UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 2013

or

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

For the transition period from ___________________ to ___________________.

Commission file number: 000-50600

BLACKBAUD, INC.

(Exact name of registrant as specified in its charter)

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

2000 Daniel Island Drive
Charleston, South Carolina 29492
(Address of principal executive offices, including zip code)
(843) 216-6200
(Registrant's telephone number, including area code)

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer,” “accelerate filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 28, 2013 (based on the closing sale price of $32.57 on that date) was approximately $1,086,346,945. 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 as of February 12, 2014 was 46,119,969.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2014 Annual Meeting of Stockholders currently scheduled to be held June 23, 2014 are incorporated by reference into Part III hereof. Such definitive Proxy Statement will be filed with the Securities and Exchange Commission no later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2013.

BLACKBAUD, INC.
ANNUAL REPORT ON FORM 10-K
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Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements” that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements in this report not dealing with historical results or current facts are forward-looking and are based on estimates, assumptions and projections. Statements which include the words “believes,” “seeks,” “expects,” “may,” “might,” “should,” “intends,” “could,” “would,” “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, future circumstances might differ from the assumptions on which such statements are based. In addition, other important factors that could cause results to differ materially include those set forth under “Item 1A. Risk factors” and elsewhere in this report and in our other SEC filings. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

Overview

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

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

Our customers use our products and services to help increase donations, reduce fundraising costs, 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 2013, we had more than 29,000 customers spread over 69 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, as well as international and foreign affairs.

Nonprofit Industry

The nonprofit industry is large and diverse

There were more than 1.6 million U.S. nonprofit organizations registered with the Internal Revenue Service in 2012, including nearly 1.1 million charitable 501(c)(3) organizations - double the number of charities in 1992. We estimate there are approximately another 3 million charities internationally. According to Giving USA 2013, donations to U.S. nonprofit organizations in 2012 were $316.2 billion, amounting to 2.0% of U.S. GDP, a 3.5% increase from 2011 donations of $305.5 billion. The compound annual growth rate of donations over the 10-year period from 2002 to 2012 was 3.1%, not adjusted for inflation. These nonprofit organizations also receive fees for services they provide, which are estimated at more than $1.0 trillion 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;
- Communicate their accomplishments and the importance of their mission online and offline;
- Comply with complex accounting, tax and reporting requirements that differ from those for traditional businesses;
- Solicit cash and in-kind contributions from businesses to help raise money or deliver products and services;
- Provide a wide array of programs and services to individual constituents; and
- Improve the data collection and information sharing capabilities of their employees, volunteers and donors by creating and providing distributed access to centralized databases.

Because of these challenges, we believe nonprofit organizations can benefit from software applications specifically designed to serve their particular needs.

Blackbaud Solutions

We offer a broad suite of products and services that address the fundraising needs and operational challenges facing nonprofit organizations. We provide our customers with cloud-based and on-premise software and related 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 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, maintenance and technical support as well as payment processing services.

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. Our key strategies for achieving this objective are to:

Achieve worldwide constituent relationship management ("CRM") leadership for our CRM products

We offer a range of CRM products which we believe meet the needs of nonprofits of all sizes and across verticals within the nonprofit market. We intend to leverage our CRM portfolio to achieve worldwide leadership in nonprofit CRM by extending the penetration of our CRM product lines to larger, more complex nonprofit organizations, and expanding the reach of our CRM products designed for mid-sized and smaller nonprofits.

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 more than 29,000 customers. We believe that the fragmented nature of the industry presents an opportunity for us to continue to increase our market penetration. We plan to achieve this by making use of our next generation solutions to continue transforming our business to cloud-based applications, which we expect will allow us to serve the entire mid-market customer segment. We also plan to streamline our sales efforts to the small market customer segment. Additionally, we intend to expand our direct sales efforts, especially with regard to national, enterprise and global account-focused sales teams.

We believe the United Kingdom, Canada, Australia and the Netherlands, as well as other international markets, represent growing market opportunities for our products and services. We believe the overall market of international nonprofit organizations is changing. Donations to international nonprofit organizations are becoming increasingly important in response to reductions in governmental funding. U.S.-based nonprofit organizations are growing their international activities and opening overseas locations. We believe the international marketplace is currently underserved, and we intend to increase our presence by expanding our sales and marketing efforts internationally. We plan to sell complementary products and services to our installed base of customers, and we plan to 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 their initial interest in our products and services, through their decision to purchase, engage with customer support and utilize product enhancements. We continue to evolve the manner in which we package and sell our offerings to provide higher value combined with flexibility to meet the different needs of our existing and prospective customers. For example, we are increasing the number of our offerings sold under a subscription pricing model, which can make it easier for customers to purchase our solutions. We will continue to focus on providing the highest level of product support while continuing to enhance our existing products and developing new products and services designed to help allow our customers to more effectively achieve their missions.

Strategically pursue partnerships and acquisitions

We intend to continue to selectively pursue acquisitions, to expand existing partnerships and to 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, including the acquisition of Convio, Inc. (Convio) in May 2012. The acquisition of Convio provided us with expanded subscription and online offerings and has accelerated our evolution to a subscription-based revenue model.

