

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **October 27, 2004**

BLACKBAUD, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

000-50600

(Commission File Number)

11-2617163

(IRS Employer ID Number)

2000 Daniel Island Drive, Charleston, South Carolina 29492

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code **(843) 216-6200**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

On October 27, 2004, Blackbaud, Inc. issued a press release reporting unaudited financial results for the third quarter ended September 30, 2004. A copy of this press release is attached.

The information in this Form 8-K (including Exhibit 99.1) shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press release dated October 27, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 27, 2004

BLACKBAUD, INC.

/s/ Timothy V. Williams

Timothy V. Williams,
Vice President and Chief Financial Officer



Blackbaud, Inc. Announces Record Third Quarter 2004 Results

Charleston, S.C. (October 27, 2004) – Blackbaud (Nasdaq: BLKB), the leading provider of software and related services designed specifically for nonprofit organizations, today announced record financial results for its third quarter 2004.

For the quarter ended September 30, 2004, Blackbaud reported total revenue of \$36.2 million, an increase of 19% compared with the third quarter of 2003. License revenue increased 19% to \$6.2 million, services revenue increased 27% to \$12.1 million, and maintenance and subscriptions revenue increased 15% to \$17.0 million, over the comparable period.

Blackbaud's income from operations and net income, determined in accordance with generally accepted accounting principles (GAAP), were \$12.7 million and \$7.6 million, respectively, for the third quarter 2004 compared with \$1.1 million and a loss of \$0.1 million in the same period last year. Pro forma income from operations and net income, which exclude stock-based compensation expense, amortization of intangibles arising from business combinations, and costs associated with the Company's recently completed IPO, were \$11.0 million and \$6.7 million, respectively, compared with \$8.9 million and \$4.7 million in the same period last year.

GAAP diluted earnings per share were \$0.16 for the quarter ended September 30, 2004, compared with (\$0.00) in the same period last year. Pro forma earnings per share were \$0.15 for the quarter ended September 30, 2004, compared with \$0.10 in the same period last year.

A reconciliation of GAAP to pro forma results has been provided in the financial statement tables included in the press release. An explanation of these measures is also included below under the heading "Non-GAAP Financial Measures."

Cash from operations for the third quarter of 2004 was \$17.0 million, and for the first nine months of 2004, cash from operations was \$33.3 million, up 23% on a year-over-year basis. Blackbaud had cash and cash equivalents of \$33.4 million at September 30, 2004.

"We are very pleased with our third quarter results. Our 'new revenue,' which we define as the combination of our software and services revenue, grew at 24% on a year-over-year basis. We believe this growth reflects the strength of Blackbaud's competitive position and product portfolio, as well as the attractiveness of our market opportunity. We have the broadest and deepest solutions focused on solving the business challenges nonprofit organizations face, and we continue to execute well against our strategy to become the nonprofit industry's one-stop-shop for software and services," said Robert J. Sywolski, Chief Executive Officer of Blackbaud.

Timothy V. Williams, Chief Financial Officer of Blackbaud, added, "The September quarter was again better than our expectations from a software and services perspective. Our core solutions continue to grow and do very well, while we are excited about the growing acceptance of new solutions such as *The Patron Edge*[™] and *Blackbaud Analytics*[™]. We feel good about the tone of our business."

Conference Call Details

Blackbaud will host a conference call today, October 27, 2004, at 5:00 p.m. (EDT) to discuss the quarterly results and related matters. To access this call, dial 877-715-5321 (domestic) or 973-582-2785 (international). A replay of this conference call will be available through November 3, 2004, at 877-519-4471 (domestic) or 973-341-3080 (international). The replay password is 5259662. A live webcast of this conference call will be available on the "Investor Relations" page of the Company's Web site, and a replay will be archived on our Web site as well.



About Blackbaud, Inc.

Blackbaud is the leading global provider of software and related services designed specifically for nonprofit organizations. More than 12,500 organizations – including the American Red Cross, Bowdoin College, the Chesapeake Bay Foundation, the Crohn's & Colitis Foundation of America, the Detroit Zoological Society, Episcopal High School, Help the Aged, the Mayo Foundation, the New York Philharmonic and United Way of America – use Blackbaud products and consulting services for fundraising, financial management, business intelligence and school administration. Blackbaud's solutions include *The Raiser's Edge*®, *The Financial Edge*™, *The Education Edge*™, *The Patron Edge*™, *The Information Edge*™, *WealthPoint*™ and *ProspectPoint*™, as well as a wide range of consulting and educational services. Founded in 1981, Blackbaud is headquartered in Charleston, South Carolina, and has operations in Toronto, Ontario, Glasgow, Scotland, and Sydney, Australia. For more information, visit www.blackbaud.com.

Blackbaud, the Blackbaud logo, *The Raiser's Edge*, *The Financial Edge*, *The Education Edge*, *The Patron Edge*, *The Information Edge*, *WealthPoint* and *ProspectPoint* are trademarks or registered trademarks of Blackbaud, Inc.

