in headcount associated with the continued growth in our

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customer support function commensurate with maintenance revenue growth. The increase in third-party royalty costs is attributable to increases in maintenance contracts with new and existing customers for software products which include third-party software arrangements.

Other revenue

(in millions)	Years ended December 31, 2010	2009	Change	% Change
Other revenue	$ 6.7	$ 7.0	$ (0.3)	(4)%
Cost of other revenue	7.1	6.1	1.0	16%
Other gross profit	$ (0.4)	$ 0.9	$ (1.3)	(144)%
Other gross margin	(6)%	13%		

The decrease in other revenue in 2010 when compared to 2009 is principally due to a decrease in reimbursable travel revenue related to providing services at customer locations.

The increase in the cost of other revenue in 2010 when compared to 2009 is principally attributable to an increase in the cost of our principal user conference resulting from a shift in venue that would allow us to host more customers and prospects.

Other gross margin decreased in 2010 when compared to 2009. While we had fewer user conferences in 2010 as compared to 2009, we made greater investments in the 2010 user conferences when compared to 2009, which is driving the decrease in other gross margin.

Operating expenses

Sales and marketing

(in millions)	Years ended December 31, 2010	2009	Change	% Change
Sales and marketing expense	$ 69.5	$ 63.5	$ 6.0	9%
% of revenue	21%	21%		

During 2010, sales and marketing expense increased when compared to 2009 primarily due to an increase of $2.8 million in commission expense. The increase in commission expense is principally attributable to higher commission rates due to under-achievement of plans in 2009, and an increase in commissionable revenue in 2010. Additionally, human resource costs increased by $1.4 million as a result of additional headcount and salary merit increases. The remaining increase is primarily due to an increase of $1.9 million in travel and other marketing expenses as a result of increased investment in selling and marketing programs to support both our new and newly packaged offerings.

Research and development

(in millions)	Years ended December 31, 2010	2009	Change	% Change
Research and development expense	$ 45.5	$ 45.5	$	0%

% of revenue	14%	15%

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During 2010, human resource and third party costs increased by $0.9 million, all of which was offset by an increase in costs allocated to cost of services commensurate with the development efforts supporting product customizations under revenue generating arrangements. Human resource and third-party contractor costs have increased as we continue to invest in our product development efforts.

The decrease in research and development expense as a percentage of revenue during 2010 compared to the same period in 2009 is principally attributable to an increase in costs allocated to cost of services commensurate with the development efforts supporting product customizations under revenue generating arrangements.

General and administrative

(in millions)	Years ended December 31, 2010	2009	Change	% Change
General and administrative expense	$ 32.6	$ 33.4	$ (0.8)	(2)%
% of revenue	10%	11%		

During 2010, the decrease in general and administrative expense and general and administrative expense as a percentage of revenue was principally due to a decrease in human resource costs of $1.8 million and bad debt expense of $0.3 million partially offset by $1.0 million in acquisition expenses relating to NOZA. The decrease in human resource costs is primarily due to a decrease in headcount resulting from consolidation and centralization efforts in the second half of 2009 and first quarter of 2010 of our accounting function from acquisitions in prior years.

Non-GAAP income from operations

The operating results analyzed below are presented on a non-GAAP basis in that the results exclude the impact of stock-based compensation expense, amortization expense, acquisition-related expenses, impairment of cost method investment and gain on sale of assets. We believe that the exclusion of these costs allows us and investors to better understand our operating expenses and cash needs, particularly when evaluating current performance against prior periods.

(in millions)	Years ended December 31, 2010	2009	Change	% Change
GAAP income from operations	$ 46.0	$ 45.2	$ 0.8	2%
Non-GAAP adjustments:				
Add: Kintera deferred revenue writedown		3.4	(3.4)	(100)%
Add: Stock-based compensation expense	13.1	12.4	0.7	6%
Add: Amortization of intangibles from business combinations	7.1	7.2	(0.1)	(1)%
Add: Acquisition-related expenses	1.0		1.0	0%
Total Non-GAAP adjustments	21.2	23.0	(1.8)	(8)%
Non-GAAP income from operations	$ 67.2	$ 68.2	$ (1.0)	(1)%
Non-GAAP operating margin	21%	22%		

The decrease in non-GAAP income from operations and operating margin is principally attributable to the investments, in the form of non-billable implementation hours, we made during 2010 in early adopters of our Blackbaud CRM offering, partially offset by the decrease in general and administrative expenses resulting from consolidation and centralization efforts of our accounting function.

