UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year ended December 31, 2010

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 **(State or other jurisdiction of incorporation or organization)**	**11-2617163** **(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 ☒ 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 ☒

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 ☒ 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 ☒ 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. ☒

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 ☒	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 ☒

The aggregate market value of the registrant’s common stock held by non-affiliates of the registrant on June 30, 2010 (based on the closing sale price of $21.77 on that date), was approximately $820,985,320. 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 15, 2011 was 44,499,888.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for the 2011 Annual Meeting of Stockholders currently scheduled to be held June 22, 2011 are incorporated by reference into Part III hereof.

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 certain statements that may be deemed to be "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," "should," "intends," "likely," "targets," "plans," "anticipates," "estimates" or the negative version of 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, it is possible that 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 are driven 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 2010, we had approximately 24,000 customers spread over 83 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 nearly 1.8 million U.S. nonprofit organizations registered with the Internal Revenue Service in 2009, including 1.2 million charitable 501(c)(3) organizations and we estimate there are approximately another

2.0 million nonprofit organizations internationally. According to Giving USA 2010, donations to nonprofit organizations in the United States in 2009 were $303.7 billion, amounting to 2.1% of U.S. GDP, which was a slight decline from donations in 2008 of $307.7 billion. The compound annual growth rate of donations over the 40-year period from 1969 to 2009 was 7.0%, not adjusted for inflation. These organizations also receive fees for services they provide, which are estimated at more than $900 billion annually.

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;
- 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.

The 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;
- 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 Enterprise CRM product

We intend to extend the penetration of our Enterprise CRM product line within larger, more complex nonprofits, leveraging our expertise and experience with enterprise implementations to achieve worldwide leadership in

CRM. We believe our Enterprise 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 an even 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 grow our leadership position by offering pre-packaged solutions designed to appeal to 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 24,000 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 Software-as-a-Service (SaaS), 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 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 of certain activities. 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. We plan to make use of our installed base of customers to sell complementary products and services, 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. One way we are accomplishing this is by increasing the number of our offerings sold under a subscription pricing model, which can make it easier for certain 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 develop new products and services designed to help allow our customers to more effectively achieve their missions.

Pursue strategic partnerships

We intend to continue our selective pursuit of acquisitions and to expand existing and develop 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 our 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 serve the wide variety of nonprofits in the market, effective January 1, 2010, we reorganized our operating structure into three operating units: Enterprise Customer Business Unit, or ECBU, General Markets Business Unit, or GMBU, and International Business Unit, or IBU.

Following is a description of each operating unit:

- The ECBU is focused on marketing, sales, delivery and support to large and/or strategic, specifically identified named prospects and customers in North America. In addition, 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 lets us 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 2010, we generated revenue in three reportable segments and in four geographic regions, as described in more detail in Note 14 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 application specifically designed to manage nonprofit organizations’ constituent relationship management activity. It is used by more than 16,400 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 a nonprofit organization to create numerous custom views of constituent records and automate a variety of business processes. Among other things, 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. The Raiser's Edge 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. The Raiser's Edge also integrates with Microsoft® Office® to enable users to take advantage of additional functionality.

In addition to the standard functionality of The Raiser's Edge, we have built a number of extended applications to address the specific needs of various market segments.

Blackbaud Enterprise CRM

Blackbaud Enterprise CRM (Enterprise CRM) is a flexible, customizable, scalable and secure Constituent Relationship Management (CRM) solution that addresses the unique needs of larger nonprofit organizations. Enterprise CRM helps large institutions build their brands, develop deeper and more personalized relationships with their constituencies and gain organizational efficiencies. Enterprise CRM brings together disparate information, such as annual and capital giving, gift planning, major giving, and alumni and parent systems, across multiple locations and within the departments and programs of a large organization. With a single system of record that can be securely and efficiently shared, larger organizations are able to turn their data into timely, actionable information that maximizes their fundraising efforts, synchronizes campaigns across departments and programs, and strengthens relationships with constituents.

eTapestry

eTapestry is a SaaS donor management and fundraising solution built specifically for smaller nonprofits. It tracks donors, prospects or alumni while managing gifts, pledges, and payments. eTapestry has been built to be operated in a hosted environment and be accessed via the Internet. This technology provides a system that is simple to maintain, costs little 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 is free for nonprofits with a database that has less than 500 records. For organizations with more than 500 records, pricing starts as low as $37 per month.

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, does 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 have also 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 software-as-a-service, 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.

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, with no upfront cost, to publish a simple website, accept donations, manage constituent relationships, run reports and send emails to supporters. It 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, we have built extended applications to address the specific functional needs of our customers.

FundWare

FundWare is a fund accounting solution designed to provide nonprofit and/or government organizations with improved operational efficiencies, reporting flexibility and the ability to manage sophisticated fund allocations. It uses a configurable set of modules designed to provide functionality that meets an organization's specific needs. FundWare unites accounting, budgeting and reporting tools with a built-in audit trail and easy-to-prepare audit schedules. Users are able to easily produce GASB and FASB financial reports including indirect costs or complex revenue allocations. Further, users have the ability to conduct real-time budget monitoring, maintain budget modification histories, including comparisons between actual and revised budgets and prepare cross-fiscal year budgets. FundWare utilizes an Excel-based reporting tool that enables the use of current Excel spreadsheets and skills while linking to FundWare's financial database, providing real-time information without the extra step of importing or exporting.

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.

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 boost attendance and increase 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 Enterprise 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;
- 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 provide business process improvement consulting. This work is performed by staff 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 as 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.

Blackbaud OnDemand

The Blackbaud OnDemand provides our customers with a convenient, affordable alternative to setting up and managing Blackbaud applications on their own. Our technical team will set up and manage on an ongoing basis the hosting of one or more Blackbaud systems on our secure servers and ensure that they are accessible and current on a 24/7 basis. All that is needed to connect is a web browser. We manage everything from initial data setup through network security configuration.

Analytics services

Target Analytics

Target Analytics was formed in early 2008 by combining Blackbaud's prospect research division with the then newly acquired Target Analysis Group. We added to the offerings further in 2008 with the P!N wealth screening service which was added with the acquisition of Kintera. Target Analytics offers a comprehensive range of products and services for nonprofit organizations' analytics needs. These include donor acquisition and development tools, prospect research and segmentation, wealth identification and collaborative peer benchmarking. Target Analytics offers software, solutions, and services such as:

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

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.

P!N Service—A wealth profiling and screening service that enables nonprofits to more efficiently identify, profile, monitor and rank the wealth of prospects in their databases. Additionally, this service enables nonprofits to edit, analyze, prioritize and combine external data collected from a wide range of sources with its internal donor database.

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.

ResearchPoint—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. It also enables organizations to help uncover major and planned giving prospects within a nonprofit's database.

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 and a service that uses known fields in an organization's constituent records to search and find lost donors and prospects.

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 plans 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.

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. During 2010, we launched Blackbaud Merchant Services, which provides credit card processing service to our customers. Blackbaud Merchant Services 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 2010, we had approximately 24,000 customers that range 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 2010 revenue. In addition to our 24,000 customers, at the end of 2010, we had approximately 10,000 nonprofit organizations that utilized 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, Canada and Australia. As of December 31, 2010, we had 238 direct sales employees. We plan to continue expanding our direct sales force in the Americas, Europe, Australia and Asia as market demand continues to recover from the current economic environment.

Each of our three operating units contains sales teams that are focused on the needs of our 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 Enterprise 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 competitive, although the competition is highly fragmented. For certain areas of the market, entry barriers are low. However, we believe our experience and product depth makes us a formidable 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 Sage and SunGard. Other companies, such as Microsoft, Salesforce.com and Oracle have greater marketing resources, revenue and market recognition than we do. They offer few 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 enter the market with new, directly competitive products or through acquisitions of our current competitors.

We mainly face competition from four sources:

- Software developers offering specialized products designed to address specific needs of nonprofit organizations;
- Custom-developed solutions;
- Providers of traditional, less automated fundraising services; 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 against these companies, as building a custom solution requires extensive financial and technical resources that may not be available or cost-effective for 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, 2010, we had approximately 363 employees working on research and development. Our research and development expenses for the years ending on December 31, 2010, 2009 and 2008 were $45.5 million, $45.7 million and $38.7 million, respectively.

Technology and Architecture

We have products, such as Blackbaud Enterprises 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 SaaS 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.

Our version 7.x generation products utilize a three-tier client server architecture built on the Microsoft® Component Object Model (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 Enterprise CRM”. We have applied for additional trademarks. We currently have three active patents on our technology.

Employees

As of December 31, 2010, we had 2,065 employees, consisting of 453 in sales and marketing, 363 in research and development, 570 in consulting and professional services, 275 in customer support, 206 in subscriptions and 198 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. The SEC maintains an Internet site that contains these reports at www.sec.gov.

Executive Officers

The following table sets forth certain information concerning our executive officers as of December 31, 2010:

Name	Age	
Marc E. Chardon	55	President and Chief Executive Officer
Timothy V. Williams	61	Chief Financial Officer, Senior Vice President, Treasurer and Assistant Secretary
Charles T. Cumbaa	58	President, Enterprise Customer Business Unit
Kevin Mooney	52	President, General Markets Business Unit
Brad J. Holman	49	President, International Business Unit
Louis J. Attanasi(1)	49	Senior Vice President of Product Development
Jana B. Eggers(1)	42	Senior Vice President, Product Management and Marketing
Charles L. Longfield	54	Senior Vice President, Chief Scientist
John J. Mistretta	55	Senior Vice President of Human Resources
Heidi H. Strenck	41	Senior Vice President, Controller, Assistant Treasurer and Assistant Secretary
Gerard J. Zink	47	Senior Vice President of General Markets Business Unit Customer Support

(1) Effective February 15, 2011, Mr. Attanasi retired from the Company and Ms. Eggers assumed the position of Senior Vice President Products and Marketing.

Marc E. Chardon joined us 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.

Timothy V. Williams has served as our Chief Financial Officer since January 2001, and has announced he will be retiring in 2011 once we identify his replacement. Mr. Williams is responsible for all of our financial reporting and controls, as well as human resources and legal. From January 1994 to January 2001 he served as Executive

Vice President and CFO of Mynd, Inc. (now a subsidiary of Computer Sciences Corporation), a provider of software and services to the insurance industry. Prior to that, Mr. Williams worked at Holiday Inn Worldwide, most recently as Executive Vice President and Chief Financial Officer. Mr. Williams serves on the Board of Directors of PROS Holdings, Inc., a publicly traded software development company. Mr. Williams holds a BA from the University of Northern Iowa.

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 an 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. Mr. Mooney graduated from Seton Hall University and holds an MBA in Finance from Georgia State University.

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.

Louis J. Attanasi has served as our Senior Vice President of Product Development since January 2010. From January 2007 to January 2010, he served as our Senior Vice President of Products, initially serving in the capacity of Vice President of Products in 1996. From May 1986 to 1996, he served as a Software Engineer, Product Architect, and Product Development Manager. Prior to joining us, he taught mathematics at the State University of New York at Stony Brook and worked as a Software Engineer at Environmental Energy Corporation. Mr. Attanasi holds a BS in Mathematics from State University of New York at Stony Brook and an MS in Mathematics from the University of Charleston.

Jana B. Eggers, our Senior Vice President of Product Management 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.

Gerard J. Zink has served as our Senior Vice President of General Markets Business Unit Customer Support since January 2010. From January 2007 until January 2010, Mr. Zink served as our Senior Vice President of Customer Support. From June 1996 until January 2007 he served as our Vice President of Customer Support. Mr. Zink is responsible for overall customer satisfaction, information technology and administrative services. He joined us in November 1987 and served as a Customer Support Analyst and Manager of Customer Support before assuming his current position.

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.

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, 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 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 derived from The Raiser's Edge and Blackbaud Enterprise CRM, and a decline in sales or renewals of this 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 Enterprise 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 38%, 38% and 45% of our total revenue in 2010, 2009 and 2008, respectively. Revenue from the sale of Blackbaud Enterprise CRM and related services represented approximately 6%, 4% and 2%, of our total revenue in 2010, 2009 and 2008, respectively. Because we generally 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 Enterprise 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 Enterprise CRM engagements, frequently involves complex configuration, business process reengineering and system interfaces and can extend for a year or more. Our Enterprise 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.

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 its evolution and demand could lead to lower than expected revenues and profits.

In recent years, much of our revenue growth has been 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.

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 centers 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. 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 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 to three 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. Third parties may attempt to breach our security or that of our customers and their databases. We might be liable to our customers for any breach in such security and any breach could harm our customers, our business and our reputation. Any imposition of liability, particularly liability that is not covered by insurance or is in excess of insurance coverage, could harm our reputation and our business and operating results. Also, computers, including those that utilize 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.

A compromise of our software or other problem 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.

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 these 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 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. 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 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 subscription 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 subscription 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. Subscription revenue was approximately 25%, 24% and 16% of our revenue for 2010, 2009 and 2008, respectively. Our subscription revenue has substantially lower gross margins than our product license revenue. A continued increase in the percentage of total revenue represented by subscription 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 27%, 28% and 33% of our revenue for 2010, 2009 and 2008, respectively. Our services revenue has substantially lower gross margins than our product license revenue and has decreased to 29% in 2010 from 33% and 39% in 2009 and 2008, 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.

For example, revenue from our training services, which represented 14%, 17% and 22% of our total services revenue during 2010, 2009 and 2008, respectively, has recently experienced a decrease in demand because existing and prospective customers have been experiencing budgetary constraints resulting from the challenges posed by the overall economic environment. The training services revenue typically has a higher gross margin than other services revenue. A continued decrease in the demand for training services could continue to adversely affect our profitability and operating results.

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, 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.

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. 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.

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. 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 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 $44.2 million, $39.7 million and $40.3 million for the years ended December 31, 2010, 2009 and 2008, respectively. Accordingly, international revenue increased 11.4% and decreased 1.5% in 2010 and 2009, 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;
- fluctuations in currency exchange rates;

- 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; and
- import and export restrictions and tariffs.

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 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.

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 depend 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, 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, 2010 we had no borrowings under our revolving credit facility; however, we may draw on our revolving credit facility from time to time to help us meet our short-term financial needs. Our revolving 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 subsidiaries have guaranteed 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 the guarantees of our subsidiaries or exercise their rights with respect to the shares pledged as collateral.

If we are unable to successfully renew our credit facility we might not be able to meet our short-term liquidity needs.

Our credit facility matures in July 2012. From time to time we have drawn upon our credit facility to meet short-term financial needs, such as business acquisitions and purchase of common stock under our repurchase program. If we are unable to successful renew or extend the maturity of our credit facility, there could be a material adverse effect on our ability to operate.

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 $49.8 million, of which $28.4 million relates to our 1999 recapitalization, was approximately 15% of our total assets as of December 31, 2010.

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 $16.2 million related to federal net operating loss carryforwards, which is approximately 5% of our total assets at December 31, 2010. 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 recent acquisitions and, as a result, might not realize the expected benefits of these acquisitions.

We have completed significant acquisitions over the past five years. 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 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;
- 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.

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.

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; Almere, Netherlands; Glasgow, Scotland; London, England; 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. REMOVED AND RESERVED

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, 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

Fiscal year ended December 31, 2009		
First quarter	$13.43	$ 9.15
Second quarter	15.77	12.35
Third quarter	24.40	13.52
Fourth quarter	24.43	21.18

As of February 15, 2011, there were 209 stockholders of record and approximately 15,000 beneficial owners of our common stock. On February 15, 2011, the closing price of our common stock was $26.41.

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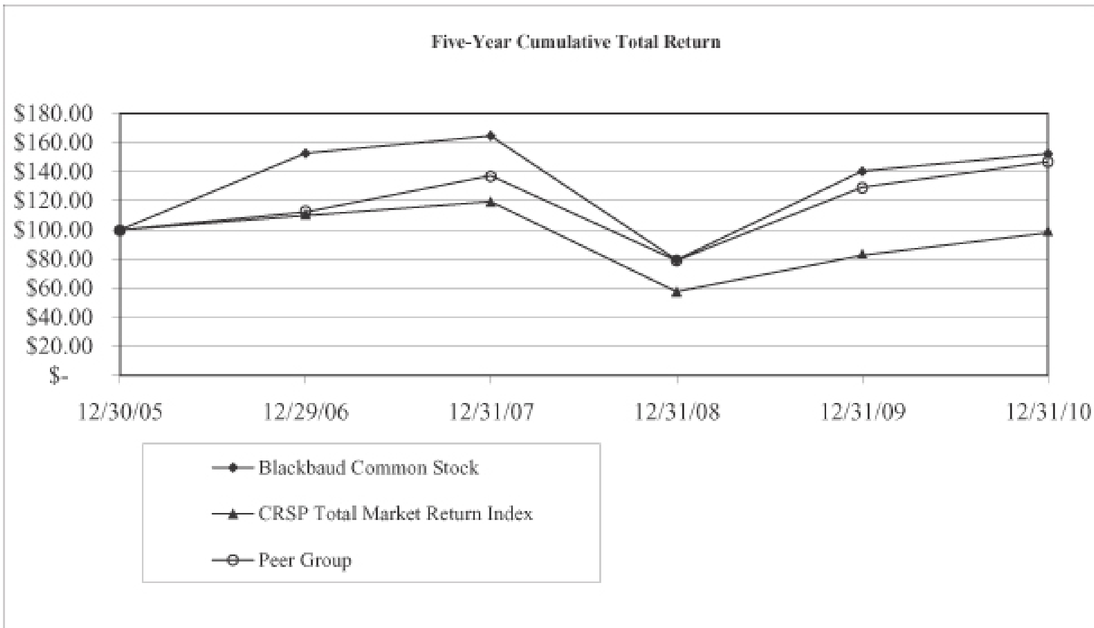
Stock performance graph

The following performance graph compares the performance of our common stock to the Center for Research in Security Prices (CRSP) Total Market Return Index for the NASDAQ Stock Market and to a peer group industry index based on the standard industrial code for computer programming, data processing and other computer-related services. The graph covers the most recent five-year period ending December 31, 2010. The graph assumes that the value of the investment in our common stock and each index was $100 at December 31, 2005, and that all dividends are reinvested. We paid quarterly dividends at an annual rate of $0.44, $0.40, $0.40 and $0.34 per share for the years ending December 31, 2010, 2009, 2008 and 2007, respectively.