Forward-looking Statements

Except for historical information, all of the statements, expectations and assumptions contained in this news release are forward-looking statements that involve a number of risks and uncertainties. Although Blackbaud attempts 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 the following: continued success in sales growth; adoption of our products and services by nonprofits; uncertainty regarding increased business and renewals from existing customers; risk associated with product concentration; lengthy sales and implementation cycles; economic conditions and seasonality; competition; risks associated with management of growth; risks associated with acquisitions; technological changes that make our products and services less competitive; the ability to attract and retain key personnel; and the other risk factors set forth from time to time in the SEC filings for Blackbaud, copies of which are available free of charge upon request from Blackbaud's investor relations department.

Non-GAAP Financial Measures

Blackbaud has provided in this release certain financial information that has not been prepared in accordance with GAAP. This information includes pro forma gross margin, pro forma operating income and margin, pro forma net income and pro forma earnings per share. Blackbaud uses these non-GAAP financial measures internally in analyzing its financial results and believes they are useful to investors, as a supplement to GAAP measures, in evaluating the Company's ongoing operational performance. Blackbaud believes that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing its financial results with other companies in the Company's industry, many of which present similar non-GAAP financial measures to investors. As noted, the non-GAAP financial results discussed above exclude the impact of costs associated with the Company's IPO (completed on July 22, 2004) and the expensing of stock option compensation.

Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Investors are encouraged to review the reconciliation of these non-GAAP measures to their most directly comparable GAAP financial measure as detailed above. As previously mentioned, a reconciliation of GAAP to pro forma results has been provided in the financial statement tables included in this press release.



BLACKBAUD, INC.
BALANCE SHEETS
(Unaudited)
(In thousands, except share data)

	September 30, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	\$ 33,382	\$ 6,708
Accounts receivable, net of allowance of \$1,531 and \$1,222, respectively	16,921	14,518
Prepaid expenses and other current assets	3,049	2,713
Deferred tax asset, current portion	1,035	1,799
Total current assets	54,387	25,738
Property and equipment, net	6,354	6,621
Deferred tax asset	80,175	86,966
Goodwill	1,471	1,386
Deferred financing fees, net	161	156
Other assets	37	99
Total assets	<u>\$142,585</u>	<u>\$120,966</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 2,362	\$ 2,590
Current portion of long-term debt and capital lease obligations	81	142
Accrued expenses and other current liabilities	11,983	9,659
Deferred revenue	51,727	43,673
Total current liabilities	66,153	56,064
Long-term debt and capital lease obligations	—	5,044
Total liabilities	<u>66,153</u>	<u>61,108</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; 20,000,000 shares authorized, none outstanding	—	—
Common stock, \$.001 par value; 180,000,000 shares authorized, 42,542,700 and 42,408,872 shares issued and outstanding in 2004 and 2003, respectively	43	41,613
Additional paid-in capital	38,056	—
Deferred compensation	(1,405)	(4,795)
Accumulated other comprehensive income	289	518
Retained earnings	39,449	22,522
Total stockholders' equity	<u>76,432</u>	<u>59,858</u>
Total liabilities and stockholders' equity	<u>\$142,585</u>	<u>\$120,966</u>



BLACKBAUD, INC.
STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except share and per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Revenue				
License fees	\$ 6,244	\$ 5,252	\$ 18,614	\$ 15,427
Services	12,062	9,515	32,678	25,888
Maintenance and subscriptions	16,956	14,782	48,886	43,271
Other revenue	921	795	2,849	2,906
Total revenue	<u>36,183</u>	<u>30,344</u>	<u>103,027</u>	<u>87,492</u>
Cost of revenue				
Cost of license fees	1,053	653	2,733	2,110
Cost of services (of which (\$1,211), \$892, (\$644) and \$2,291 in the three months ended September 30, 2004 and 2003 and the nine months ended September 30, 2004 and 2003 respectively, was stock option compensation (benefit) expense)	4,795	5,255	15,988	15,347
Cost of maintenance and subscriptions (of which (\$167), \$135, (\$105) and \$344 in the three months ended September 30, 2004 and 2003 and the nine months ended September 30, 2004 and 2003, respectively, was stock option compensation (benefit) expense)	2,466	3,225	7,864	9,031
Cost of other revenue	802	843	2,577	2,556
Total cost of revenue	<u>9,116</u>	<u>9,976</u>	<u>29,162</u>	<u>29,044</u>
Gross profit	<u>27,067</u>	<u>20,368</u>	<u>73,865</u>	<u>58,448</u>
Operating expenses				
Sales and marketing	6,993	5,454	20,646	15,991
Research and development	4,541	4,302	13,245	11,506
General and administrative	3,181	2,690	9,093	8,042
Amortization	—	667	32	800
Costs of initial public offering	805	—	2,455	—
Stock option compensation	(1,138)	6,112	55	17,326
Total operating expenses	<u>14,382</u>	<u>19,225</u>	<u>45,526</u>	<u>53,665</u>
Income from operations	<u>12,685</u>	<u>1,143</u>	<u>28,339</u>	<u>4,783</u>
Interest income	79	22	133	70
Interest expense	(18)	(594)	(268)	(2,216)
Other (expense) income, net	(4)	(198)	342	(100)
Income before provision for income taxes	<u>12,742</u>	<u>373</u>	<u>28,546</u>	<u>2,537</u>
Income tax provision	5,155	425	11,619	2,886
Net income (loss)	<u>\$ 7,587</u>	<u>\$ (52)</u>	<u>\$ 16,927</u>	<u>\$ (349)</u>
Earnings (loss) per share				
Basic	\$ 0.18	\$ (0.00)	\$ 0.40	\$ (0.01)
Diluted	\$ 0.16	\$ (0.00)	\$ 0.36	\$ (0.01)
Common shares and equivalents outstanding				
Basic weighted average shares	42,536,961	42,408,873	42,480,059	42,391,299
Diluted weighted average shares	46,515,156	42,408,873	46,466,986	42,391,299
Summary of stock option compensation (benefit) expense				
Cost of services	\$ (1,211)	\$ 892	\$ (644)	\$ 2,291
Cost of maintenance and subscription revenue	(168)	135	(106)	344
Total cost of revenue	<u>(1,379)</u>	<u>1,027</u>	<u>(750)</u>	<u>2,635</u>
Sales and marketing	(670)	490	(194)	1,201
Research and development	(833)	623	(517)	1,639
General and administrative	365	4,999	766	14,486
Total operating expense	<u>(1,138)</u>	<u>6,112</u>	<u>55</u>	<u>17,326</u>
Total stock option compensation (benefit) expense	<u>\$ (2,517)</u>	<u>\$ 7,139</u>	<u>\$ (695)</u>	<u>\$ 19,961</u>