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Income tax provision

Following is our effective tax rate for the years ended December 31:

	2011	2010	2009
Effective tax rate	35.2%	36.5%	38.9%

The effective tax rate in 2011 decreased due to the change in our valuation allowance. In 2011, we reversed $1.0 million of valuation allowance for certain state net operating loss carryforwards in connection with the completion of certain state tax planning strategies. The effective tax rate in 2010 decreased when compared to 2009 because we received a greater amount of federal and state tax credits in 2010.

We record our deferred tax assets and liabilities at an amount based upon a U.S. federal income tax rate of 35.0% and appropriate statutory tax rates of various foreign, state and local jurisdictions in which we operate. If our tax rates change in the future, we would adjust our deferred tax assets and liabilities to an amount reflecting those income tax rates. Any change will affect the provision for income taxes during the period that the determination is made.

The following table reconciles the amounts of unrecognized tax benefits for the years ended December 31:

(in millions)	2011	2010	2009
Balance at beginning of year	$ 1.4	$ 1.2	$ 0.3
Increases from prior period positions	0.1	0.1	0.4
Increases from current period positions	0.3	0.3	0.5
Lapse of statute of limitations		(0.2)	
Balance at end of year	$ 1.8	$ 1.4	$ 1.2

The amount of unrecognized tax benefits that, if recognized, would favorably affect our effective tax rate was $1.8 million at December 31, 2011. The total amount of accrued interest and penalties included in the consolidated balance sheet as of December 31, 2011 and 2010 was $0.2 million and $0.1 million, respectively. The total amount of interest and penalties included in the consolidated statement of operations for 2011 and 2010 was $0.1 million and $0.2 million, respectively, of an increase in income tax expense for 2011 and a decrease in income tax expense for 2010. The total amount of interest and penalties included in the consolidated statement of operations for 2009 was immaterial.

We have taken positions in certain taxing jurisdictions related to state nexus issues for which it is reasonably possible that the total amount of unrecognized tax benefits may decrease within the next twelve months. The possible decrease could result from the finalization of state income tax reviews and the expiration of statutes of limitations. The reasonably possible decrease is not material at December 31, 2011.

We file income tax returns in the U.S. for federal and various state jurisdictions as well as in foreign jurisdictions including Canada, United Kingdom, Australia and Netherlands. We are generally subject to U.S. federal income tax examination for calendar tax years ending 2008 through 2010 as well as state and foreign income tax examinations for various years depending on statute of limitations of those jurisdictions.

Liquidity and capital resources

At December 31, 2011, cash and cash equivalents totaled $52.5 million, compared to $28.0 million at December 31, 2010. The $24.5 million increase in cash and cash equivalents during 2011 is principally the result

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of generating $85.5 million of cash from operations, of which we used $23.4 million to acquire companies, $21.4 million to pay dividends and $18.2 million to purchase equipment.

Our principal source of liquidity has historically been our operating cash flow, which depends on continued customer renewal of our maintenance, support and subscription agreements and market acceptance of our products and services. Based on current estimates of revenue and expenses, we believe that the currently available cash and anticipated cash flows from operations will be adequate for at least the next twelve months to finance our operations, fund anticipated capital expenditures and pay dividends. Dividend payments are not guaranteed and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, not to declare or pay further dividends. Our stock repurchase program authorizes us to purchase up to $50.0 million of our outstanding shares of common Stock. Repurchases of common stock are not guaranteed and can be limited at the discretion of our Board of Directors.

At December 31, 2011, we had no outstanding borrowings under our former credit facility and were in compliance with the covenants thereunder. We drew on our credit facility from time to time to help us meet short-term financial needs, such as business acquisitions and purchase of common stock under our repurchase program. In February 2012, we amended and restated our credit facility to increase the available borrowing capacity to $325.0 million. The amended credit facility matures in February 2017. We expect to incur a substantial amount of debt in connection with the proposed acquisition of Convio. We believe our amended credit facility provides us liquidity to acquire Convio, and also with sufficient flexibility to meet our other anticipated financial needs.

At December 31, 2011, our total cash and cash equivalent balance includes $11.3 million of cash held by operations outside of the U.S. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. Our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Operating cash flow

Throughout both years, our cash flows from operations were derived principally from: (i) our earnings from on-going operations prior to non-cash expenses such as depreciation, amortization and stock-based compensation and adjustments to our provision for sales returns and allowances; (ii) the tax benefit associated with our deferred tax asset, which reduces our cash outlay for income tax expense; and (iii) changes in our working capital.