	12/30/2005	12/29/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
Blackbaud Common Stock	$ 100.00	$ 152.56	$ 164.57	$ 79.34	$ 140.41	$ 152.10
CRSP Total Market Return Index	$ 100.00	$ 109.87	$ 119.13	$ 57.46	$ 82.53	$ 97.97
Peer Group	$ 100.00	$ 112.28	$ 137.20	$ 78.97	$ 129.07	$ 146.61

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, 2010				$ 50,000
October 1, 2010 through October 31, 2010	—	$ —	—	$ 50,000
November 1, 2010 through November 30, 2010	139,682	$ 26.68	—	$ 50,000
December 1, 2010 through December 31, 2010	195	$ 27.08	—	$ 50,000
Total	141,004	$ 22.10	—	$ 50,000

(1) During the period of October 1, 2010 through December 31, 2010, 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.

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 $0.44 and $0.40 per share in 2010 and 2009, respectively, resulting in an aggregate dividend payment to stockholders of $19.5 million and $17.7 million in 2010 and 2009, respectively. In February 2011, our Board of Directors approved an annual dividend rate of $0.48 per share for 2011. We declared a first quarter dividend of $0.12 per share payable on March 15, 2011 to stockholders of record on February 28, 2011, 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 2011. Dividends at this rate would total approximately $21.1 million in the aggregate on the common stock in 2011 (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 2011 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).

In August 2010, our Board of Directors approved a new stock repurchase program that authorized us to purchase up to $50.0 million of our outstanding shares of common stock. The prior program was terminated on July 31, 2010 with a remaining balance at that time of $8.2 million. The new 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 2011, 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 2011, 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, 2010, we had $28.0 million in cash and cash equivalents. In addition, we anticipate that we will have sufficient earnings in 2011 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 2011, our Board of Directors will seek periodically to assure itself of this sufficiency before actually declaring any dividends.

Our credit facility with Wachovia Bank, N.A. dated July 25, 2007 restricts our ability to declare and pay dividends on our common stock as follows: 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; (2) we must be in compliance with a leverage ratio set forth in the credit agreement and (3) we must have cash on hand (which includes any unused amounts under the credit facility) of at least $10.0 million; each after giving effect to the payment of dividends and/or the repurchase of shares.

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 following data, insofar as it relates to each of the years ended December 31, 2010, 2009 and 2008, has been derived from the audited annual financial statements, including the consolidated balance sheets at December 31, 2010 and 2009 and the related consolidated statements of operations, cash flows and stockholders' equity and comprehensive income for the three years ended December 31, 2010, 2009 and 2008 and notes thereto appearing elsewhere herein. The following data, insofar as it relates to each of the years ended December 31, 2007 and 2006 and the consolidated balance sheet as of December 31, 2008, 2007 and 2006 are derived from audited financial statements not included in this report.

As described in Note 2 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)	**2010**	**2009**	**2008**	**2007**	**2006**
Consolidated statements of operations data:					
Revenue					
License fees	$ 23,719	$ 25,392	$ 35,932	$ 37,569	$ 32,500
Services	89,585	87,834	100,824	91,376	61,242
Maintenance	124,562	116,476	107,304	94,602	80,893
Subscriptions	82,516	72,898	49,705	25,389	10,605
Other revenue	6,712	6,738	8,730	8,102	6,140
Total revenue	327,094	309,338	302,495	257,038	191,380
Cost of revenue					
Cost of license fees	2,880	3,582	3,316	2,870	2,260
Cost of services(1)	66,632	61,713	63,960	54,908	33,717
Cost of maintenance(1)	24,091	21,364	20,185	17,119	13,225
Cost of subscriptions(1)	31,109	28,183	20,587	10,306	2,360
Cost of other revenue	7,103	6,098	8,368	7,274	5,709
Total cost of revenue	131,815	120,940	116,416	92,477	57,271
Gross profit	195,279	188,398	186,079	164,561	134,109
Operating expenses					
Sales and marketing(1)	70,186	62,796	65,185	56,994	41,405
Research and development(1)	45,527	45,662	38,708	28,525	23,118
General and administrative(1)	32,471	33,380	34,072	26,144	21,757
Amortization	798	768	713	491	699
Total operating expenses	148,982	142,606	138,678	112,154	86,979
Income from operations	46,297	45,792	47,401	52,407	47,130
Interest income	84	637	526	813	1,584
Interest expense	(74)	(962)	(1,526)	(1,164)	(48)
Other (expense) income, net	(127)	220	(194)	(503)	(238)
Income before provision for income taxes	46,180	45,687	46,207	51,553	48,428
Income tax provision	16,375	17,240	16,329	19,829	18,275
Net income	$ 29,805	$ 28,447	$ 29,878	$ 31,724	$ 30,153
Earnings per share					
Basic	$ 0.69	$ 0.67	$ 0.70	$ 0.73	$ 0.70
Diluted	$ 0.68	$ 0.65	$ 0.68	$ 0.71	$ 0.68
Common shares and equivalents outstanding					
Basic weighted average shares	43,145	42,771	42,959	43,619	43,320
Diluted weighted average shares	43,876	43,600	43,959	44,595	44,668
Dividends per share	$ 0.44	$ 0.40	$ 0.40	$ 0.34	$ 0.28

(in thousands, except per share data)	Years ended December 31, 2010	2009	2008	2007	2006
Summary of stock-based compensation:					
Cost of services	$ 1,742	$ 1,433	$ 1,442	$ 627	$ 531
Cost of maintenance	814	750	534	234	117
Cost of subscriptions	392	387	283	274	19
Total included in cost of revenue	2,948	2,570	2,259	1,135	667
Sales and marketing	1,366	1,605	1,607	831	813
Research and development	2,844	2,944	2,396	1,219	746
General and administrative	5,901	5,168	5,823	3,749	5,174
Total included in operating expenses	10,111	9,717	9,826	5,799	6,733
Total stock-based compensation	$13,059	$12,287	$12,085	$6,934	$7,400

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

(in thousands)	December 31, 2010	2009	2008	2007	2006
Consolidated balance sheet data:					
Cash and cash equivalents	$ 27,974	$ 22,769	$ 16,361	$ 14,775	$ 67,783
Deferred tax asset, including current portion	49,803	61,298	71,620	53,972	67,620
Working (deficit) capital	(52,565)	(70,485)	(109,962)	(46,977)	14,125
Total assets	328,091	304,229	313,886	237,694	195,009
Deferred revenue	148,049	135,584	119,640	96,100	76,952
Total liabilities	205,032	188,123	223,378	124,591	99,651
Common stock	53	52	51	50	49
Additional paid-in capital	158,419	134,726	116,846	105,687	88,409
Total stockholders' equity	$123,059	$116,106	$ 90,508	$113,103	$ 95,358

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 "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 are the leading global provider of software and related services designed specifically for nonprofit organizations. Our products and services enable nonprofit organizations to increase donations, reduce fundraising costs, improve communications with constituents, manage finances and optimize internal operations. We have focused solely on the nonprofit market since our incorporation in 1982 and have developed our suite of products and services based upon our extensive knowledge of the operating challenges facing nonprofit organizations. At the end of 2010, we had approximately 24,000 active customers. Our customers operate in 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 2010 increased 6% compared to 2009. When removing the impact of foreign currency translation, revenue increased by 5% when comparing 2010 to 2009. This increase was principally the result of continued growth in our recurring revenue, which is comprised of maintenance and subscription offerings and represents 63% of our revenue on a combined basis. 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. The growth in subscription 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. Revenue associated with our core perpetual license offerings and related services has decreased in 2010 when compared to 2009 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 packing with more flexible subscription-based pricing. We believe this trend will continue in the future.

Income from operations for 2010 increased by $0.5 million compared to 2009. The increase in income from operations is primarily attributable to the increase in maintenance and subscription 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 offerings. A reduction in general and administrative expenses also contributed to the increase in income from operations. General and administrative expenses decreased primarily as a result of decreases in human resource costs resulting from consolidation and centralization efforts of our accounting function in the second half of 2009 and first quarter of 2010.

We ended 2010 with cash and cash equivalents totaling $28.0 million and no outstanding borrowings on our credit facility. During 2010, we generated $55.9 million in cash flow from operations, which we used to purchase $22.6 million of treasury stock, pay $19.5 million in dividends and purchase $10.8 million of equipment.

Blackbaud, Inc.

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

The pace and impact of economic recovery on the nonprofit market remains uncertain and, consequently, we expect that our operating environment will continue to be challenging in 2011 as existing and prospective customers remain cautious in their expenditure decisions. Notwithstanding these conditions, we remain focused on execution, investing in our key growth initiatives and strengthening our leadership position. To the extent our operating results continue to be challenged by a weakened economic environment, we will focus on controlling and, as necessary, reducing costs and expenses of our operations to achieve our targeted level of profitability.

Consolidated statements of operations, percent of revenue

	Years ended December 31,		
	2010	**2009**	**2008**
Revenue			
License fees	7.2%	8.2%	11.9%
Services	27.4	28.4	33.3
Maintenance	38.1	37.7	35.5
Subscriptions	25.2	23.5	16.4
Other revenue	2.1	2.2	2.9
Total revenue	100.0%	100.0%	100.0%
Cost of revenue			
Cost of license fees	0.9	1.1	1.1
Cost of services	20.4	20.0	21.1
Cost of maintenance	7.3	6.9	6.7
Cost of subscriptions	9.5	9.1	6.8
Cost of other revenue	2.2	2.0	2.8
Total cost of revenue	40.3	39.1	38.5
Gross profit	59.7	60.9	61.5
Operating expenses			
Sales and marketing	21.5	20.3	21.5
Research and development	13.9	14.8	12.8
General and administrative	9.9	10.8	11.3
Amortization	0.2	0.2	0.2
Total operating expenses	45.5	46.1	45.8
Income from operations	14.1	14.8	15.7
Interest income	0.0	0.2	0.2
Interest expense	(0.0)	(0.3)	(0.5)
Other (expense) income, net	(0.0)	0.1	(0.1)
Income before provision for income taxes	14.1	14.8	15.3
Income tax provision	5.0	5.6	5.4
Net income	9.1%	9.2%	9.9%

Results of operations

Comparison of the years ended December 31, 2010, 2009 and 2008

During 2010, 2009 and 2008, we acquired companies that provided us with a strategic opportunity to expand our share of the nonprofit market through the integration of complimentary products and services to serve the changing needs of our customers and, in the case of RLC, to expand into the Netherlands and other Western European markets. Following are the companies we acquired during 2010, 2009 and 2008 and their respective acquisition date:

- Kintera, Inc. (referred to as Kintera)—July 8, 2008;
- RLC Customer Centric Technology B.V. (referred to as RLC)—April 29, 2009;
- Target America, Inc. (referred to as Target America)—May 12, 2010; and
- NOZA, Inc. (referred to as NOZA)—October 1, 2010.

The results of operations of the acquired companies are included in our consolidated results of operations from the dates of their respective acquisition as noted above, which impacts the comparability of our results of operations when comparing 2010 to 2009 and 2009 to 2008. 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 and a full year in the subsequent year.

Revenue

The table below compares revenue from our statement of operations for the years ended December 31, 2010, 2009 and 2008.

	Years ended December 31,			2010 versus 2009		2009 versus 2008	
(in millions)	2010	2009	2008	Change	% Change	Change	% Change
License fees	$ 23.7	$ 25.4	$ 35.9	$ (1.7)	(7)%	$(10.5)	(29)%
Services	89.6	87.8	100.8	1.8	2%	(13.0)	(13)%
Maintenance	124.6	116.5	107.3	8.1	7%	9.2	9%
Subscriptions	82.5	72.9	49.7	9.6	13%	23.2	47%
Other	6.7	6.7	8.8	—	0%	(2.1)	(24)%
Total revenue	$327.1	$309.3	$302.5	$ 17.8	6%	$ 6.8	2%

Total revenue increased $17.8 million, or 6%, in 2010 compared to 2009. The increase in revenue is primarily attributable to growth in our subscription and maintenance revenue. The increase in subscription 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 in 2010. Services revenue growth is primarily due to an increase in demand for consulting services associated with our Blackbaud Enterprise CRM offering and online fundraising offerings. These increases are offset by a decrease in license fees which is principally attributable to a smaller contribution in 2010 from Blackbaud Enterprise CRM perpetual license arrangements with upfront revenue recognition. Additionally, we continue to experience a shift in our customers' buying preference away from perpetual license towards hosted solutions.

Blackbaud, Inc.

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

Total revenue increased $6.8 million, or 2%, in 2009 compared to 2008. The increase in revenue is primarily due to growth in subscription revenue as a result of the acquisition of Kintera and an increase in demand for our hosting services and online data services. The growth in revenue from our subscription offerings is also a result of the ongoing evolution of our product offerings from license-based to subscription-based business model. Maintenance revenue increased due to additional revenue from new maintenance contracts associated with new license agreements and increases in contracts with existing clients. The increase in subscriptions and maintenance revenue was partially offset by decreases in license fees and services revenue. The decreases in license fees and services revenue are principally attributable to the delays and postponements of purchasing decisions by our existing and prospective customers resulting from the weak economic environment.

Operating results

The operating results analyzed below are presented on a non-GAAP basis: the results exclude the impact of stock-based compensation expense, amortization of intangibles arising from business combinations and an acquisition-related expense incurred in connection with a 2010 acquisition because, in managing our operations, we believe that the exclusion of these costs allows us to better understand and manage our operating expenses and cash needs. These excluded costs are analyzed separately following the discussion of operating expenses.

License fees

	Years ended December 31,			2010 versus 2009		2009 versus 2008	
(in millions)	2010	2009	2008	Change	% Change	Change	% Change
License fee revenue	$23.7	$25.4	$35.9	$ (1.7)	(7)%	$(10.5)	(29)%
Controllable cost of license fees	2.4	3.2	3.1	(0.8)	(25)%	0.1	3%
License fee gross profit	$21.3	$22.2	$32.8	$ (0.9)	(4)%	$(10.6)	(32)%
License fee gross margin	90%	87%	91%				

Revenue from license fees is derived from the sale of our software products, under a perpetual license agreement. 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. In addition, we are increasingly experiencing a shift in our customers' buying preference away from solutions offered under perpetual license arrangements towards subscription-based hosted applications. During 2010, revenue from license fees to existing customers increased $0.9 million and sales to new customers decreased by $2.6 million. The decrease in license fees is largely the result of a smaller contribution in 2010 from Blackbaud Enterprise CRM sales with upfront revenue recognition when compared with 2009.

During 2009, revenue from license fees to new customers decreased $4.2 million and sales to existing clients decreased by $6.3 million as compared with 2008. Within these amounts, license revenue increased related to our Blackbaud Enterprise CRM offering grew by $3.7 million.

Controllable cost of license fees is principally comprised of third-party software royalties and variable reseller commissions. 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 cost of license fees for 2009 when compared to 2008 is primarily attributable to a shift in the mix of license fee revenue toward products with higher third-party software royalty costs.

Blackbaud, Inc.

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

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 that have third-party software royalty costs associated with them. The decrease in license fee gross margin in 2009 compared to 2008 is the result of a higher third-party software royalty costs.

Services

	Years ended December 31,			2010 versus 2009		2009 versus 2008	
(in millions)	2010	2009	2008	Change	% Change	Change	% Change
Services revenue	$89.6	$87.8	$100.8	$ 1.8	2%	$(13.0)	(13)%
Controllable cost of services	63.5	58.9	61.2	4.6	8%	(2.3)	(4)%
Services gross profit	$26.1	$28.9	$ 39.6	$ (2.8)	(10)%	$(10.7)	(27)%
Services gross margin	29%	33%	39%				

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 service period. We also recognize the direct and incremental costs associated with consulting services revenue ratably over the service period. However, we continue to expense indirect costs in the period the implementation service is provided.

The increase in services revenue during 2010 when compared to 2009 is principally attributable to an increase in consulting services revenue of $3.5 million and analytic services of $0.3 million, partially offset by a decrease in education services revenue of $2.0 million. 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. The increase in volume of consulting services provided is largely due to an increase in the demand for consulting services associated with our Blackbaud Enterprise 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 Enterprise 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 decrease in services revenue during 2009 when compared to 2008 is principally attributable to a decrease in consulting services revenue of $5.5 million and education services revenue of $6.9 million. Also, analytic services revenue decreased by $0.6 million during 2009 when compared to 2008. The inclusion of Kintera for a full year in 2009 compared to a partial year in 2008 accounted for an increase of $2.2 million in services revenue. Also, included in services revenue in 2009 is $0.7 million of revenue attributable to RLC. Excluding the impact of Kintera and RLC, services revenue decreased $15.8 million. This decrease in revenue is principally the result of decreased volume of consulting, installation and implementation services delivered for our core software products and decreased demand for training and analytic services as existing and prospective customers continued to experience budgetary constraints associated with the challenges posed by the overall economic environment. To a lesser extent, the decrease in revenue is attributable to a reduction in the rates we charge as a result of a higher level of discounts on our service offerings during 2009 compared to 2008. These decreases were partially offset by an increase of $4.6 million in consulting services associated with our Enterprise CRM product offering and our internet-based products.

Controllable cost of services is principally comprised of human resource costs, 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 and an allocation of depreciation, facilities and IT support costs.

The increase in cost of services of $4.6 million in 2010 when compared to 2009 is primarily attributable to an increase in human resource costs of $3.7 million and third-party contractor costs of $1.8 million, partially offset by a decrease in training-related and data expense of $0.7 million. 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.