BLACKBAUD, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months ended September 30,	
	2004	2003
Cash flows from operating activities		
Net income (loss)	\$16,927	\$ (349)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	1,889	2,197
Amortization of intangibles	32	800
Stock option compensation	(695)	19,961
Amortization of deferred financing fees	156	702
Deferred taxes	7,555	283
Changes in assets and liabilities, net of acquisition Accounts receivable	(2,365)	(166)
Prepaid expenses and other assets	(267)	(1,165)
Accrued expenses and other current liabilities	2,240	1,493
Deferred revenue	8,040	4,302
Total adjustments	<u>16,355</u>	<u>27,395</u>
Net cash provided by operating activities	<u>33,282</u>	<u>27,046</u>
Cash flows from investing activities		
Purchase of property and equipment	(1,616)	(1,837)
Purchase of net assets of acquired company	(97)	(894)
Net cash used in investing activities	<u>(1,713)</u>	<u>(2,731)</u>
Cash flows from financing activities		
Repayments on long-term debt and capital lease obligations	(5,105)	(34,280)
Proceeds from exercise of stock options	642	233
Payment of deferred financing fees	(161)	—
Net cash used in financing activities	<u>(4,624)</u>	<u>(34,047)</u>
Effect of exchange rate on cash and cash equivalents	(271)	495
Net increase (decrease) in cash and cash equivalents	26,674	(9,237)
Cash and cash equivalents, beginning of year	6,708	18,703
Cash and cash equivalents, end of year	<u>\$33,382</u>	<u>\$ 9,466</u>
Noncash activities		
Change in fair value of derivative instruments	\$ —	\$ 332



BLACKBAUD, INC.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
GAAP revenue	\$36,183	\$30,344	\$103,027	\$87,492
GAAP gross margin	\$27,067	\$20,368	\$ 73,865	\$58,448
Pro forma adjustments:				
Amortization of deferred stock compensation	(1,379)	1,027	(750)	2,635
Pro forma gross profit	\$25,688	\$21,395	\$ 73,115	\$61,083
Pro forma gross margin	71%	71%	71%	70%
GAAP income from operations	\$12,685	\$ 1,143	\$ 28,339	\$ 4,783
Pro forma adjustments:				
Amortization of deferred stock compensation	(2,517)	7,139	(695)	19,961
Costs of initial public offering	805	—	2,455	—
Amortization of intangibles from business combinations	—	667	32	800
Total pro forma adjustments	(1,712)	7,806	1,792	20,761
Pro forma income from operations	\$10,973	\$ 8,949	\$ 30,131	\$25,544
Pro forma operating margin	30%	29%	29%	29%
GAAP net income (loss)	\$ 7,587	\$ (52)	\$ 16,927	\$ (349)
Pro forma adjustments:				
Total pro forma adjustments affecting income from operations	(1,712)	7,806	1,792	20,761
Tax impact related to pro forma adjustments	855	(3,044)	(211)	(8,097)
Pro forma net income	\$ 6,730	\$ 4,710	\$ 18,508	\$12,315
GAAP shares used in computing diluted income (loss) per share	46,515	42,409	46,467	42,391
Pro forma adjustments:				
Incremental shares related to stock options	(612)	2,909	(655)	2,192
Shares used in computing pro forma earnings per diluted share	45,903	45,318	45,812	44,583
Pro forma earnings per diluted share	\$ 0.15	\$ 0.10	\$ 0.40	\$ 0.28



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SOURCE: Blackbaud, Inc.