Working capital changes are comprised of changes in accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses, accrued liabilities and deferred revenue. Cash flow provided by operations that was associated with working capital increased $15.6 million in 2011 when compared to 2010. The net increase is principally due to:

- An increase in cash flow from accounts receivable of $4.1 million, primarily due to an improvement in our collection of accounts receivable as a result of an increase in the use of auto-pay programs by our customers; and

- A year-over-year increase in cash flow of $14.1 million due to fluctuations in the timing of cash paid for income taxes; partially offset by

- A decrease in cash flow of $2.6 million primarily due to the timing of payments of prepaid costs.

The provision for doubtful accounts and sales returns increased $2.9 million during 2011 when compared to 2010. The increase is principally due to an increase in credits related to consulting services associated with early adopters of Blackbaud CRM and other customer credits provided in the ordinary course of business that have increased commensurate with our growth in sales.

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Investing cash flow

Net cash used in 2011 for investing activities was $41.7 million compared to $18.4 million in 2010. This increase is due to the purchase of PIDI and EDH. Additionally, we increased the amount spent on software and computer equipment associated with the infrastructure that supports our subscription-based offerings from $10.8 million in 2010 to $18.2 million in 2011.

Financing cash flow

During 2011, cash used for financing activities was principally attributable to $21.4 million of dividend payments to stockholders. We did not have any borrowings or repayments under our former credit facility and we did not repurchase any treasury shares during 2011. During 2010, cash used for financing activities was principally attributable to $22.6 million of treasury share repurchases and $19.5 million of dividend payments to stockholders.

Commitments and contingencies

As of December 31, 2011, we had future minimum lease commitments of $63.9 million as follows:

					Payments due by period
(in millions)	Total	Less than 1 year	1-2 years	3-5 years	More than 5 years
Operating leases	$ 63.9	$ 7.2	$ 6.1	$ 15.5	$ 35.1

Our commitments related to operating leases have not been reduced by the future minimum lease commitments under sublease agreements that expire in 2014 and reimbursement of leasehold improvements totaling $3.8 million. As of December 31, 2011, we had accrued $1.6 million of federal taxes, $0.2 million of state taxes and $0.1 million of interest and penalties related to uncertain tax positions taken in current and prior years. Please refer to Note 11 in our notes to the consolidated financial statements for further information. We are unable to determine the period in which these liabilities will be settled, and accordingly, we have not included these amounts in the table above.

We utilize third-party relationships in conjunction with our products. The contractual arrangements vary in length from one to three years. In certain cases, these arrangements require a minimum annual purchase commitment. The total minimum annual purchase commitments under these arrangements at December 31, 2011, are approximately $8.1 million through 2013, which is not included in the table above. We incurred expense under these arrangements of $6.8 million, $4.1 million and $2.5 million for the years ended December 31, 2011, 2010 and 2009, respectively.

In February 2012, our Board of Directors approved our annual dividend of $0.48 per share for 2012 and declared a first quarter dividend of $0.12 per share payable on March 15, 2012, to stockholders of record on March 5, 2012. Dividends at the annual rate would aggregate to $21.1 million, assuming 44.0 million shares of common stock are outstanding, net of treasury stock. Our ability to continue to declare and pay dividends may be restricted by, among other things, the terms of our credit facility, general economic conditions and our ability to generate operating cash flow.

Off-balance sheet arrangements

We do not have any off-balance sheet arrangements, financings or other relationships with unconsolidated entities or other persons.

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Foreign currency exchange rates

Approximately 14% of our total net revenue for the year ended December 31, 2011, was derived from operations outside the United States. We do not have significant operations in countries in which the economy is considered to be highly inflationary. Our consolidated financial statements are denominated in U.S. dollars and, accordingly, changes in the exchange rates between foreign currencies and the U.S. dollar will affect the translation of our subsidiaries financial results into U.S. dollars for purposes of reporting our consolidated financial results. The accumulated currency translation adjustment, recorded as a separate component of stockholders equity, was a loss of $1.1 million and $0.8 million at December 31, 2011 and 2010, respectively.