The decrease in cost of services of $2.3 million in 2009 when compared to 2008 is primarily attributable to a reduction in travel-related expenses and recruiting and other costs of $5.0 million and a reduction of $0.5 million of data expense, partially offset by an increase in human resource costs of $3.2 million. The increase in human resource costs is the result of additional headcount attributable to Kintera and RLC.

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 Enterprise CRM offering and additional headcount to meet the increasing consulting services demands of our customers.

The services gross margin decreased in 2009 compared to 2008 principally due to the decrease in demand for consulting and education services while the cost of consulting and education services decreased at a slower rate. Cost of consulting and education services decreased at a slower rate than the associated revenue principally due to maintaining resource capacity for the increase in services associated with our Enterprise CRM product offerings and the expected increase demand for our services when the economic environment improves.

Maintenance

	Years ended December 31,			2010 versus 2009		2009 versus 2008	
(in millions)	**2010**	**2009**	**2008**	**Change**	**% Change**	**Change**	**% Change**
Maintenance revenue	$124.6	$116.5	$107.3	$ 8.1	7%	$ 9.2	9%
Controllable cost of maintenance	22.0	19.3	18.7	2.7	14%	0.6	3%
Maintenance gross profit	$102.6	$ 97.2	$ 88.6	$ 5.4	6%	$ 8.6	10%
Maintenance gross margin	82%	83%	83%				

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 2010, the increase in maintenance revenue of $8.1 million 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.

During 2009, maintenance revenue increased $9.2 million. The inclusion of Kintera for a full year in 2009 compared to a partial year in 2008 accounted for $2.8 million of the increase in maintenance revenue. Included in maintenance revenue in 2009 is $0.6 million of revenue attributable to RLC. Excluding the impact of the acquisitions of Kintera and RLC, maintenance revenue increased $5.8 million in 2009, which is principally comprised of $7.3 million of maintenance from new customers associated with new license agreements and increases in contracts with existing customers and $4.0 million from maintenance contract inflationary rate adjustments, offset by $5.5 million from maintenance contracts that were not renewed.

Controllable cost of maintenance is primarily comprised of human resource costs, third-party contractor expenses, third-party royalty costs, an allocation of depreciation, facilities and IT support costs and other costs incurred in providing support and services to our customers. The increase in cost of maintenance in 2010 when compared to 2009 is principally attributable to an increase in third-party royalty costs of $1.5 million and human resource costs of $1.2 million. 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. Human resource costs increased due to salary merit increases and an increase in headcount associated with the continued growth in our customer support function commensurate with maintenance revenue growth.

The increase in cost of maintenance in 2009 when compared to 2008 is the result of an increase in human resources costs primarily attributable to headcount associated with Kintera.

The decrease in maintenance gross margin in 2010 is due to existing client maintenance increases for software products which include third-party royalty costs and the increasing diversity and complexity of our product offerings. The maintenance gross margin remained unchanged during 2009.

Subscriptions

	Years ended December 31,			2010 versus 2009		2009 versus 2008	
(in millions)	**2010**	**2009**	**2008**	**Change**	**% Change**	**Change**	**% Change**
Subscriptions revenue	$82.5	$72.9	$49.7	$ 9.6	13%	$ 23.2	47%
Controllable cost of subscriptions	27.7	24.6	17.6	3.1	13%	7.0	40%
Subscriptions gross profit	$54.8	$48.3	$32.1	$ 6.5	13%	$ 16.2	50%
Subscriptions gross margin	66%	66%	65%				

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 transaction fees associated with the use of our products to fundraise online. 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 subscription revenue of $9.6 million during 2010 is principally attributable to the increase in demand for online fundraising offerings, data management offerings and hosting services.

Subscriptions revenue increased $23.2 million during 2009 when compared to 2008. The inclusion of Kintera for a full year in 2009 compared to a partial year in 2008 accounted for $11.7 million of the increase in subscriptions revenue. Excluding the impact of the acquisition of Kintera, growth in subscriptions revenue is primarily due to the continued increase in demand for hosted applications, hosting services and other online data.

Controllable cost of subscriptions is primarily comprised of human resource costs, third-party royalty and data expenses, hosting expenses, an allocation of depreciation, facilities and IT support costs and other costs incurred in providing support and services to our customers. The increase in cost of subscriptions in 2010 when compared to 2009 is principally due to an increase in human resource costs of $2.0 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.

During 2009, cost of subscriptions increased by $7.0 million when compared to 2008. Additional headcount and increases in data expense, hosting and other costs attributable to Kintera represented $4.0 million of the increase in cost of subscriptions. Excluding the impact of the acquisition of Kintera, cost of subscriptions increased by $3.0 million in 2009 when compared to 2008. The remaining increase is principally due to an increase in data expense, hosting costs, allocated costs and human resource costs.

The subscriptions segment margin remained substantially unchanged during 2010, 2009 and 2008.

Other revenue

	Years ended December 31,			2010 versus 2009		2009 versus 2008	
(in millions)	**2010**	**2009**	**2008**	**Change**	**% Change**	**Change**	**% Change**
Other revenue	$ 6.7	$6.7	$8.8	$ —	0%	$ (2.1)	(24)%
Controllable cost of other revenue	7.0	6.0	8.2	1.0	17%	(2.2)	(27)%
Other gross profit	$ (0.3)	$0.7	$0.6	$ (1.0)	(143)%	$ 0.1	17%
Other gross margin	(4)%	10%	7%				

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 and fees from user conferences. Other revenue remained unchanged in 2010 when compared to 2009.

Other revenue decreased in 2009 when compared to 2008 primarily due to (i) a decrease in reimbursable travel-related costs from our services businesses as a result of reduced service engagements and (ii) a decrease in fees from user conferences as a result of fewer participants, both of which are attributable to the challenging economic environment.

Controllable 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 and an allocation of depreciation, facilities and IT support costs. 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.

The decrease in the cost of other revenue in 2009 when compared to 2008 is due to a decrease in reimbursable expenses related to providing services at customer locations and a decrease in the costs of user conferences.

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.

Blackbaud, Inc.

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

The following schedule reconciles non-GAAP gross profit discussed above to gross profit as stated on the statements of operations:

	Years ended December 31,			2010 versus 2009		2009 versus 2008	
(in millions)	**2010**	**2009**	**2008**	**Change**	**% Change**	**Change**	**% Change**
License fees	$ 21.3	$ 22.2	$ 32.8	$ (0.9)	(4)%	$(10.6)	(32)%
Services	26.1	28.9	39.6	(2.8)	(10)%	(10.7)	(27)%
Maintenance	102.6	97.2	88.6	5.4	6%	8.6	10%
Subscriptions	54.8	48.3	32.1	6.5	13%	16.2	50%
Other	(0.3)	0.7	0.6	(1.0)	(143)%	0.1	17%
Total non-GAAP gross profit	$204.5	$197.3	$193.7	$ 7.2	4%	$ 3.6	2%
Less corporate costs not allocated:							
Stock-based compensation expense	3.0	2.6	2.3	0.4	15%	0.3	13%
Amortization of intangible assets acquired in business combinations	6.2	6.3	5.3	(0.1)	(2)%	1.0	19%
Gross profit as stated in statements of operations	$195.3	$188.4	$186.1	$ 6.9	4%	$ 2.3	1%
Gross margin %	60%	61%	62%				

Operating expenses

Sales and marketing

	Years ended December 31,			2010 versus 2009		2009 versus 2008	
(in millions)	**2010**	**2009**	**2008**	**Change**	**% Change**	**Change**	**% Change**
Sales and marketing expense excluding stock-based compensation	$68.8	$61.2	$63.6	$ 7.6	12%	$ (2.4)	(4)%
Add: Stock-based compensation expense	1.4	1.6	1.6	(0.2)	(13)%	—	0%
Sales and marketing expense	$70.2	$62.8	$65.2	$ 7.4	12%	$ (2.4)	(4)%
% of revenue (excluding stock-based compensation)	21%	20%	21%				

Sales and marketing expense includes salaries and related human resource costs, travel-related expenses, sales commissions, advertising and marketing materials, public relations and an allocation of depreciation, facilities and IT support costs. During 2010, sales and marketing expense increased by $7.6 million when compared to 2009 primarily due to an increase of $4.3 million in commission expense. The increase in commission expense is principally attributable to higher commission rates, an increase in commissionable revenue in 2010 and an out of period adjustment of $0.8 million recorded during the second quarter of 2010 related to our accounting for deferred sales commissions. 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.

During 2009, sales and marketing expense decreased $2.4 million when compared to 2008. The inclusion of human resource and other costs attributable to Kintera for a full year in 2009 compared to a partial year in 2008 accounted for $2.8 million of an increase in sales and marketing expense. Excluding the sales and marketing expense increase attributable to Kintera, sales and marketing expense decreased $5.2 million. The decrease is primarily attributable to a reduction in travel-related expenses, corporate allocated costs and other sales and marketing related costs of $2.1 million. Additionally, commission expense decreased by $2.4 million due to lower commissionable revenue and human resource costs decreased by $0.7 million due to a reduction in headcount.

As a percentage of revenue, sales and marketing expense in 2010 when compared to 2009 increased principally as a result of higher commission rates, an increase in commissionable revenue and additional investments in our sales and marketing efforts. As a percentage of revenue, sales and marketing expense in 2009 decreased when compared to 2008 principally due to a decrease in commission expense resulting from lower commissionable revenue during 2009.

Research and development

	Years ended December 31,			2010 versus 2009		2009 versus 2008	
(in millions)	2010	2009	2008	Change	% Change	Change	% Change
Research and development expense excluding stock-based compensation	$42.7	$42.7	$36.3	$ —	0%	$ 6.4	18%
Add: Stock-based compensation	2.8	2.9	2.4	(0.1)	(3)%	0.5	21%
Research and development expense	$45.5	$45.6	$38.7	$ (0.1)	(0)%	$ 6.9	18%
% of revenue (excluding stock-based compensation)	13%	14%	12%				

Research and development expenses include human resource costs, 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. Research and development costs remained unchanged in 2010 when compared to 2009. 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.

Research and development costs increased in 2009 when compared to 2008 principally due to an increase in headcount associated with increased investment in our products. During 2009, the increase in research and development costs is principally the result of an increase in human resource costs of $5.8 million, $3.2 million of which is attributable to inclusion of Kintera for a full year in 2009 compared to a partial year in 2008. Further increases of $0.6 million are attributable to higher allocated costs, partially offset by decreased travel and recruiting costs.

Research and development costs as a percentage of revenue decreased in 2010 when compared to 2009 principally due to an increase in costs allocated to cost of services commensurate with the development efforts supporting product customizations under revenue generating arrangements. Research and development expense as a percentage of revenue increased in 2009 when compared to 2008 primarily due to an increased investment in our product initiatives.

Blackbaud, Inc.

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

General and administrative

(in millions)	Years ended December 31, 2010	2009	2008	2010 versus 2009 Change	% Change	2009 versus 2008 Change	% Change
General and administrative expense excluding stock-based compensation and acquisition-related costs	$25.6	$28.2	$28.3	$ (2.6)	(9)%	$ (0.1)	(0)%
Add: Acquisition-related costs	1.0	—	—	1.0	— %	—	— %
Add: Stock-based compensation	5.9	5.2	5.8	0.7	13%	(0.6)	(10)%
General and administrative expense	$32.5	$33.4	$34.1	$ (0.9)	(3)%	$ (0.7)	(2)%
% of revenue (excluding stock-based compensation)	8%	9%	9%				

General and administrative expense consists primarily of human resource costs for general corporate functions, including senior management, finance, accounting, legal, human resources, corporate development, third-party professional fees, insurance, an allocation of depreciation, facilities and IT support costs, and other administrative expenses. During 2010, the decrease in general and administrative expense was principally due to a decrease in human resource costs of $2.1 million and bad debt expense of $0.3 million. 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 the prior years.

During 2009, the decrease in general and administrative expense was primarily the result of closely managing our operating costs. Included in general and administrative expense during 2009 is an increase of $1.8 million in human resource costs and $0.3 million of other costs attributable to the inclusion of Kintera for a full year in 2009 compared to a partial year in 2008. Excluding these costs attributable to Kintera, general and administrative expense decreased by $2.2 million in 2009 when compared to 2008 primarily due to decreased travel-related costs, bad debt expense and professional fees.

The decrease in general and administrative costs as a percentage of revenue during 2010 compared to the same period in 2009 is principally attributable to the realization of cost reductions resulting from the consolidation and centralization efforts in our accounting function implemented in the second half of 2009 and first quarter 2010. As a percentage of revenue, general and administrative costs remained unchanged in 2009 when compared to 2008.

Stock-based compensation

We recognize compensation expense related to stock-based awards granted to employees. We measure stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense over the requisite service period, which is the vesting period.

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

Our consolidated statements of operations for 2010, 2009 and 2008 include the amounts of stock-based compensation illustrated below:

	Years ended December 31,			2010 versus 2009		2009 versus 2008	
(in millions)	2010	2009	2008	Change	% Change	Change	% Change
Included in cost of revenue:							
Cost of services	$ 1.8	$ 1.4	$ 1.4	$ 0.4	29%	$ —	0%
Cost of maintenance	0.8	0.8	0.6	—	0%	0.2	33%
Cost of subscriptions	0.4	0.4	0.3	—	0%	0.1	33%
Total included in cost of revenue	3.0	2.6	2.3	0.4	15%	0.3	13%
Included in operating expenses:							
Sales and marketing	1.4	1.6	1.6	(0.2)	(13)%	—	0%
Research and development	2.8	2.9	2.4	(0.1)	(3)%	0.5	21%
General and administrative	5.9	5.2	5.8	0.7	13%	(0.6)	(10)%
Total included in operating expenses	10.1	9.7	9.8	0.4	4%	(0.1)	(1)%
Total	$ 13.1	$12.3	$12.1	$ 0.8	7%	$ 0.2	2%

Stock-based compensation is comprised of expense from common stock awards, stock options, restricted stock units and awards and stock appreciation rights. The table below summarizes the stock-based compensation by award type for 2010, 2009 and 2008.

	Years ended December 31,			2010 versus 2009		2009 versus 2008	
(in millions)	2010	2009	2008	Change	% Change	Change	% Change
Stock-based compensation from:							
Common stock	$ —	$ 0.8	$ 1.4	$ (0.8)	(100)%	$ (0.6)	(43)%
Stock options	—	0.3	1.5	(0.3)	(100)%	(1.2)	(80)%
Restricted stock awards	9.3	8.8	7.2	0.5	6%	1.6	22%
Stock appreciation rights	3.8	2.4	2.0	1.4	58%	0.4	20%
Total stock-based compensation	$ 13.1	$12.3	$12.1	$ 0.8	7%	$ 0.2	2%

During 2009 and 2008, we expensed $0.8 million and $1.4 million, respectively, related to compensation and incentive arrangements payable in common stock and associated with business acquisitions completed in 2008 and 2007. There were no similar arrangements payable in common stock in 2010. The decrease in compensation expense from stock options in 2010 compared to 2009 and 2009 compared to 2008 is the result of using the accelerated method for recognizing stock-based compensation expense associated with stock options, which results in the recognition of more expense in the earlier periods of vesting when compared with the straight-line method. Additionally, we have not granted stock options since 2005 and all historical awards were fully vested at December 31, 2010.

Stock-based compensation expense from restricted stock awards and stock appreciation rights increased in 2010 compared to 2009 and 2009 compared to 2008 due to the issuance of additional grants and rights in 2010 and 2009, partially offset by the vesting of grants issued in prior years.

The total amount of compensation cost related to non-vested awards not yet recognized was $34.4 million as of December 31, 2010. The compensation cost for unvested awards at December 31, 2010 will be recognized over a weighted average period of 1.9 years.

Amortization

We allocate amortization expense to cost of revenue based on the nature of the respective identifiable intangible asset and whether the asset is directly associated with a specific component of revenue. Amortization expense included in our consolidated statements of operations for the years ended December 31, 2010, 2009 and 2008 is illustrated below:

	Years ended December 31,			2010 versus 2009		2009 versus 2008	
(in millions)	2010	2009	2008	Change	% Change	Change	% Change
Included in cost of revenue:							
Cost of license fees	$ 0.4	$0.4	$0.2	$ —	0%	$ 0.2	100%
Cost of services	1.4	1.3	1.4	0.1	8%	(0.1)	(7)%
Cost of maintenance	1.2	1.3	0.9	(0.1)	(8)%	0.4	44%
Cost of subscriptions	3.1	3.2	2.7	(0.1)	(3)%	0.5	19%
Cost of other revenue	0.1	0.1	0.1	—	0%	—	— %
Total included in cost of revenue	6.2	6.3	5.3	(0.1)	(2)%	1.0	19%
Included in operating expenses	0.8	0.8	0.7	—	0%	0.1	14%
Total	$ 7.0	$7.1	$6.0	$ (0.1)	(1)%	$ 1.1	18%

The increase in amortization expense for 2009 compared to 2008 is directly attributable to the acquisition of Kintera and the recorded identifiable intangible assets of $16.9 million for that acquisition.

Acquisition-related costs

During 2010, we expensed $1.0 million of acquisition-related costs, which were recorded in general and administrative expense. There were no similar expenses in 2009 and 2008.

Interest expense

Interest expense decreased $0.9 million in 2010 when compared to 2009 and $0.6 million in 2009 when compared to 2008, respectively. The decrease is primarily related to the timing of payments, the duration of borrowings under our credit facility and a decrease in our effective interest rate.

Income tax provision

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

	2010	2009	2008
Effective tax rate	35.5%	37.7%	35.3%

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. The effective tax rate in 2009 increased when compared to 2008 because we generated a greater amount of federal and state income tax credits in 2008 that served to lower our effective tax rate for 2008. While we generated federal and state income tax credits in 2009, the amounts realized in 2010 and 2008 were higher.

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

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

rates change in the future, we may 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 thousands)	2010	2009	2008
Balance at beginning of year	$1,231	$ 346	$ 629
Increases from prior period positions	126	427	—
Increases from current period positions	297	485	23
Lapse of statute of limitations	(240)	(27)	(306)
Balance at end of year	$1,414	$1,231	$ 346

The amount of unrecognized tax benefits that, if recognized, would favorably affect our effective tax rate was $1.4 million at December 31, 2010. The total amount of accrued interest and penalties included in the consolidated balance sheet as of December 31, 2010 and 2009 was $0.1 million and $0.2 million, respectively. The total amount of interest and penalties included in the consolidated statement of operations for 2010 was $0.2 million of a decrease in income tax expense. The total amount of interest and penalties included in the consolidated statement of operations for 2008 was $0.1 million of an increase in income tax expense; interest and penalties were immaterial in 2009.

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, 2010.

We file income tax returns in the U.S. federal and various state jurisdictions and 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 2007 through 2009.

Liquidity and capital resources

At December 31, 2010, cash and cash equivalents totaled $28.0 million, compared to $22.8 million at December 31, 2009. The $5.2 million increase in cash and cash equivalents during 2010 is principally the result of generating $55.9 million of cash from operations, which we used to purchase $22.6 million of treasury stock, pay $19.5 million in dividends and purchase $10.8 million of equipment.

Our principal source of liquidity is 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 and/or repurchase our common stock.

At December 31, 2010 we had no outstanding borrowings under our credit facility. We have drawn 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. Under our $90.0 million credit facility, which matures in July 2012, we have a remaining option to increase the aggregate amount available by up to $35.0 million. We believe our $90.0 million credit facility provides us with sufficient flexibility to meet our financial needs.

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

Operating cash flow

Net cash provided by operating activities of $55.9 million decreased $30.9 million when compared to 2009. 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 as they impact the statement of cash flows are composed of changes in accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses, accrued liabilities and deferred revenue. Cash flow from operations associated with working capital decreased $31.4 million in 2010 when compared to 2009. The year-over-year decrease is principally due to:

- a decrease in cash flow from accounts receivable of $14.4 million, primarily due to a decrease in the collection of accounts receivable as a result of a longer collection cycle and a change in the timing of billings;
- an increase of $9.7 million in prepaid income taxes primarily due to fluctuations in the timing of payments; and
- an increase of $4.1 million in bonuses paid in 2010.

Investing cash flow

Net cash used in 2010 for investing activities was $18.2 million compared to $7.8 million in 2009. The increase is principally due to an increase in payments for equipment of $5.2 million, of which $3.7 million relates to payments in 2010 related to purchases made at the end of 2009. Additionally, we increased payments related to acquisitions and other strategic investments by $5.2 million.

Financing cash flow

Net cash used in financing activities for 2010 was $32.7 million compared to $73.2 million in 2009. During 2010, cash used for financing activities was principally attributable to $22.6 million of treasury stock purchases and $19.5 million of dividend payments to stockholders, partially offset by proceeds from stock option exercises and related tax benefits. During 2009, cash used for financing activities was principally attributable to $60.0 million of payments on debt and $17.7 million of dividend payments to stockholders, partially offset by proceeds from stock option exercises and related tax benefits.

Commitments and contingencies

As of December 31, 2010, we had future minimum lease commitments of $64.0 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	$64.0	$ 7.1	$ 6.5	$ 15.9	$ 34.5

Our commitments related to operating leases have not been reduced by the future minimum lease commitments under sublease agreements that expire in 2011, incentive payments from the state of South Carolina resulting from the relocation of our headquarters, and reimbursement of leasehold improvements totaling $4.0 million.

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

As of December 31, 2010, we have accrued $1.3 million of federal taxes, $0.1 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 10 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, 2010 are approximately $4.2 million through 2013, which is not included in the table above. We incurred expense under these arrangements of $4.1 million, $2.5 million and $1.6 million for the years ended December 31, 2010, 2009 and 2008, respectively.

In February 2011, our Board of Directors approved our annual dividend of $0.48 per share for 2011 and declared a first quarter dividend of $0.12 per share payable on March 15, 2011 to stockholders of record on February 28, 2011. 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 believe we currently have any off-balance sheet arrangements, financings or other relationships with unconsolidated entities or other persons.

Foreign currency exchange rates

Approximately 13.5% of our total net revenue for the year ended December 31, 2010 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 rate 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 $0.3 million loss and $0.7 million gain at December 31, 2010 and 2009, respectively.

The vast majority of our contracts are entered into by our U.S. entities. The contracts entered into by the U.S. entity 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 software maintenance and support services; and (4) providing professional services including implementation, training, consulting, hosting and other 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;
- 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. Any related set-up fees are also recognized ratably over the service period of the contract.

We are increasingly making 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 agreement, which generally ranges from one to three years. For contractual arrangements covering the use of hosted applications the stand alone value of the delivered items or the fair value of undelivered items in the arrangement have not been established. Such items include upfront activation, implementation and hosting of the solution. For these arrangements we treat the transaction as a single element and the revenue is deferred until the hosted application is deployed and in use, at which time revenue is recognized over the remaining term of the arrangement. Direct and incremental costs relating to activation and implementation are capitalized until the hosted application is deployed and in use, and then expensed over the remaining term of the arrangement.

Revenue from transaction processing fees is recognized when received. Credit card fees directly associated with processing donations for customers are included in subscription revenue, net of related transaction costs.

Services

We generally bill consulting, installation and implementation services based on hourly rates plus reimbursable travel-related expenses. Revenue is recognized for these services over the period the services are performed.

We recognize analytic services revenue from donor prospect research engagements, the sale of lists of potential donors, benchmarking studies and data modeling service engagements upon delivery.

We sell training at a fixed rate for each specific class, at a per attendee price or at a packaged price for several attendees, and revenue is recognized only upon the customer attending and completing training. Additionally, we sell fixed-rate programs, which permit customers to attend unlimited training, or access training online, over a specified contract period, typically one year, subject to certain restrictions, and revenue is recognized ratably over the contract period.

Maintenance

We recognize revenue from maintenance services ratably over the contract term, which is typically one year. Maintenance contracts are at rates that vary according to the level of the maintenance program and are generally renewable annually. Maintenance contracts also include the right to unspecified product upgrades on an if-and-when available basis. Certain support services are sold in prepaid units of time and recognized as revenue upon their usage.

Deferred revenue

To the extent that our customers are billed or pay for the above described services in advance of delivery, such amounts are recorded in deferred revenue.

Sales returns and allowance for doubtful accounts

We provide customers a 30-day right of return and maintain a reserve for returns. We estimate the amount of this reserve based on historical experience. Provisions for sales returns are charged against the related revenue items.

We maintain an allowance for doubtful accounts at an amount we estimate to be sufficient to provide adequate protection against losses resulting from extending credit to our customers. In judging the adequacy of the allowance for doubtful accounts, we consider multiple factors including historical bad debt experience, the general economic environment, the need for specific customer reserves and the aging of our receivables. Any necessary provision is reflected in general and administrative expense. A considerable amount of judgment is required in assessing these factors and if any receivables were to deteriorate, an additional provision for doubtful accounts could be required.

Valuation of long-lived and intangible assets and goodwill

We review identifiable intangible and other long-lived assets for impairment when events change or circumstances indicate the carrying amount may not be recoverable. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant decrease in the market value of the business or asset acquired, a significant adverse change in the extent or manner in which the business or asset acquired is used or significant adverse change in the business climate. If such events or changes in circumstances occur, we use the undiscounted cash flow method to determine whether the asset is impaired. Cash flows would include the estimated terminal value of the asset and exclude any interest charges. To the extent that the carrying value of the asset exceeds the undiscounted cash flows over the estimated remaining life of the asset, we measure the impairment using discounted cash flows. The discount rate utilized would be based on our best estimate of our risks and required investment returns at the time the impairment assessment is made.

Goodwill is assigned to our five reporting units, which are defined as our three operating segments (see Note 14 to our consolidated financial statement), Target Analytics and Blackbaud Payment Processing Services. We test goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, impairment is indicated. If an impairment is indicated, the impairment is measured as the excess of the recorded goodwill over its fair value, which could materially adversely impact our consolidated financial position and results of operations.

We estimate fair value for each reporting unit based on projected future cash flows discounted using our weighted average cost of capital. A number of significant assumptions and estimates are involved in estimating the fair value of each reporting unit, including revenue growth rates, operating margins, capital spending, discount rate, and working capital changes. Additionally, we make certain judgments and assumptions in allocating assets and liabilities to determine the carrying values for each of our reporting units. We believe the assumptions we use in estimating fair value of our reporting units are reasonable, but are also unpredictable and inherently uncertain. Actual future results may differ from those estimates. The 2010 annual impairment test of our goodwill indicated the estimated fair value of the reporting units significantly exceeded the carrying value; no impairment was indicated.

Stock-based compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. We determine the fair value of the stock options and stock appreciation rights using an option pricing model, which requires us to use significant judgment to make estimates regarding the life of the award, volatility of our stock price, the risk-free interest rate and the dividend yield of our stock over the life of the award. Changes to these estimates would result in different fair values of awards.

We estimate the number of awards that will be forfeited and recognize expense only for those awards that ultimately vest. Significant judgment is required in determining the adjustment to compensation expense for estimated forfeitures. Compensation expense in a period could be impacted, favorably or unfavorably, by differences between forfeiture estimates and actual forfeitures.

Provision for income tax and valuation of deferred tax assets

We account for income taxes using the asset and liability approach to recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or income tax returns. Using the enacted tax rates in effect for the year in which we expect the differences to reverse, we determine deferred tax assets and liabilities based on the differences between the financial reporting and the tax basis of an asset or liability. We record a valuation allowance when it is more likely than not that the deferred tax asset will not be realized.

Significant judgment is required in determining income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in a net deferred tax asset or liability that is included in our consolidated balance sheets. The final outcome of these matters for tax reporting purposes might be different than that which is reflected in our historical income tax provisions, benefits and accruals. Any difference could have a material effect on our income tax provision and net income in the period in which such a determination is made.

Prior to October 13, 1999, we were organized as an S corporation under the Internal Revenue Code and, therefore, were not subject to federal income taxes. In addition, we were not subject to income tax in many of the states in which we operated as a result of our S corporation status. We historically made distributions to our stockholders to cover the stockholders' anticipated tax liability. In connection with our 1999 recapitalization, we converted our U.S. taxable status from an S corporation to a C corporation. Accordingly, since October 14, 1999 we have been subject to federal and state income taxes. Upon the conversion and in connection with the recapitalization, we recorded a one-time benefit of $107.0 million to establish a deferred tax asset.

We assess the likelihood that our deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance. To the extent we establish a valuation allowance, we include an expense within the income tax provision in the consolidated statement of operations. Our valuation allowance of $9.6 million at December 31, 2010 is primarily associated with deferred tax assets for certain state income tax credits and net operating loss carryforwards that we have determined are not more-likely-than-not to be realized. The ability to utilize our net deferred tax asset is dependent on our ability to generate future taxable income. Based on current estimates of revenue and expenses, we expect future taxable income will be sufficient to realize the remaining deferred tax assets. Even if actual results are significantly below our current estimates, the recovery still remains likely and, except for the state tax credits and net operating loss carryforwards discussed above, no valuation allowance would be necessary.

Significant judgment is required in determining the provision for income taxes. To the extent that final results differ from estimated amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made and could have an impact on the deferred tax asset. Our deferred tax assets and liabilities are recorded at an amount based upon a U.S. federal income tax rate of 35.0% and appropriate statutory rates of various foreign, state and local jurisdictions in which we operate. If our tax rates change, we will adjust our deferred tax assets and liabilities to an amount reflecting those income tax rates. If such change is determined to be appropriate, it will affect the provision for income taxes during the period that the determination is made.

We recognize the tax impact from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Such tax impact recognized in the consolidated financial statements from such a position is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. Significant judgment is required in the identification and measurement of uncertain tax positions.

Contingencies

We are subject to the possibility of various loss contingencies in the normal course of business. We record an accrual for a contingency when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Often these issues are subject to substantial uncertainties and, therefore, the probability of loss and the estimation of damages are difficult to ascertain. These assessments can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions that have been deemed reasonable by us. Although we believe we have substantial defenses in these matters, we could incur judgments or enter into settlements of claims that could have a material adverse effect on our consolidated financial position, results of operations or cash flows in any particular period.

Recently issued accounting pronouncements

In October 2009, the FASB released Accounting Standards Update (ASU) 2009-13, which amends the existing criteria for separating consideration in multiple-deliverable arrangements. Arrangement that include perpetual software licenses are excluded from the scope of this ASU. ASU 2009-13 establishes a hierarchy for determining the selling price of a deliverable and requires the use of best estimate of the selling price when VSOE or third party evidence (TPE) of the selling price cannot be determined. As a result of the requirement to use the best estimate of the selling price when VSOE or TPE of the selling price cannot be determined, the residual method will no longer be permitted. ASU 2009-13 is applicable prospectively for revenue arrangements entered into or materially modified after the adoption date or retrospectively for all periods presented. We are required to adopt ASU 2009-13 on January 1, 2011. We believe the adoption of ASU 2009-13 will not have a material impact on our consolidated financial statements.

Cautionary statement

We operate in a highly competitive environment that involves a number of risks, some of which are beyond our control. The following statement highlights some of these risks.

Statements contained in this Form 10-K that are not historical facts, are or might constitute forward-looking statements under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although we believe the expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained. Forward-looking statements involve known and unknown risks that could cause actual results to differ materially from expected results. Factors that could cause actual results to differ materially from our expectations expressed in the report include: general economic risk; uncertainty regarding increased business and renewals from existing customers; continued success in sales growth; lengthy sales and implementation cycles, particularly in larger organizations; risk associated with successful implementation of multiple integrated software products; technological changes that make our products and services less competitive; the ability to attract and retain key personnel; risks related to our dividend policy and stock repurchase program, including potential limitations on our ability to grow and the possibility that we might discontinue payment of dividends; risks relating to restrictions imposed by the credit facility; management of integration of recently acquired companies and other risks associated with acquisitions; risks associated with management of growth; and the other risk factors set forth from time to time in our SEC filings.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Due to the nature of our short-term investments and the lack of material debt, we have concluded at December 31, 2010 that we currently do not face material market risk exposure. Therefore, no quantitative tabular disclosures are required. For a discussion of our exposure to foreign currency exchange rate fluctuations, see the "Foreign currency exchange rates" section of Management's discussion and analysis of financial condition and results of operations in this report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is set forth in the consolidated financial statements and notes thereto beginning at page F-1 of this report.

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

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) are designed only to provide reasonable assurance that they will meet their objectives. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to provide the reasonable assurance discussed above.

Changes in internal control over financial reporting

No change in internal control over financial reporting occurred during the most recent fiscal quarter with respect to our operations, which has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

Management's report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2010, based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2010.

The effectiveness of our internal control over financial reporting as of December 31, 2010 has been audited by our independent registered public accounting firm, as stated in their attestation report, which is included herein.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 with respect to Directors and Executive Officers is incorporated by reference from the information under the captions “Election of Directors,” “Information Regarding Matters of the Board and Committees,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Code of Business Conduct and Ethics and Code of Ethics,” contained in Blackbaud’s Proxy Statement for the 2011 Annual Meeting of Stockholders expected to be held on June 22, 2011, except for the identification of executive officers of the Registrant which is set forth in Part I of this report.

Item 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from the information under the caption “Executive Compensation and Other Matters,” “Compensation Discussion and Analysis” and “Summary Compensation Table” contained in Blackbaud’s Proxy Statement for the 2011 Annual Meeting of Stockholders expected to be held on June 22, 2011.

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

The information required by Item 12 is incorporated by reference from information under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” contained in Blackbaud’s Proxy Statement for the 2011 Annual Meeting of Stockholders expected to be held on June 22, 2011.

Item 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference from the information under the caption “Transactions with Related Persons,” and “Independence of Directors” contained in Blackbaud’s Proxy Statement for the 2011 Annual Meeting of Stockholders expected to be held on June 22, 2011.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference from the information under the caption “Audit Committee Report,” contained in Blackbaud’s Proxy Statement for the 2011 Annual Meeting of Stockholders expected to be held on June 22, 2011.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) *Financial statements*

The following statements are filed as part of this report:

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements thereto.