The vast majority of our contracts are entered into by our U.S. entities. The contracts entered into by the U.S. entities are almost always denominated in U.S. dollars, contracts entered into by our Canadian subsidiary are generally denominated in Canadian dollars, and contracts entered into by our U.K., Australian and Netherlands subsidiaries are generally denominated in pounds sterling, Australian dollars and Euros, respectively. Historically, as the U.S. dollar weakened, foreign currency translation resulted in an increase in our revenues and expenses denominated in non-U.S. currencies. We do not believe our exposure to currency exchange rates has had a material impact on our results of operations or financial position and therefore we do not hedge any foreign currency risk; however, we intend to continue to monitor our foreign currency exchange rate exposure and take action as appropriate.

Critical accounting policies and estimates

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, we reconsider and evaluate our estimates and assumptions, including those that impact revenue recognition, our allowance for sales returns and doubtful accounts, valuation of long-lived and intangible assets and goodwill, stock-based compensation and provision for income taxes, valuation of deferred tax assets and liabilities and contingencies.

We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from any of our estimates under different assumptions or conditions. We believe the critical accounting policies listed below affect significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition

Our revenue is primarily generated from the following sources: (1) selling perpetual licenses of our software products; (2) charging for the use of our software products in a hosted environment; (3) providing professional services including implementation, training, consulting, analytic, hosting and other services; and (4) providing software maintenance and support services.

License fees

We recognize revenue from the sale of perpetual software license rights when all of the following conditions are met:

- Persuasive evidence of an arrangement exists;
- The product has been delivered;

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The fee is fixed or determinable; and

Collection of the resulting receivable is probable.

We deem acceptance of an agreement to be evidence of an arrangement. Delivery occurs when the product is shipped or transmitted, and title and risk of loss have transferred to the customers. Our typical license agreement does not include customer acceptance provisions; however, if acceptance provisions are provided, delivery is deemed to occur upon acceptance. We consider the fee to be fixed or determinable unless the fee is subject to refund or adjustment or is not payable within our standard payment terms. Payment terms greater than 90 days are considered to be beyond our customary payment terms. Collection is deemed probable if we expect that the customer will be able to pay amounts under the arrangement as they become due. If we determine that collection is not probable, we defer revenue recognition until collection.

We sell software licenses with maintenance, varying levels of professional services and, in certain instances, with hosting services. We allocate revenue to delivered components, normally the license component of the arrangement, using the residual value method based on objective evidence of the fair value of the undelivered elements, which is specific to us. Fair value for maintenance services associated with software licenses is based upon renewal rates stated in the agreements with customers, which vary according to the level of support service provided under the maintenance program. Fair value of professional services and other products and services is based on sales of these products and services to other customers when sold on a stand-alone basis. When a software license is sold with software customization services, generally the services are to provide customer support for assistance in creating special reports and other enhancements that will assist with efforts to improve operational efficiency and/or to support business process improvements. These services are not essential to the functionality of the software. However, when software customization services are considered essential to the functionality of the software, we recognize revenue for both the software license and the services on a percent-complete basis.

Subscriptions

We provide hosting services to customers who have purchased perpetual rights to certain of our software products (hosting services). Revenue from hosting services, as well as data enrichment services, data management services and online training programs is recognized ratably over the service period of the contract, which generally ranges from one to three years, upon deployment and use of the service. Any related set-up fees are recognized ratably over the estimated period that the customer benefits from the related fees.

We make certain of our software products available for use in hosted application arrangements without licensing perpetual rights to the software (hosted applications). Revenue from hosted applications is recognized over the subscription service period, which generally ranges from one to three years, upon deployment and use of the hosted application. Any related upfront activation, set-up or implementation fees are recognized ratably over the estimated period that the customer benefits from the related fees. Direct and incremental costs relating to activation, set-up and implementation for hosted applications are capitalized until the hosted application is deployed and in use, and then expensed over the estimated period that the customer benefits from the related fees.

For arrangements that have multiple elements and do not include software licenses, we allocate arrangement consideration at the inception of the arrangement to those elements that qualify as separate units of accounting. The arrangement consideration is allocated to the separate units of accounting based on relative selling price

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method in accordance with the selling price hierarchy, which includes: (i) vendor specific objective evidence (VSOE) if available; (ii) third party evidence (TPE) if VSOE is not available; and (iii) best estimate of selling price if neither VSOE nor TPE is available. In general, we use VSOE to allocate the selling price to subscription and service deliverables.

Revenue from transaction processing fees is recognized when received. Credit card fees directly associated with p