(b) *Exhibits*

		Filed In			
Exhibit number	Description of Document	Registrant's Form	Dated	Exhibit Number	Filed Herewith
2.1	Agreement and Plan of Merger and Reincorporation dated April 6, 2004	S-1	04/06/04	2.1	
2.2	Stock Purchase Agreement among Target Software, Inc., Target Analysis Group, Inc., all of the Stockholders of Target Software Inc. and Target Analysis Group, Inc. and Blackbaud, Inc.	8-K	01/18/07	2.2	
3.1	Certificate of Incorporation of Blackbaud, Inc.	S-1	04/06/04	3.1	
3.3	Amended and Restated By-laws of Blackbaud, Inc.	8-K	12/23/08	3.3	
10.5	Trademark License and Promotional Agreement dated as of October 13, 1999 between Blackbaud, Inc. and Charleston Battery, Inc.	S-1	02/20/04	10.5	
10.6	Blackbaud, Inc. 1999 Stock Option Plan, as amended	S-1	04/06/04	10.6	
10.8	Blackbaud, Inc. 2001 Stock Option Plan, as amended	S-1	04/06/04	10.8	
10.20	Blackbaud, Inc. 2004 Stock Plan, as amended, together with Form of Notice of Stock Option Grant and Stock Option Agreement	8-K	06/20/06	10.20	
10.26	Form of Notice of Restricted Stock Grant and Restricted Stock Agreement under the Blackbaud, Inc. 2004 Stock Plan	10-K	02/28/07	10.26	
10.27	Form of Notice of Stock Appreciation Rights Grant and Stock Appreciation Rights Agreement under the Blackbaud, Inc. 2004 Stock Plan	10-K	02/28/07	10.27	

Exhibit number	Description of Document	Filed In Registrant's Form	Dated	Exhibit Number	Filed Herewith
10.28	Amended and Restated Credit Agreement dated as of July 25, 2007 by and among Blackbaud, as Borrower, the Lenders, and Wachovia Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender, and Wachovia Capital Markets, LLC as Sole Lead Arranger and Sole Book Manager.	8-K	07/31/07	10.28	
10.29	Amended and Restated Guaranty Agreement dated as of July 25, 2007 by and among certain subsidiaries of Blackbaud, as Guarantors, in favor of Wachovia Bank, National Association, as Administrative Agent.	8-K	07/31/07	10.29	
10.30	Pledge Agreement dated as of July 25, 2007 by and among Blackbaud, its subsidiaries in favor of Wachovia Bank, National Association, as Administrative Agent for the ratable benefit of itself and the Lenders.	8-K	07/31/07	10.30	
10.31	Form of Tender and Support Agreement by and between Blackbaud, Inc. and certain stockholders of Kintera, Inc.	8-K	05/30/08	10.31	
10.32	First Amendment to Credit Agreement and Lender Addition and Acknowledgement Agreement dated as of June 23, 2008	8-K	06/26/08	10.32	
10.33	Blackbaud, Inc. 2008 Equity Incentive Plan	DEF 14A	04/29/08		
10.34	Form of Notice of Grant and Stock Option Agreement under Blackbaud, Inc. 2008 Equity Incentive Plan	S-8	08/04/08	10.34	
10.35	Form of Notice of Grant and Restricted Stock Agreement under Blackbaud, Inc. 2008 Equity Incentive Plan	S-8	08/04/08	10.35	
10.36	Form of Notice of Grant and Stock Appreciation Rights Agreement under Blackbaud, Inc. 2008 Equity Incentive Plan	S-8	08/04/08	10.36	
10.37	Kintera, Inc. 2000 Stock Option Plan, as amended, and form of Stock Option Agreement thereunder	10-K/A*	03/26/08	10.2	
10.38	Kintera, Inc. Amended and Restated 2003 Equity Incentive Plan, as amended, and form of Stock Option Agreement thereunder	10-K/A*	03/26/08	10.3	
10.39	Form of Retention Agreement	10-Q	11/05/08	10.37	
10.40	Triple Net Lease Agreement dated as of October 1, 2008 between Blackbaud, Inc. and Duck Pond Creek-SPE, LLC	8-K	12/11/08	10.37	
10.41	Blackbaud, Inc. 2009 Equity Compensation Plan for Employees from Acquired Companies	S-8	07/02/09	10.41	
10.42	Share Purchase Agreement between RLC Group B.V., as the Seller, and Blackbaud, Inc., as the Purchaser	10-Q**	08/07/09	10.42	
10.43	Amended and Restated Employment and Noncompetition Agreement dated January 28, 2010 between Blackbaud, Inc. and Marc Chardon	8-K	02/01/10	10.43	

Exhibit number	Description of Document	Filed In: Registrant's Form	Dated	Exhibit Number	Filed Herewith
21.1	Subsidiaries of Blackbaud, Inc				X
23.1	Consent of Independent Registered Public Accounting Firm				X
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS***	XBRL Instance Document.				X
101.SCH***	XBRL Taxonomy Extension Schema Document.				X
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document.				X
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document.				X
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document.				X
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document.				X

* TheKintera, Inc. 2000 Stock Option Plan, as amended, and form of Stock Option Agreement thereunder (Kintera 2000 Plan Documents) and the Kintera, Inc. Amended and Restated 2003 Equity Incentive Plan, as amended, and form of Stock Option Agreement thereunder (Kintera 2003 Plan Documents) were filed by Kintera in its Form 10-K/A on March 26, 2008 as Exhibits 10.2 and 10.3, respectively. We assumed the Kintera 2000 Plan Documents and Kintera 2003 Plan Documents when we acquired Kintera in July 2008. We filed the Kintera 2000 Plan Documents and Kintera 2003 Plan Documents by incorporation by reference as exhibits 10.37 and 10.38, respectively, in our Form S-8 on August 4, 2008.

** Theregistrant has received confidential treatment with respect to portions of this exhibit. Those portions have been omitted from the exhibit and filed separately with the U.S. Securities and Exchange Commission.

*** Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability of that Section, and shall not be part of any registration statement or other document filed under the Securities Act of the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

BLACKBAUD, INC

Signed: March 1, 2011	/S/ MARC E. CHARDON **President and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the following persons on behalf of the Registrant and on the dates indicated.

/S/ MARC E. CHARDON **Marc E. Chardon**	President, Chief Executive Officer and Director (Principal Executive Officer)	Date: March 1, 2011
/S/ TIMOTHY V. WILLIAMS **Timothy V. Williams**	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	Date: March 1, 2011
/S/ ANDREW M. LEITCH **Andrew M. Leitch**	Chairman of the Board	Date: March 1, 2011
/S/ TIMOTHY CHOU **Timothy Chou**	Director	Date: March 1, 2011
/S/ GEORGE H. ELLIS **George H. Ellis**	Director	Date: March 1, 2011
/S/ DAVID G. GOLDEN **David G. Golden**	Director	Date: March 1, 2011
/S/ JOHN P. MCCONNELL **John P. McConnell**	Director	Date: March 1, 2011
/S/ CAROLYN MILES **Carolyn Miles**	Director	Date: March 1, 2011
/S/ SARAH E. NASH **Sarah E. Nash**	Director	Date: March 1, 2011

BLACKBAUD, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Blackbaud, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of stockholders' equity and comprehensive income present fairly, in all material respects, the financial position of Blackbaud, Inc. and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PRICEWATERHOUSECOOPERS LLP

Raleigh, North Carolina
February 28, 2011

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Blackbaud, Inc.

Consolidated balance sheets

(in thousands, except share amounts)	December 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 27,974	$ 22,769
Donor restricted cash	16,359	12,874
Accounts receivable, net of allowance of $2,687 and $3,559 at December 31, 2010 and 2009, respectively	59,804	50,220
Prepaid expenses and other current assets	33,847	18,155
Deferred tax asset, current portion	5,164	5,728
Total current assets	143,148	109,746
Property and equipment, net	22,963	22,507
Deferred tax asset	44,639	55,570
Goodwill	76,247	73,919
Intangible assets, net	38,515	42,019
Other assets	2,579	468
Total assets	$ 328,091	$ 304,229
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 9,883	$ 10,683
Accrued expenses and other current liabilities	28,322	25,974
Donations payable	16,359	12,874
Debt	—	1,288
Deferred revenue	141,149	129,412
Total current liabilities	195,713	180,231
Deferred revenue, noncurrent	6,900	6,172
Other noncurrent liabilities	2,419	1,720
Total liabilities	205,032	188,123
Commitments and contingencies (see Note 9)		
Stockholders' equity:		
Preferred stock; 20,000,000 shares authorized, none outstanding	—	—
Common stock, $0.001 par value; 180,000,000 shares authorized, 53,316,280 and 52,214,606 shares issued at December 31, 2010 and 2009, respectively	53	52
Additional paid-in capital	158,419	134,726
Treasury stock, at cost; 8,842,882 and 7,677,341 shares at December 31, 2010 and 2009, respectively	(161,186)	(134,382)
Accumulated other comprehensive loss	(512)	(201)
Retained earnings	126,285	115,911
Total stockholders' equity	123,059	116,106
Total liabilities and stockholders' equity	$ 328,091	$ 304,229

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

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Blackbaud, Inc.

Consolidated statements of operations

(in thousands, except share and per share amounts)	Years ended December 31, 2010	2009	2008
Revenue			
License fees	$ 23,719	$ 25,392	$ 35,932
Services	89,585	87,834	100,824
Maintenance	124,562	116,476	107,304
Subscriptions	82,516	72,898	49,705
Other revenue	6,712	6,738	8,730
Total revenue	327,094	309,338	302,495
Cost of revenue			
Cost of license fees	2,880	3,582	3,316
Cost of services	66,632	61,713	63,960
Cost of maintenance	24,091	21,364	20,185
Cost of subscriptions	31,109	28,183	20,587
Cost of other revenue	7,103	6,098	8,368
Total cost of revenue	131,815	120,940	116,416
Gross profit	195,279	188,398	186,079
Operating expenses			
Sales and marketing	70,186	62,796	65,185
Research and development	45,527	45,662	38,708
General and administrative	32,471	33,380	34,072
Amortization	798	768	713
Total operating expenses	148,982	142,606	138,678
Income from operations	46,297	45,792	47,401
Interest income	84	637	526
Interest expense	(74)	(962)	(1,526)
Other (expense) income, net	(127)	220	(194)
Income before provision for income taxes	46,180	45,687	46,207
Income tax provision	16,375	17,240	16,329
Net income	$ 29,805	$ 28,447	$ 29,878
Earnings per share			
Basic	$ 0.69	$ 0.67	$ 0.70
Diluted	$ 0.68	$ 0.65	$ 0.68
Common shares and equivalents outstanding			
Basic weighted average shares	43,145,189	42,771,173	42,958,947
Diluted weighted average shares	43,876,155	43,600,048	43,958,557
Dividends per share	$ 0.44	$ 0.40	$ 0.40

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

Blackbaud, Inc.

Consolidated statements of cash flows

(in thousands)	Years ended December 31, 2010	2009	2008
Cash flows from operating activities			
Net income	$ 29,805	$ 28,447	$ 29,878
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	16,068	15,509	12,865
Provision for doubtful accounts and sales returns	2,773	3,458	4,179
Stock-based compensation expense	13,059	12,287	12,085
Excess tax benefits from stock based compensation	(2,629)	(2,405)	(1,497)
Deferred taxes	11,201	12,351	6,407
Other non-cash adjustments	(22)	116	110
Changes in assets and liabilities, net of acquisition of businesses:			
Accounts receivable	(13,051)	1,375	(10,193)
Prepaid expenses and other assets	(9,599)	2,122	(5,635)
Trade accounts payable	208	(312)	614
Accrued expenses and other current liabilities	(4,775)	612	(7,907)
Donor restricted cash	(3,446)	(511)	(3,763)
Donations payable	3,446	511	3,763
Deferred revenue	12,870	13,237	19,404
Net cash provided by operating activities	55,908	86,797	60,310
Cash flows from investing activities			
Purchase of property and equipment	(10,760)	(5,534)	(7,692)
Purchase of net assets of acquired companies, net of cash acquired	(5,334)	(2,258)	(49,916)
Purchase of investment	(2,000)	—	—
Purchase of intangible assets	(130)	—	—
Proceeds from sale and maturity of marketable securities	—	—	1,575
Net cash used in investing activities	(18,224)	(7,792)	(56,033)
Cash flows from financing activities			
Proceeds from issuance of debt	4,000	—	86,000
Payments on debt	(5,175)	(60,049)	(27,527)
Payments on capital lease obligations	(164)	(384)	(540)
Payments of deferred financing fees	—	—	(47)
Purchase of treasury stock	(22,613)	—	(43,727)
Dividend payments to stockholders	(19,490)	(17,673)	(17,497)
Proceeds from exercise of stock options	8,065	2,509	883
Excess tax benefits from stock based compensation	2,629	2,405	1,497
Net cash used in financing activities	(32,748)	(73,192)	(958)
Effect of exchange rate on cash and cash equivalents	269	595	(1,733)
Net increase in cash and cash equivalents	5,205	6,408	1,586
Cash and cash equivalents, beginning of year	22,769	16,361	14,775
Cash and cash equivalents, end of year	$ 27,974	$ 22,769	$ 16,361
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	$ 87	$ 615	$ 1,375
Taxes, net of refunds	$ 9,527	$ (2,584)	$ 11,041
Purchase of equipment included in accounts payable	$ 2,630	$ 3,699	$ —

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

Blackbaud, Inc.

Consolidated statements of stockholders' equity and comprehensive income

(in thousands, except share amounts)	Comprehensive income	Common stock Shares	Common stock Amount	Additional paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders' equity
Balance at December 31, 2007		50,450,675	$ 50	$ 105,687	$ (85,487)	$ 137	$ 92,716	$ 113,103
Net income	$ 29,878	—	—	—	—	—	29,878	29,878
Payment of dividends	—	—	—	—	—	—	(17,497)	(17,497)
Purchase of 1,956,168 treasury shares under stock repurchase program					(43,727)			(43,727)
Exercise of stock options	—	126,206	1	882	—	—	—	883
Surrender of 106,446 shares upon restricted stock vesting	—	—	—	—	(1,380)	—	—	(1,380)
Tax impact of exercise of nonqualified stock options and restricted stock vesting	—	—	—	(1,126)	—	—	—	(1,126)
Stock options assumed in acquisition	—	—	—	172	—	—	—	172
Stock-based compensation	—		—	11,231	—	—	7	11,238
Restricted stock grants	—	727,237	—	—	—	—	—	—
Restricted stock cancellations	—	(35,037)	—	—	—	—	—	—
Translation adjustment, net of tax	(1,036)	—	—	—	—	(1,036)	—	(1,036)
Comprehensive income	$ 28,842							
Balance at December 31, 2008		51,269,081	$ 51	$ 116,846	$(130,594)	$ (899)	$ 105,104	$ 90,508
Net income	$ 28,447	—	—	—	—	—	28,447	28,447
Payment of dividends	—	—	—	—	—	—	(17,673)	(17,673)
Issuance of common stock	—	55,661	—	1,215	—	—	—	1,215
Exercise of stock options and stock appreciation rights	—	451,580	1	2,509	—	—	—	2,510
Surrender of 182,875 shares upon restricted stock vesting and stock appreciation right exercise	—	—	—	—	(3,788)	—	—	(3,788)
Tax impact of exercise of nonqualified stock options and restricted stock vesting	—	—	—	2,290	—	—	—	2,290
Stock-based compensation	—	—	—	11,417	—	—	33	11,450
Restricted stock grants	—	492,964	—	449	—	—	—	449
Restricted stock cancellations	—	(54,680)	—	—	—	—	—	—
Translation adjustment, net of tax	698	—	—	—	—	698	—	698
Comprehensive income	$ 29,145							
Balance at December 31, 2009		52,214,606	$ 52	$ 134,726	$(134,382)	$ (201)	$ 115,911	$ 116,106
Net income	$ 29,805	—	—	—	—	—	29,805	29,805
Payment of dividends	—	—	—	—	—	—	(19,490)	(19,490)
Purchase of 1,007,082 treasury shares under stock repurchase program	—	—	—	—	(22,613)	—	—	(22,613)
Exercise of stock options and stock appreciation rights	—	729,295	1	8,064	—	—	—	8,065
Surrender of 158,459 shares upon restricted stock vesting and exercise of stock appreciation rights	—	—	—	—	(4,191)	—	—	(4,191)
Tax impact of exercise of nonqualified stock options and restricted stock vesting	—	—	—	2,629	—	—	—	2,629
Stock-based compensation	—	—	—	13,000	—	—	59	13,059
Restricted stock grants	—	460,659	—	—	—	—	—	—
Restricted stock cancellations	—	(88,280)	—	—	—	—	—	—
Translation adjustment, net of tax	(311)	—	—	—	—	(311)	—	(311)
Comprehensive income	$ 29,494							
Balance at December 31, 2010		53,316,280	$ 53	$ 158,419	$(161,186)	$ (512)	$ 126,285	$ 123,059

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

Blackbaud, Inc.

Notes to consolidated financial statements

1. Organization and significant accounting policies

Blackbaud, Inc. (the Company) is the leading global provider of software and related services designed specifically for nonprofit organizations, and provides products and services that enable nonprofit organizations to increase donations, reduce fundraising costs, improve communications with constituents, manage their finances and optimize internal operations. As of the end of 2010, the Company had approximately 24,000 active customers distributed across multiple verticals within the nonprofit market including religion, education, foundations, health and human services, arts and cultural, public and societal benefits, environment and animal welfare, and international foreign affairs.

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Areas of the financial statements where estimates may have the most significant effect include revenue recognition, the allowance for sales returns and doubtful accounts, valuation of long-lived and intangible assets and goodwill, stock-based compensation and provision for income taxes and valuation of deferred tax assets. Changes in the facts or circumstances underlying these estimates could result in material changes and actual results could differ from these estimates.

Revenue recognition

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

License fees

The Company recognizes 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;
- the fee is fixed or determinable; and
- collection of the resulting receivable is probable.

The Company deems 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. The Company’s

Blackbaud, Inc.

Notes to consolidated financial statements—(Continued)

typical license agreement does not include customer acceptance provisions; however, if acceptance provisions are provided, delivery is deemed to occur upon acceptance. The Company considers the fee to be fixed or determinable unless the fee is subject to refund or adjustment or is not payable within the Company's standard payment terms. Payment terms greater than 90 days are considered to be beyond the Company's customary payment terms. Collection is deemed probable if the Company expects that the customer will be able to pay amounts under the arrangement as they become due. If the Company determines that collection is not probable, it defers revenue recognition until collection.

The Company sells software licenses with maintenance, varying levels of professional services and, in certain instances, with hosting services. The Company allocates 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 the Company. 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, the Company recognizes revenue for both the software license and the services on a percent-complete basis.

<u>Subscriptions</u>

The Company provides hosting services to customers who have purchased perpetual rights to certain of its 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. Any related set-up fees are also recognized ratably over the service period of the contract.

The Company is increasingly making certain of its 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 agreement, which generally ranges from one to three years. For contractual arrangements covering the use of hosted applications the stand alone value of the delivered items or the fair value of undelivered items in the arrangement have not been established. Such items include upfront activation, implementation and hosting of the solution. For these arrangements the Company treats the transaction as a single element and the revenue is deferred until the hosted application is deployed and in use, at which time revenue is recognized over the remaining term of the arrangement. Direct and incremental costs relating to activation and implementation are capitalized until the hosted application is deployed and in use, and then expensed over the remaining term of the arrangement.

Revenue from transaction processing fees is recognized when received. Credit card fees directly associated with processing donations for customers are included in subscription revenue, net of related transaction costs.

<u>Services</u>

The Company generally bills consulting, installation and implementation services based on hourly rates plus reimbursable travel-related expenses. Revenue is recognized for these services over the period the services are performed.

Blackbaud, Inc.

Notes to consolidated financial statements—(Continued)

The Company recognizes analytic services revenue from donor prospect research engagements, the sale of lists of potential donors, benchmarking studies and data modeling service engagements upon delivery.

The Company sells training at a fixed rate for each specific class, at a per attendee price or at a packaged price for several attendees, and revenue is recognized only upon the customer attending and completing training. Additionally, the Company sells fixed-rate programs, which permit customers to attend unlimited training, or access training online, over a specified contract period, typically one year, subject to certain restrictions, and revenue is recognized ratably over the contract period.

Maintenance

The Company recognizes revenue from maintenance services ratably over the contract term, which is typically one year. Maintenance contracts are at rates that vary according to the level of the maintenance program and are generally renewable annually. Maintenance contracts also include the right to unspecified product upgrades on an if-and-when available basis. Certain support services are sold in prepaid units of time and recognized as revenue upon their usage.

Deferred revenue

To the extent that the Company's customers are billed or pay for the above described services in advance of delivery, the Company records such amounts in deferred revenue.

Reimbursable travel expense

The Company expenses reimbursable travel costs as incurred and includes them in cost of other revenue. The reimbursement of these costs by the Company's customers is included in other revenue.

Sales taxes

The Company presents sales taxes and other taxes collected from customers and remitted to governmental authorities on a net basis and, as such, excludes them from revenues.

Shipping and handling

The Company expenses shipping and handling costs as incurred and includes them in cost of other revenue. The reimbursement of these costs by the Company's customers is included in other revenue.

Cash and cash equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Donor restricted cash and donations payable

Restricted cash consists of donations collected by the Company and payable to its customers, net of the associated transaction fees earned. Monies associated with donations payable are segregated in a separate bank account and used exclusively for the payment of donations payable. This usage restriction is internally imposed and reflects the Company's intention with regard to such deposits.

Blackbaud, Inc.

Notes to consolidated financial statements—(Continued)

Property and equipment

The Company records property and equipment at cost and depreciates them over their estimated useful lives using the straight-line method. Property and equipment subject to capital leases are depreciated over the lesser of the term of the lease or the estimated useful life of the asset. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. Repair and maintenance costs are expensed as incurred.

Construction-in-progress represents purchases of computer software and hardware associated with new internal system implementation projects, which had not been placed in service at the respective balance sheet dates. These assets are transferred to the applicable property category on the date they are placed in service. There was no capitalized interest applicable to construction-in-progress for the years ended December 31, 2010 and 2009.

The Company capitalizes certain costs related to the development or purchase of software for use in the Company's internal operations. Any amounts capitalized are included in computer software costs and amortized over the expected useful life. Costs incurred for upgrades and enhancements, which will not result in additional functionality, are expensed as incurred.

Goodwill

Goodwill represents the purchase price in excess of the net amount assigned to assets acquired and liabilities assumed by the Company in a business combination. Goodwill is allocated to reporting units, which are defined as the Company's three operating segments, Target Analytics and Blackbaud Payment Processing Services, and tested annually for impairment. The Company will also test goodwill for impairment between annual impairment tests if indicators of potential impairment exist. The impairment test compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, impairment is indicated. The 2010 annual impairment test indicated the estimated fair value of the reporting units significantly exceeded the carrying value. There was no impairment of goodwill during 2010, 2009 or 2008.

Intangible assets

The Company amortizes intangible assets over their estimated useful lives as follows.

	Basis of amortization	Amortization period (in years)
Customer relationships	Straight-line and accelerated(1)	4-15
Marketing assets	Straight-line	5-8
Acquired software	Straight-line	2-10
Non-compete agreements	Straight-line	5
Database	Straight-line	8

(1) Certain of the customer relationships acquired as part of the Kintera acquisition are amortized on an accelerated basis.

The Company evaluates the recoverability of intangible assets periodically and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate an impairment may exist. Substantially all of the Company's intangible assets was acquired in business combinations. There was no impairment of intangible assets during 2010, 2009 or 2008.

Blackbaud, Inc.

Notes to consolidated financial statements—(Continued)

Cost method investments

Cost method investments included in other assets consist of investments in privately held companies where the Company does not have the ability to exercise significant influence, or have control, over the investee. These investments are recorded at cost and are subject to periodic tests for other-than-temporary impairment.

Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged between willing parties other than in a forced sale or liquidation. The financial instruments of the Company consist primarily of cash and cash equivalents, accounts receivable and accounts payable at December 31, 2010 and 2009. The Company believes that the carrying amounts of these financial instruments approximate their fair values at December 31, 2010 and 2009, due to the immediate or short-term maturity of these financial instruments.

Deferred financing costs

Deferred financing costs included in other assets represent the direct costs of entering into the Company’s revolving credit facility in July 2007 and increasing the level of available funds under the credit facility in June 2008. These costs are amortized as interest expense using the effective interest method. The deferred financing fees are being amortized over the term of the credit facility.

Stock-based compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. Stock-based compensation cost arising from stock option grants and awards with performance or market conditions are recognized using the accelerated method. Costs arising from restricted stock and stock appreciation right grants are recognized on a straight-line basis.

Income taxes

Prior to October 13, 1999, the Company was organized as an S corporation under the Internal Revenue Code and, therefore, was not subject to federal income taxes. The Company historically made distributions to its stockholders to cover the stockholders’ anticipated tax liability. In connection with its 1999 recapitalization, the Company converted its U.S. taxable status from an S corporation to a C corporation and, accordingly, since October 14, 1999 has been subject to federal and state income taxes. Upon this conversion and as a result of the recapitalization, the Company recorded a one-time benefit of $107.0 million to establish a deferred tax asset. This amount was recorded as a direct increase to equity in the statements of stockholders’ equity. The Company has not recorded a valuation allowance against this deferred tax asset as of December 31, 2010 or 2009, as the Company believes it is more-likely-than-not that it will be able to utilize this benefit, which is dependent upon the Company’s ability to generate future taxable income. The amount of deferred tax asset related to this matter at December 31, 2010 was $28.4 million.

The Company recognizes tax benefits arising from uncertain tax positions only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. Penalties and interest accrued related to unrecognized tax benefits are recognized in the provision for income taxes.

Blackbaud, Inc.

Notes to consolidated financial statements—(Continued)

Significant judgment is required in determining the provision for income taxes. The Company records its tax provision at the anticipated tax rates based on estimates of annual pretax income. To the extent that the final results differ from these estimated amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made and could have an impact on the deferred tax asset. The Company's deferred tax assets and liabilities are recorded at an amount based upon a U.S. federal income tax rate of 35.0% and appropriate statutory rates of various foreign, state and local jurisdictions in which the Company operates. If the Company's tax rates change, the deferred tax assets and liabilities will be adjusted to an amount reflecting those income tax rates. If such change is determined to be appropriate, it will affect the provision for income taxes during the period that the determination is made.

The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income. To the extent recovery is not likely, a valuation allowance is established. To the extent a valuation allowance is established, the Company includes an expense within the income tax provision. The Company's valuation allowance of $9.6 million at December 31, 2010 was primarily associated with deferred tax assets for certain state income tax credits and net operating loss carryforwards that it has determined are not more-likely-than-not to be realized. The Company will continue to evaluate the realizability of the remaining deferred tax assets, and any further adjustment to the valuation allowance will be made in the period the Company determines it is more-likely-than-not that any of the remaining amounts will not be utilized.

Foreign currency

Net assets recorded in a foreign currency are translated at the exchange rate on the balance sheet date. Revenue and expense items are translated at the average exchange rate for the year. The resulting translation adjustments are recorded in accumulated other comprehensive income net of tax.

Gains and losses resulting from foreign currency transactions denominated in currency other than the functional currency are recorded at the approximate rate of exchange at the transaction date. For the years ended December 31, 2010, 2009 and 2008, the Company recorded net foreign currency gain of $0.1 million, gain of $0.2 million, and loss of $0.2 million, respectively, and these amounts are included in other expense, net.

Research and development

Research and development costs are expensed as incurred. These costs include salaries and related human resource costs, third-party contractor expenses, software development tools, an allocation of facilities and depreciation expenses and other expenses in developing new products and upgrading and enhancing existing products.

Software development costs

Capitalization of software development costs begins upon the establishment of technological feasibility, subject to net realizable value considerations. To date, the point in time of achieving technological feasibility and the general availability of such software has substantially coincided; therefore, software development costs qualifying for capitalization have been immaterial. Accordingly, the Company has not capitalized any software development costs and has charged all such costs to research and development expense.

Sales returns and allowance for doubtful accounts

The Company provides customers a 30-day right of return and maintains a reserve for returns which is estimated based on several factors including historical experience and existing economic conditions. Provisions for sales returns are charged against the related revenue items.

Blackbaud, Inc.

Notes to consolidated financial statements—(Continued)

In addition, the Company records an allowance for doubtful accounts that reflects estimates of probable credit losses. This assessment is based on several factors including aging of customer accounts, known customer specific risks, historical experience and existing economic conditions. Accounts are charged against the allowance after all means of collection are exhausted and recovery is considered remote. Provisions for doubtful accounts are recorded in general and administrative expense.

Below is a summary of the changes in the Company's allowance for doubtful accounts.

Years ended December 31, (in thousands)	Balance at beginning of year	Acquired through business combinations	Provision/ adjustment	Write-off	Balance at end of year
2010	$ 760	$ —	$ (227)	$ (109)	$ 424
2009	1,013	—	(47)	(206)	760
2008	308	268	560	(123)	1,013

Below is a summary of the changes in the Company's allowance for sales returns.

Years ended December 31, (in thousands)	Balance at beginning of year	Acquired through business combinations	Provision/ adjustment	Write-off	Balance at end of year
2010	$ 2,799	$ —	$ 3,000	$(3,536)	$2,263
2009	1,764	—	3,505	(2,470)	2,799
2008	1,627	61	3,619	(3,543)	1,764

Sales commissions

The Company pays sales commissions at the time contracts with customers are signed or shortly thereafter, depending on the size and duration of the sales contract. To the extent that these commissions relate to revenue not yet recognized, the amounts are recorded as deferred sales commission costs. Subsequently, the commissions are recognized as expense as the revenue is recognized.

Below is a summary of the changes in the Company's deferred sales commission costs included in prepaid expenses and other current assets.

Years ended December 31, (in thousands)	Balance at beginning of year	Additions	Expense	Balance at end of year
2010	$ 6,013	$12,985	$(7,332)	$11,666
2009	3,047	6,994	(4,028)	6,013
2008	1,903	5,699	(4,555)	3,047

Advertising costs

The Company expenses advertising costs as incurred, which were $1.1 million, $1.1 million and $1.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Impairment of long-lived assets

The Company reviews long-lived assets for impairment when events change or circumstances indicate the carrying amount may not be recoverable. If such events or changes in circumstances are present, the undiscounted cash flow method is used to determine whether the asset is impaired. No impairment of long-lived assets resulted in 2010, 2009 or 2008.

Blackbaud, Inc.

Notes to consolidated financial statements—(Continued)

Earnings per share

The Company computes basic earnings per share by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares and dilutive potential common shares then outstanding. Diluted earnings per share reflect the assumed conversion of all dilutive securities using the treasury stock method. Dilutive potential common shares consist of shares issuable upon the exercise of stock options, settlement of stock appreciation rights and vesting of restricted stock awards and units.

The following table sets forth the computation of basic and diluted earnings per share:

	Years ended December 31,		
(in thousands, except share and per share amounts)	**2010**	**2009**	**2008**
Numerator:			
Net income	$ 29,805	$ 28,447	$ 29,878
Denominator:			
Weighted average common shares	43,145,189	42,771,173	42,958,947
Add effect of dilutive securities:			
Employee stock-based compensation	730,966	828,875	999,610
Weighted average common shares assuming dilution	43,876,155	43,600,048	43,958,557
Earnings per share:			
Basic	$ 0.69	$ 0.67	$ 0.70
Diluted	$ 0.68	$ 0.65	$ 0.68

The following shares underlying stock-based awards were not included in diluted earnings per share because their inclusion would have been anti-dilutive:

	Years ended December 31,		
	2010	**2009**	**2008**
Shares excluded from calculations of diluted EPS	221,742	488,282	496,945

Recently issued accounting pronouncements

In October 2009, the FASB released Accounting Standards Update (ASU) 2009-13, which amends the existing criteria for separating consideration in multiple-deliverable arrangements. Arrangements that include perpetual software licenses are excluded from the scope of this ASU. ASU 2009-13 establishes a hierarchy for determining the selling price of a deliverable and requires the use of best estimate of the selling price when VSOE or third party evidence (TPE) of the selling price cannot be determined. As a result of the requirement to use the best estimate of the selling price when vendor specific objective evidence or third party evidence of the selling price cannot be determined, the residual method will no longer be permitted. ASU 2009-13 is applicable prospectively for revenue arrangements entered into or materially modified after the adoption date or retrospectively for all periods presented. The Company is required to adopt ASU 2009-13 on January 1, 2011. The Company does not believe the adoption of ASU 2009-13 will have a material impact on its consolidated financial statements.

Blackbaud, Inc.

Notes to consolidated financial statements—(Continued)

2. Business combinations

During the year ended December 31, 2010, the Company acquired two entities for total consideration of $5.3 million, all of which was paid in cash. During the year ended December 31, 2009, the Company acquired one entity for total consideration of $2.4 million, all of which was paid in cash. The results of operations of acquired entities have been included in the consolidated financial statements of the Company from the date of acquisition. Pro forma results of operations have not been presented because the effects of these business combinations, individually and in the aggregate, were not material to the consolidated results of operations of the Company.

The Company recorded the purchase price allocation based on the estimated fair value of the assets acquired and liabilities assumed. None of the goodwill arising from the acquisitions completed in 2010 and 2009 is deductible for income tax purposes.

Kintera

On July 8, 2008, the Company acquired Kintera, a publicly-traded company based in San Diego, California. Kintera is a leader in providing web-based, software-as-a-service solutions to the nonprofit market. The acquisition of Kintera provides the Company with additional expertise in developing and delivering on-demand solutions and expands the Company's online offerings. The Company acquired all of the outstanding capital stock of Kintera through a tender offer, paying $1.12 per share for a total of $45.7 million. The Company financed this acquisition with cash on hand and borrowings under the Company's revolving credit facility. The total purchase price of $50.2 million includes $2.4 million in payments to Kintera management under change of control provisions, $1.9 million of direct acquisition-related costs and $0.2 million related to Kintera employee stock options assumed. The results of operations of Kintera are included in the consolidated financial statements of the Company from the date of acquisition.

The purchase price allocation is based on a valuation of the fair value of assets acquired and liabilities assumed in the acquisition of Kintera. The following table summarizes the final allocation of the purchase price:

(in thousands)	
Cash and cash equivalents	$ 2,980
Accounts receivable	4,479
Marketable securities	1,575
Other assets, current and noncurrent	9,428
Deferred tax assets, current and noncurrent	26,420
Property and equipment	3,834
Intangible assets	16,950
Goodwill	11,506
Trade accounts payable	(1,061)
Accrued expenses and other current liabilities	(15,095)
Deferred revenue, current and noncurrent	(7,871)
Debt, current and noncurrent	(2,973)
Total purchase price	$ 50,172

Blackbaud, Inc.

Notes to consolidated financial statements—(Continued)

None of the goodwill arising in the acquisition is deductible for income tax purposes. All segments were allocated a portion of the goodwill. The acquisition resulted in the identification of $16.9 million of intangible assets, all of which are subject to amortization. The following table presents the amounts assigned to each intangible asset class:

	Intangible assets acquired (in thousands)	Weighted average amortization period (in years)
Marketing assets	$ 740	8.0
Customer relationships	12,100	10.8
Software	4,110	7.4
Total	$ 16,950	9.8

Customer relationships are amortized on an accelerated basis. Marketing assets and software are amortized on a straight-line basis.

In connection with the acquisition, the Company entered into employment agreements with certain members of Kintera's management team that provided for the payment of bonuses totaling $449,000, payable in shares of the Company's common stock based on continued employment. In February 2009, the Company issued 39,140 shares of common stock at a fair market value of $11.47 per share in connection with these employment agreements. In addition, the Company entered into an employment agreement with the former CEO of Kintera that included a targeted bonus payable in shares of the Company's common stock conditioned upon his continued employment and achievement of certain performance targets. In August 2009, the Company issued 10,898 shares of common stock at a fair market value of $19.73 per share in connection with this bonus arrangement.

3. Property and equipment

Property and equipment as of December 31, 2010 and 2009 consisted of the following:

(in thousands)	Estimated useful life (years)	December 31, 2010	December 31, 2009
Equipment	3 - 5	$ 3,660	$ 5,323
Computer hardware	3 - 5	30,616	25,850
Computer software	3 - 5	10,982	11,166
Construction in progress	—	1,332	5,960
Furniture and fixtures	5 - 7	4,961	4,891
Leasehold improvements	term of lease	2,923	2,641
Total property and equipment		54,474	55,831
Less: accumulated depreciation		(31,511)	(33,324)
Property and equipment, net of depreciation		$ 22,963	$ 22,507

Depreciation expense was $9.1 million, $8.4 million and $6.9 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Property and equipment, net of depreciation, under capital leases at December 31, 2010 and 2009 was not material.

Blackbaud, Inc.

Notes to consolidated financial statements—(Continued)

4. Goodwill and other intangible assets

As discussed in Note 14, the Company reorganized its business into three operating units which resulted in a change in reportable segments effective January 1, 2010. As a result of the change in reportable segments, the Company tested goodwill for impairment as of January 1, 2010 in addition to its annual test and there was no impairment of goodwill. Goodwill has been reallocated among the new reportable segments as of December 31, 2009. The change in goodwill for each reportable segment during the years ended December 31, 2010 consisted of the following:

(in thousands)	ECBU	GMBU	IBU	Other	Total
Balance at December 31, 2009	$40,625	$26,472	$4,713	$2,109	$73,919
Additions related to business combinations	2,527	—	—	—	2,527
Effect of foreign currency translation	—	—	(199)	—	(199)
Balance at December 31, 2010	$43,152	$26,472	$4,514	$2,109	$76,247

The Company has no accumulated impairment losses as of December 31, 2010 and 2009. Additions to goodwill during the year ended December 31, 2010 related to the acquisitions as described in Note 2 of these consolidated financial statements.

The Company has recorded intangible assets acquired in various business combinations based on their fair values at the date of acquisition. The table below sets forth the balances of each class of intangible asset, all of which are subject to amortization, as of December 31, 2010 and 2009.

(in thousands)	2010	December 31, 2009
Gross carrying amount		
Customer relationships	$ 41,441	$ 39,975
Marketing assets	2,365	2,232
Acquired software	12,406	11,489
Non-compete agreements	2,268	2,111
Database	4,275	3,441
Total gross carrying amount	62,755	59,248
Accumulated amortization		
Customer relationships	(14,741)	(10,465)
Marketing assets	(1,202)	(843)
Acquired software	(4,935)	(3,454)
Non-compete agreements	(1,633)	(1,195)
Database	(1,729)	(1,272)
Total accumulated amortization	(24,240)	(17,229)
Total intangible assets, net	$ 38,515	$ 42,019

Additions to intangible assets subject to amortization during 2010 are related to the acquisitions described in Note 2 of these consolidated financial statements.

Blackbaud, Inc.

Notes to consolidated financial statements—(Continued)

Amortization expense related to intangible assets acquired in business combinations is allocated to cost of revenue on the statements of operations based on the revenue stream to which the asset contributes. The following table summarizes amortization expense for the years ended December 31, 2010, 2009 and 2008.

(in thousands)	Years ended December 31, 2010	2009	2008
Included in cost of revenue:			
Cost of license fees	$ 466	$ 362	$ 246
Cost of services	1,390	1,344	1,338
Cost of maintenance	1,223	1,302	895
Cost of subscriptions	3,058	3,239	2,694
Cost of other revenue	75	75	75
Total included in cost of revenue	6,212	6,322	5,248
Included in operating expenses	798	768	713
Total	$7,010	$7,090	$5,961

The following table outlines the estimated future amortization expense for each of the next five years for acquisition-related intangible assets as of December 31, 2010:

Years ended December 31,	Amortization expense (in thousands)
2011	$ 6,848
2012	5,933
2013	5,317
2014	5,007
2015	4,137
Total	$ 27,242

5. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following as of December 31, 2010 and 2009:

(in thousands)	December 31, 2010	2009
Deferred sales commissions	$11,666	$ 6,013
Taxes, prepaid and receivable	10,826	3,736
Prepaid software maintenance and royalties	4,352	4,694
Deferred professional service costs	3,447	1,242
Other	3,556	2,470
Total prepaid expenses and other current assets	$33,847	$18,155

Blackbaud, Inc.

Notes to consolidated financial statements—(Continued)

6. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following as of December 31, 2010 and 2009:

(in thousands)	December 31, 2010	2009
Accrued bonuses	$ 8,952	$ 8,699
Accrued commissions and salaries	5,922	3,800
Taxes payable	3,683	3,196
Customer credit balances	3,379	3,536
Accrued accounting and legal fees	1,083	1,124
Accrued health care costs	862	1,394
Other	4,441	4,225
Total accrued expenses and other current liabilities	$28,322	$25,974

7. Deferred revenue

Deferred revenue consisted of the following as of December 31, 2010 and 2009:

(in thousands)	December 31, 2010	2009
Maintenance	$ 79,043	$ 76,651
Subscriptions	44,251	31,130
Services	24,173	26,019
License fees and other	582	1,784
Total deferred revenue	148,049	135,584
Less: Long-term portion of deferred revenue	(6,900)	(6,172)
Current portion of deferred revenue	$141,149	$129,412

8. Debt

Revolving credit facility

The Company has a $90.0 million revolving credit facility expiring July 2012, which has a remaining option to increase the amount available under the facility up to an additional $35.0 million, subject to certain terms and conditions. The revolving credit facility is guaranteed by the material domestic subsidiaries and is collateralized with the stock of all of the Company's subsidiaries. At December 31, 2010 and 2009, there were no outstanding borrowings under the credit facility.

Amounts borrowed under the revolving credit facility bear interest, at the Company's option, at a variable rate based on (a) the higher of the prime rate plus a margin of up to 0.5% or federal funds rate plus a margin of 0.5% to 1.0% (Base Rate Loans) or (b) LIBOR plus a margin of 1.0% to 1.5% (LIBOR Loans). The exact amount of any margin depends on the nature of the loan and the leverage ratio at the time of the borrowing. The Company also pays a quarterly commitment fee on the unused portion of the revolving credit facility equal to 0.2%, 0.25% or 0.3% per annum, depending on the Company's leverage ratio.

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Notes to consolidated financial statements—(Continued)

Under the credit facility the Company has the ability to choose either Base Rate Loans or LIBOR Loans. Base rate borrowings mature in July 2012. LIBOR Loans can be one, two, three or six month maturities, and the Company has the ability to extend the maturity of these loans by rolling them at their maturity into new loans with the same or longer maturities. The Company evaluates the classification of its debt based on the maturity of individual borrowings and any roll-over of borrowings subsequent to the balance sheet date, but prior to issuance of the financial statements.

Deferred financing costs

Amortization expense for deferred financing costs was $0.1 million for each of the years ended December 31, 2010, 2009 and 2008. The amortization of deferred financing cost recognized in 2010, 2009 and 2008 includes the amortization of cost related to the revolving credit facility entered into in 2007 and additional fees paid in June 2008 to exercise the Company's option to increase the level of available borrowings under the credit facility. As of December 31, 2010 and 2009, deferred financing costs totaling $0.1 million and $0.2 million, respectively, are included in other assets on the consolidated balance sheet.

9. Commitments and contingencies

Leases and related party transactions

The Company leases its headquarters facility from Duck Pond Creek, LLC. Two current executive officers of the Company each have a 4% ownership interest in Duck Pond Creek, LLC. The lease agreement was entered into in October 2008 and has a term of 15 years with two five-year renewal options by the Company. The annual base rent of the lease is $3.6 million payable in equal monthly installments. The base rent escalates annually at a rate equal to the change in the consumer price index, as defined in the agreement, but not to exceed 5.5% in any year. In addition, under the terms of the lease, the lessor will reimburse the Company an aggregate amount of $4.0 million for leasehold improvements, which will be recorded as a reduction to rent expense ratably over the term of the lease. During the years ended December 31, 2010, 2009 and 2008, rent expense was reduced by $0.3 million, $0.3 million and $0.1 million, respectively, related to this lease provision. The $4.0 million leasehold improvement allowance has been included in the table of operating lease commitments below as a reduction in the Company's lease commitments ratably over the then remaining life of the lease from October 2008. The timing of the reimbursements for the actual leasehold improvements may vary from the amount reflected in the table below.

Additionally, the Company has subleased a portion of its facilities under various agreements extending through 2012. Under these agreements, rent expense was reduced by $0.4 million in each of the years ended December 31, 2010, 2009 and 2008, respectively. The operating lease commitments in the table below have been reduced by minimum aggregate sublease commitments of $0.3 million and $0.2 million during 2011 and 2012, respectively. No minimum aggregate sublease commitments exist after 2012. The Company has also received, and expects to receive through 2012, quarterly South Carolina state incentive payments as a result of locating its headquarters facility in Berkeley County, South Carolina. These amounts are recorded as a reduction of rent expense and were $2.0 million, $1.7 million and $1.8 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Additionally, the Company leases various office space and equipment under operating leases. The Company also has various non-cancelable capital leases for computer equipment and furniture.

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Notes to consolidated financial statements—(Continued)

As of December 31, 2010, the future minimum lease commitments related to lease agreements, net of related sublease commitments and lease incentives, were as follows:

Years ending December 31, (in thousands)	Operating leases	Capital leases
2011	$ 6,505	$ 31
2012	5,979	2
2013	5,316	—
2014	5,005	—
2015	4,820	—
Thereafter	32,376	—
Total minimum lease payments	$ 60,001	33
Less: portion representing interest		2
Present value of net minimum lease payments		31
Less: current maturities		30
Long-term maturities		$ 1

Other commitments

The Company utilizes third-party relationships in conjunction with its products, with contractual arrangements varying in length from one to three years. In some cases, these arrangements require a minimum annual purchase commitment. The aggregate minimum purchase commitment under these arrangements is approximately $4.2 million through 2013. The Company incurred expense under these arrangements of $4.1 million, $2.5 million and $1.6 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Legal contingencies

The Company is subject to legal proceedings and claims that arise in the ordinary course of business. The Company records an accrual for a contingency when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company does not believe the amount of potential liability with respect to these actions will have a material adverse effect upon the Company's financial position, results of operations or cash flows.

Guarantees and indemnification obligations

The Company enters into agreements in the ordinary course of business with, among others, customers, vendors and service providers. Pursuant to certain of these agreements the Company has agreed to indemnify the other party for certain matters, such as property damage, personal injury, acts or omissions of the Company, or its employees, agents or representatives, or third-party claims alleging that the activities of its contractual partner pursuant to the contract infringe a patent, trademark or copyright of such third party.

The Company assesses the fair value of its liability on the above indemnities to be immaterial based on historical experience and information known at December 31, 2010.

10. Income taxes

The Company files income tax returns in the U.S. federal and various state jurisdictions and foreign jurisdictions including Canada, United Kingdom, Australia and Netherlands. The Company is generally subject to U.S. federal

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Notes to consolidated financial statements—(Continued)

income tax examination for calendar tax years 2007 through 2009 and state and foreign income tax examination for various years depending on statutes of limitations of those jurisdictions.

The following summarizes the components of income tax expense:

(in thousands)	2010	2009	2008
	Years ended December 31,		
Current taxes:			
U.S. Federal	$ 3,851	$ 3,139	$ 6,862
U.S. State and local	1,193	1,359	1,758
International	130	391	359
Total current taxes	5,174	4,889	8,979
Deferred taxes:			
U.S. Federal	9,977	11,167	6,391
U.S. State and local	1,250	1,184	959
International	(26)	—	—
Total deferred taxes	11,201	12,351	7,350
Total income tax provision	$16,375	$17,240	$16,329

The following summarizes the components of income before provision for income taxes:

(in thousands)	2010	2009	2008
	Years ended December 31,		
U.S.	$45,887	$43,991	$44,828
International	293	1,696	1,379
Income before provision for income taxes	$46,180	$45,687	$46,207

A reconciliation between the effect of applying the federal statutory rate and the effective income tax rate used to calculate the Company’s income tax provision is as follows:

	Years ended December 31,		
	2010	2009	2008
Federal statutory rate	35.0%	35.0%	35.0%
Effect of:			
State income taxes, net of federal benefit	4.3	4.2	4.2
Change in state income tax rate applied to deferred tax asset	—	—	(0.8)
Disqualifying dispositions of incentive stock options	(0.3)	(0.2)	(0.8)
State credits, net of federal benefit	(2.4)	(2.1)	(2.8)
Change in valuation reserve	2.4	3.4	2.7
Federal credits generated	(3.2)	(3.0)	(0.9)
Other	(0.3)	0.4	(1.3)
Income tax provision effective rate	35.5%	37.7%	35.3%

The Company recorded net excess tax benefits attributable to stock option and stock appreciation right exercises and restricted stock vesting of $2.6 million, $2.3 million and expense of $1.1 million in stockholders’ equity during the years ended December 31, 2010, 2009 and 2008, respectively.

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The amount of tax allocated to the translation adjustment recorded in accumulated other comprehensive income was a benefit of $0.2 million, a benefit of $0.4 million and an expense of $0.2 million for the years ended December 31, 2010, 2009 and 2008, respectively.

The significant components of the Company's deferred tax asset were as follows:

	December 31,	
(in thousands)	**2010**	**2009**
Deferred tax assets relating to:		
State and foreign tax credits	$ 11,236	$ 10,391
Federal and state net operating loss carryforwards	18,894	19,804
Allowance for doubtful accounts	1,014	1,294
Deferred revenue	6,163	5,911
Intangible assets	28,466	35,985
Effect of expensing nonqualified stock options and restricted stock	7,659	8,113
Other	4,208	2,594
Total deferred tax assets	77,640	84,092
Deferred tax liabilities relating to:		
Intangible assets	(8,995)	(8,345)
Fixed assets	(4,994)	(3,090)
Other	(4,234)	(3,365)
Total deferred tax liabilities	(18,223)	(14,800)
Valuation allowance	(9,614)	(7,994)
Net deferred tax asset	$ 49,803	$ 61,298

As of December 31, 2010, the Company had a federal foreign tax credit carryover of approximately $1.1 million, which will expire between 2016 and 2018. As of December 31, 2010 the Company had state tax credit carryovers of approximately $10.1 million net of federal tax, which will expire between 2011 and 2025, if unused. These state tax credits had a valuation reserve of approximately $7.9 million net of federal tax, as of December 31, 2010.

The Company acquired all of its federal and state net operating loss carryforwards in business acquisitions. At December 31, 2010, the Company had deferred tax assets of $16.2 million for federal net operating loss carryforwards and $2.7 million for state net operating loss carryforwards. These deferred assets pertain to net operating loss carryforwards of approximately $46.4 million and $52.1 million for federal and state purposes, respectively, at December 31, 2010. These net operating loss carryforwards expire during various tax years through 2030. As a result of the Kintera acquisition, Kintera underwent a change in ownership under Section 382 of the Internal Revenue Code (IRC Sec. 382) on July 8, 2008, the date of the Company's acquisition. In general, IRC Sec. 382 places annual limitations on the use of certain tax attributes such as net operating losses and tax credit carryovers in existence at the ownership change date. These limitations restrict the amount of the aforementioned net operating loss carryforwards that are available to offset taxable income each year. A portion of the state net operating loss carryforward has a valuation reserve due to management's uncertainty regarding the future ability to use such carryforwards.

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Notes to consolidated financial statements—(Continued)

The following table illustrates the change in the Company's deferred tax asset valuation allowance.

(in thousands)	Balance at beginning of year	Acquisition related change	Charges to expense	Balance at end of year
Years ended December 31,				
2010	$ 7,994	$ 75	$ 1,545	$ 9,614
2009	7,865	(1,378)	1,507	7,994
2008	3,891	2,741	1,233	7,865

In connection with the execution of certain state tax planning strategies, it is possible that in the near future the Company might release a portion of the deferred tax asset valuation allowance. Any reversal of valuation allowances will favorably impact our results of operations in the period of the reversal.

The following table sets forth the change to the Company's unrecognized tax benefit for the year ended December 31, 2010, 2009 and 2008:

	December 31,		
(in thousands)	2010	2009	2008
Balance at beginning of year	$1,231	$ 346	$ 629
Increases from prior period positions	126	427	—
Increases from current period positions	297	485	23
Lapse of statute of limitations	(240)	(27)	(306)
Balance at end of year	$1,414	$1,231	$ 346

The total amount of unrecognized tax benefit that, if recognized, would favorably affect the effective tax rate was $1.4 million at December 31, 2010. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The total amount of accrued interest and penalties included in the consolidated balance sheet as of December 31, 2010 and 2009 was $0.1 million and $0.2 million, respectively. The total amount of interest and penalties included in the consolidated statement of operations as a decrease in income tax expense for 2010 was $0.2 million. The total amount of interest and penalties included in the consolidated statement of operations for 2008 was $0.1 million of an increase in income tax expense; interest and penalties were immaterial in 2009.

The Company has taken positions in certain taxing jurisdictions related to state nexus issues for which it is reasonably possible that the total amounts of unrecognized tax benefits might decrease within the next twelve months. This 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, 2010.

It continues to be the Company's intention to indefinitely reinvest undistributed foreign earnings. Accordingly, no deferred tax liability has been recorded in connection with the undistributed foreign earnings. It is not practicable for the Company to determine the amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries.

11. Stock-based compensation

Employee stock-based compensation plans

Under the Blackbaud, Inc. 2008 Equity Incentive Plan (2008 Equity Plan), the Company may grant incentive stock options, non-statutory stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, performance stock awards and other stock awards to eligible employees, directors and

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Notes to consolidated financial statements—(Continued)

consultants. The Company maintains other stock based compensation plans including the 2004 Stock Plan and the 2001 Stock Option Plan, under which no additional grants may be made, and the 2009 Equity Compensation Plan for Employees from Acquired Companies, under which the Company may grant shares of its common stock to employees pursuant to employment contracts or other arrangements entered into in connection with past and future acquisitions. In connection with the acquisition of Kintera on July 8, 2008, the Company also maintains the Kintera, Inc. 2000 Stock Option Plan, as amended (Kintera 2000 Plan) and Kintera, Inc. Amended and Restated 2003 Equity Incentive Plan, as amended (Kintera 2003 Plan), that it assumed upon the acquisition of Kintera. The Company's Compensation Committee of the Board of Directors administers the plans and the stock-based awards are granted under terms determined by them. The total number of authorized stock-based awards available under the Company's plans was 2,296,136 as of December 31, 2010. The Company issues common stock from its pool of authorized stock upon exercise of stock options, settlement of stock appreciation rights or upon granting of restricted stock.

The Company has issued four types of awards under these plans: stock options, restricted stock awards, restricted stock unit awards and stock appreciation rights. The following table sets forth the number of awards outstanding for each award type as of December 31, 2010 and 2009.

	Outstanding at December 31,	
Award type	**2010**	**2009**
Stock options	406,425	1,091,241
Restricted stock awards	1,151,775	1,206,371
Restricted stock unit awards	61,891	—
Stock appreciation rights	2,417,658	1,764,603

The majority of the stock-based awards granted under these plans have a 10-year contractual term. The option to purchase 800,000 shares of common stock granted on November 28, 2005, to the current Chief Executive Officer (CEO), has a 7-year contractual term. Additionally, stock appreciation rights (SARs) have contractual lives of 5 or 7 years.

The Company recognizes compensation expense associated with options and restricted stock unit awards with performance or market based vesting conditions on an accelerated basis over the requisite service period of the individual grantees, which generally equals the vesting period. The Company recognizes compensation expense associated with restricted stock awards and SARs on a straight-line basis over the requisite service period of the individual grantees, which generally equals the vesting period.

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Stock-based compensation expense is allocated to expense categories on the statements of operations based on the employees' departmental cost center. The following table summarizes stock-based compensation expense for the year ended December 31, 2010, 2009 and 2008.

(in thousands)	Years ended December 31, 2010	2009	2008
Included in cost of revenue:			
Cost of services	$ 1,742	$ 1,433	$ 1,442
Cost of maintenance	814	750	534
Cost of subscriptions	392	387	283
Total included in cost of revenue	2,948	2,570	2,259
Included in operating expenses:			
Sales and marketing	1,366	1,605	1,607
Research and development	2,844	2,944	2,396
General and administrative	5,901	5,168	5,823
Total included in operating expenses	10,111	9,717	9,826
Total	$13,059	$12,287	$12,085

The total amount of compensation cost related to non-vested awards not recognized was $34.4 million at December 31, 2010. This amount will be recognized over a weighted average period of 1.9 years.

Stock options

The following table summarizes the options outstanding under each of the Company's stock-based compensation plans as of December 31, 2010. All options are fully vested at December 31, 2010.

Plan	Date of adoption	Options outstanding	Range of exercise prices
2001 Stock Option Plan	July 1, 2001	70,260	$ 4.80-$5.44
2004 Stock Plan	March 23, 2004	316,047	$ 8.00-$16.10
Kintera 2000 Plan	July 8, 2008(1)	4,914	$ 1.16-$19.26
Kintera 2003 Plan	July 8, 2008(1)	15,204	$ 10.59-$21.38
Total		406,425	

(1) In connection with the acquisition of Kintera, the Company assumed certain stock options issued and outstanding at the date of acquisition.

A summary of outstanding options as of December 31, 2010, and changes during the year then ended, is as follows:

Options	Share options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2010	1,091,241	$ 12.32		
Exercised	(684,019)	11.79		
Forfeited	(797)	13.56		
Outstanding, vested and exercisable at December 31, 2010	406,425	$ 13.22	2.1	$ 5,154

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The total intrinsic value of options exercised during the years ended December 31, 2010, 2009 and 2008 was $9.1 million, $5.9 million and $1.8 million, respectively. The total fair value of options that vested during the year ended December 31, 2010 was not material. The total fair value of options that vested during the year ended December 31, 2009 and 2008 was $2.3 million and $2.8 million, respectively. All outstanding options granted by the Company had a fair market value assigned at grant date based on the use of the Black-Scholes option pricing model. The assumptions used in the valuation of options are the same as described in the stock appreciation rights section below.

There have been no new stock option awards granted since 2005.

Restricted stock awards

The Company has also granted shares of common stock subject to certain restrictions under the 2008 Equity Plan and the 2004 Stock Plan. Restricted stock awards granted to employees vest in equal annual installments over four years from the grant date. Restricted stock awards granted to non-employee directors vest after one year from the date of grant or, if earlier, immediately prior to the next annual election of directors, provided the non-employee director is serving as a director at that time. Restricted stock awards granted to the Company's executive officers and certain members of management are subject to accelerated vesting upon a change in control of the Company as defined in the employees' retention agreement. The fair market value of the stock at the time of the grant is amortized on a straight-line basis to expense over the period of vesting. Recipients of restricted stock awards have the right to vote such shares and receive dividends. Income tax benefits resulting from the vesting of restricted stock awards are recognized in the period the restrictions lapse to the extent expense has been recognized. Tax benefits associated with stock-based compensation in excess of the related book expense recorded are credited to additional paid-in capital within stockholders' equity.

A summary of unvested restricted stock awards as of December 31, 2010, and changes during the year then ended, is as follows:

Unvested restricted stock awards	Restricted stock awards	Weighted average grant-date fair value
Unvested at January 1, 2010	1,206,371	$ 20.20
Granted	460,659	26.61
Vested	(426,975)	20.99
Forfeited	(88,280)	20.50
Unvested at December 31, 2010	1,151,775	$ 22.45

As of December 31, 2010, the number and intrinsic value of restricted stock awards expected to vest was 1,093,888 and $28.3 million, respectively. The total fair value of restricted stock awards that vested during the years ended December 31, 2010, 2009 and 2008 was $9.0 million, $9.3 million and $6.9 million, respectively. The weighted average grant-date fair value of restricted stock awards granted during the years ended December 31, 2010, 2009 and 2008 was $26.61, $21.36 and $14.89, respectively.

Restricted stock unit awards

The Company has also granted restricted stock units subject to certain restrictions under the 2008 Equity Plan. Restricted stock units granted to employees vest in equal annual installments over three years from the grant date subject to meeting certain performance conditions. Restricted stock units granted to the Company's executive officers and certain members of management are subject to accelerated vesting upon a change in control of the

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Company as defined in the employees' retention agreement. The fair market value of the stock at the time of the grant is amortized on an accelerated basis to expense over the period of vesting. Income tax benefits resulting from the vesting of restricted stock units are recognized in the period the unit is exercised to the extent expense has been recognized. Tax benefits associated with stock-based compensation in excess of the related book expense recorded are credited to additional paid-in capital within stockholders' equity.

A summary of unvested restricted stock unit awards as of December 31, 2010, and changes during the year then ended, is as follows:

Unvested restricted stock unit awards	Restricted stock unit awards	Weighted average grant-date fair value
Unvested at January 1, 2010	—	$ —
Granted	61,891	22.79
Unvested at December 31, 2010	61,891	$ 22.79

As of December 31, 2010, the number and intrinsic value of restricted stock units expected to vest was 61,429 and $1.6 million, respectively.

Stock appreciation rights

The Company has granted SARs under the 2008 Equity Plan and the 2004 Stock Plan to certain members of management. The SARs will be settled in stock at the time of exercise and vest three and four years from the date of grant subject to the recipient's continued employment with the Company. SARs granted to the Company's executive officers and certain members of management are subject to accelerated vesting upon a change in control of the Company as defined in the employees' retention agreement. The number of shares issued upon the exercise of the SARs is calculated as the difference between the share price of the Company's stock on the date of exercise and the date of grant multiplied by the number of SARs divided by the share price on the exercise date.

A summary of SARs as of December 31, 2010, and changes during the year then ended, is as follows:

Stock appreciation rights	Stock appreciation rights	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2010	1,764,603	$ 21.79		
Granted	940,030	25.44		
Exercised	(162,640)	17.30		
Expired	(34,499)	26.11		
Forfeited	(89,836)	19.73		
Outstanding at December 31, 2010	2,417,658	$ 23.53	5.3	$6,523
Unvested and expected to vest at December 31, 2010	1,542,388	$ 23.52	6.0	$4,236
Vested and exercisable at December 31, 2010	827,436	$ 23.56	3.9	$2,143

The total intrinsic value of SARs exercised during the year ended December 31, 2010 and 2009 was $1.4 million and $0.2 million, respectively. There were no SAR exercises prior to 2009. The total fair value of SARs that

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Notes to consolidated financial statements—(Continued)

vested during the year ended December 31, 2010, 2009 and 2008 was $3.6 million, $3.1 million and $1.1 million, respectively. The weighted average grant date fair value of SARs granted for the years ended December 31, 2010, 2009 and 2008 was $7.17, $7.38 and $5.02, respectively. All outstanding SARs granted by the Company had a fair market value assigned at the grant date based on the use of the Black-Scholes option pricing model. Significant assumptions used in the Black-Scholes option pricing model for SARs granted in 2010, 2009 and 2008 are as follows:

	Years ended December 31,		
	2010	2009	2008
Volatility	40% to 42%	45%	39% to 44%
Dividend yield	1.6% to 1.8%	1.7%	1.5% to 1.7%
Risk-free interest rate	0.9% to 1.9%	1.8%	2.1% to 3.2%
Expected SAR life in years	4	4	4

The expected volatility assumption is based on the historical volatility of the Company's stock and the average expected volatility over the expected life of the SAR. The dividend yield is based on the adopted dividend policy in effect at the time of grant and the expectation of future dividends. The risk-free interest rate is based on United States Treasury rate for a term consistent with the expected life of the SAR at the time of grant. The expected life of the SAR represents the length of time from grant until the SAR is exercised based on experience.

12. Stockholders' equity

Preferred stock

The Company's Board of Directors may fix the relative rights and preferences of each series of preferred stock in a resolution of the Board of Directors.

Dividends

The Company's Board of Directors has adopted a dividend policy which provides for the distribution to stockholders a portion of cash generated by the Company that is in excess of operational needs and capital expenditures. The Company's credit facility limits the amount of dividends payable and certain state laws restrict the amount of dividends distributed.

The following table provides information with respect to quarterly dividends paid on common stock during the year ended December 31, 2010:

Declaration Date	Dividend per Share	Record Date	Payable Date
February 2010	$ 0.11	February 26	March 15
April 2010	$ 0.11	May 28	June 15
July 2010	$ 0.11	August 27	September 15
October 2010	$ 0.11	November 27	December 15

On February 1, 2011, the Company's Board of Directors declared a first quarter dividend of $0.12 per share payable on March 15, 2011 to stockholders of record on February 28, 2011.

Stock repurchase program

Effective August 1, 2010, the Company's Board of Directors approved a new stock repurchase program that authorizes the Company to purchase up to $50.0 million of its outstanding shares of common stock. The new

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Notes to consolidated financial statements—(Continued)

program does not have an expiration date. The prior program was terminated on July 31, 2010, and the remaining balance at that time was $8.2 million. The shares can be purchased from time to time on the open market or in privately negotiated transactions depending upon market conditions and other factors.

The Company accounts for purchases of treasury stock under the cost method. During 2010, the Company purchased 1,007,082 shares for $22.6 million under the prior program. The remaining amount available to purchase stock under the stock repurchase program was $50.0 million as of December 31, 2010.

13. Employee profit-sharing plan

The Company has a 401(k) profit-sharing plan (401K Plan) covering substantially all employees. Employees can contribute between 1% and 30% of their salaries in 2010, 2009 and 2008 and the Company matches 50% of qualified employees' contributions up to 6% of their salary. The 401K Plan also provides for additional employer contributions to be made at the Company's discretion. Total matching contributions to the 401K Plan for the years ended December 31, 2010, 2009 and 2008 were $3.5 million, $3.4 million and $2.2 million, respectively. There was no discretionary contribution by the Company to the 401K Plan in 2010, 2009 and 2008.

14. Segment information

Effective January 1, 2010, the Company reorganized its business into three operating units to better align its organization around key customer groups. The three operating units are the Enterprise Customer Business Unit (ECBU), the General Markets Business Unit (GMBU) and the International Business Unit (IBU).

Following is a description of each operating unit:

- The ECBU is focused on marketing, sales, delivery and support to large and/or strategic, specifically identified named prospects and customers in North America. In addition, 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.

The Company has determined that the three operating units represent the Company's reportable segments. The Company's chief operating decision maker is its chief executive officer, or CEO. The CEO reviews financial information presented on an operating segment basis for the purposes of making certain operating decisions and assessing financial performance. The CEO uses internal financial reports that provide segment revenues and operating income, excluding stock-based compensation expense, amortization expense, depreciation expense, research and development expense and certain corporate sales, marketing, general and administrative expenses. The CEO believes that the exclusion of these costs allows for a better understanding of the operating performance of the operating units and management of other operating expenses and cash needs. The CEO does not review any segment balance sheet information.

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Notes to consolidated financial statements—(Continued)

The Company has recast its segment disclosures for 2009 and 2008 in order to present comparable financial results for the new reportable segments. Summarized reportable segment financial results for the year ended December 31, 2010, 2009 and 2008 were as follows:

(in thousands)	Years ended December 31, 2010	2009	2008
Revenue by segment:			
ECBU	$132,261	$120,578	$112,734
GMBU	160,121	155,503	159,291
IBU	27,239	26,945	27,606
Other(1)	7,473	6,312	2,864
Total revenue	$327,094	$309,338	$302,495
Segment operating income:			
ECBU	53,264	48,733	41,995
GMBU	87,178	88,468	88,640
IBU(2)	5,765	7,306	7,835
Other(1)	3,112	2,287	277
	149,319	146,794	138,747
Less:			
Corporate unallocated costs(3)	82,953	81,625	73,300
Stock based compensation costs	13,059	12,287	12,085
Amortization expense	7,010	7,090	5,961
Interest expense, net	(10)	325	1,000
Other (income) expense, net	127	(220)	194
Income before provision for income taxes	$ 46,180	$ 45,687	$ 46,207

(1) Other includes revenue and the related costs from the sale of products and services not directly attributable to an operating segment.

(2) IBU operating income is reduced by operating costs from our foreign locations such as sales, marketing, general administrative, depreciation, facilities and IT support costs.

(3) Corporate costs include research and development, depreciation expense, and certain corporate sales, marketing, general and administrative expenses.

The Company also derives a portion of its revenue from its foreign operations. The following table presents revenue by geographic region based on country of invoice origin and identifiable, long-lived assets by geographic region based on the location of the assets.

(in thousands)	United States	Canada	Europe	Pacific	Total
Revenue from external customers:					
2010	$ 282,847	$17,862	$19,383	$7,002	$327,094
2009	269,604	13,793	20,490	5,451	309,338
2008	262,170	13,951	20,401	5,973	302,495
Property and equipment:					
December 31, 2010	$ 22,138	$ 49	$ 581	$ 195	$ 22,963
December 31, 2009	$ 21,570	$ 83	$ 662	$ 192	$ 22,507

It is impractical for the Company to identify its revenues by product category.

Blackbaud, Inc.

Notes to consolidated financial statements—(Continued)

15. Quarterly results (unaudited)

(in thousands, except per share data)	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Total revenue	$76,239	$80,671	$ 83,226	$ 86,958
Gross profit	45,593	48,985	49,951	50,750
Income from operations	9,668	11,155	13,126	12,348
Income before provision for income taxes	9,645	10,914	13,155	12,466
Net income	5,952	6,790	8,519	8,544
Earnings per share				
Basic	$ 0.14	$ 0.16	$ 0.20	$ 0.20
Diluted	$ 0.13	$ 0.15	$ 0.20	$ 0.20

(in thousands, except per share data)	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Total revenue	$74,741	$76,415	$ 79,205	$ 78,977
Gross profit	44,463	45,919	48,664	49,352
Income from operations	7,762	10,841	13,883	13,306
Income before provision for income taxes	7,238	10,639	13,960	13,850
Net income	4,072	6,588	9,828	7,959
Earnings per share				
Basic	$ 0.10	$ 0.15	$ 0.23	$ 0.18
Diluted	$ 0.09	$ 0.15	$ 0.22	$ 0.18

Earnings per common share are computed independently for each of the periods presented and, therefore, may not add up to the total for the year. The results of operations of acquired companies are included in the consolidated results of operations from the date of their respective acquisition as described in Note 2.

16. Subsequent event

On February 1, 2011, the Company acquired all of the outstanding stock of Public Interest Data Inc, (PIDI), an Alexandria, Virginia-based company for $17.5 million in cash. The Company will also pay up to an additional $2.5 million in contingent payments based upon performance of the acquired business through the two-year anniversary of the transaction. PIDI provides database management services (DMS), acquisition list services, and data analytics and enrichment services for nonprofits. The acquisition of PIDI augments the Company’s DMS business while providing incremental analytics capabilities in the area of donor acquisition list analytics. The Company is currently in the process of determining the initial accounting for this acquisition.

Exhibit 21.1

SUBSIDIARIES OF BLACKBAUD, INC.

Blackbaud, LLC (South Carolina)

- **Blackbaud Canada, Inc. (Canada)**

NOZA, Inc. (Delaware)

Public Interest Data, Inc. (Virginia)

Blackbaud Global Ltd. (England and Wales)

- **Blackbaud Europe Ltd. (Scotland)**
- **Blackbaud Pacific Pty. (New South Wales, Australia)**
- **RLC Customer Centric B.V. (Holland)**
- **Blackbaud Asia Limited (Hong Kong)**

Kintera, Inc. (Delaware)

- **Masterplanner Media, Inc. (California)**
- **American Fundware Holding Company, Inc. (Delaware)**
  - **American Fundware, Inc. (Colorado)**
- **Charitygift Acquisition Corporation (Texas)**

* **All subsidiaries are 100% owned by Blackbaud, Inc., except Blackbaud Canada, Inc., which is 100% owned by Blackbaud, LLC; Blackbaud Europe Ltd., Blackbaud Pacific Pty., RLC Customer Centric Technology B.V. and Blackbaud Asia Limited, which are 100% owned by Blackbaud Global Ltd.; and American Fundware, Inc., which is 100% owned by American Fundware Holding Company, Inc.**

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-160423, No. 333-152749, No. 333-120690 and No. 333-138448) of Blackbaud, Inc., of our report dated February 28, 2011, relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Raleigh, North Carolina
March 1, 2011

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Marc E. Chardon, certify that:

1. I have reviewed this annual report on Form 10-K of Blackbaud, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2011

By: /s/ MARC E. CHARDON

Marc E. Chardon
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Timothy V. Williams, certify that:

1. I have reviewed this annual report on Form 10-K of Blackbaud, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2011

By: /s/ TIMOTHY V. WILLIAMS

Timothy V. Williams
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Blackbaud, Inc. (the “Company”) for the period ended December 31, 2010 as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Marc E. Chardon, President and Chief Executive Officer, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Report.

Date: March 1, 2011

By: /s/ MARC E. CHARDON

Marc E. Chardon
President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Blackbaud, Inc. (the “Company”) for the period ended December 31, 2010 as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Timothy V. Williams, Senior Vice President and Chief Financial Officer, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Report.

Date: March 31, 2011

By: /s/ TIMOTHY V. WILLIAMS

Timothy V. Williams
Senior Vice President and Chief Financial Officer