We are also currently involved in a number of strategic relationships which allow us to provide a wider variety of offerings and provide customers with integrated solutions, further enhancing the value of our proprietary technology. We believe that our size and history of leadership in the nonprofit sector make us an attractive acquirer or partner for others in the industry.

Our Operating Structure

The nonprofit market is very diverse, with organizations that range from small, local charities to large, multinational relief organizations. The needs of nonprofits can vary greatly according to their size and function. To better serve the wide variety of nonprofits in the market, we organize our operating structure into four operating units: the Enterprise Customer Business Unit, or ECBU, the General Markets Business Unit, or GMBU, the International Business Unit, or IBU, and Target Analytics.

Following is a description of each of our operating units, each of which is a reportable segment for financial accounting purposes:

- The ECBU is focused on marketing, sales, delivery and support to large and/or strategic customers, specifically identified prospects and customers in North America.
- The GMBU is focused on marketing, sales, delivery and support to all emerging and mid-sized prospects and customers in North America.
- The IBU is focused on marketing, sales, delivery and support to all prospects and customers outside of North America.
- Target Analytics is primarily focused on marketing, sales and delivery of analytic services to all prospects and customers in North America.

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

Products and Services

We provide cloud-based and on-premise software solutions and related services to our customers. During 2013, we generated revenue in four reportable segments (the ECBU, the GMBU, the IBU and Target Analytics) and in four geographic regions (United States, Canada, Europe and Asia Pacific), as described in more detail in Note 16 of our consolidated financial statements.

Our broad 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;
- Online fundraising;
- Peer-to-peer fundraising;
- Event, data and information management;
- Student information systems for independent schools and small colleges;
- Ticketing management;
- General admissions management;
- Analytics and prospect research;
- Consulting and educational services; and
- Payment processing and related regulation compliance.

Software products

We provide our wide variety of solutions to nonprofit organizations in several ways. We offer our products as software-as-a-service ("SaaS"), on a perpetual license basis, or as "hosted" software offerings, which can be used individually to help organizations with specific functions, such as fundraising, constituent relationship management, financial management, website management and prospect research, or combined into a fully-integrated suite of tools to help them manage multiple areas of their operations.

Fundraising and Constituent Relationship Management

The Raiser's Edge

The Raiser's Edge is the leading software solution designed to manage a nonprofit organization's constituent relationship management and fundraising activity. It is used by more than 13,000 organizations worldwide and has won four consecutive Campbell Awards for User Satisfaction from 2009 through 2012. The Raiser's Edge enables nonprofit organizations to cultivate lifelong relationships with supporters, and diversify fundraising methods. Constituent relationship management, online fundraising and email marketing are coupled with analytics, data enrichment tools and best practices, in a single solution.

Blackbaud CRM

Blackbaud CRM is a flexible, extensible, scalable and secure web-based CRM solution. It is our lead offering for organizations with complex fundraising needs across all verticals, specializing in supporting sophisticated major giving, membership and high volume direct marketing programs. Blackbaud CRM helps organizations build deeper and more personalized relationships with constituents, build their brand through online engagement and multi-channel communication tools, and more effectively fundraise, leveraging campaign management, business intelligence and analytics. Blackbaud CRM can be sold as an integrated solution with our enterprise online solutions to enable multi-channel marketing, online engagement and event fundraising.

Luminate CRM

Luminate CRM is our preferred fundraising and CRM offering for mid-tier cause and cure nonprofits and is sold as a single integrated solution with Luminate Online. Luminate CRM is built on the SalesForce.com SaaS computing application platform and offers nonprofits an extensible suite via the SalesForce App Exchange for consolidating information and business processes into one system. The core components of Luminate CRM are campaign management, constituent relations, business intelligence and analytics. When combined with Luminate Online, it provides best-in-class functionality to help nonprofits with online fundraising, peer-to-peer event fundraising, email marketing, advocacy and website management.

eTapestry

eTapestry is a SaaS donor management and fundraising solution built specifically for smaller nonprofits. It offers nonprofit organizations a cost-effective way to manage donors, process gifts, create reports, accept online donations and communicate with constituents. eTapestry was built to operate in a hosted environment and to be accessed online. This technology provides a system that is simple to maintain, efficient to operate and is intuitively easy to learn without extensive training.

Online Solutions

Luminate Online

Luminate Online, delivered as SaaS, helps our customers better understand their online supporters, make the right ask at the right time, and raise money online. It includes tools nonprofits need to build online fundraising campaigns as part of an organization's existing website or as a stand-alone fundraising site. Donation forms, gift processing, and tools for communicating through web pages and email give our customers the essentials for building sustainable donor relationships. Customers can also purchase additional modules including TeamRaiser, a leader within events management that allows nonprofits constituents to create personal or team fundraising web pages and send email donation appeals in support of events such as a walks, runs and rides.

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, among other things, establish online communities for social networking among constituents and also provide a platform for online giving, membership purchases and event registration. Because Blackbaud NetCommunity requires the Raiser's Edge database to operate, it can only be sold with Raiser's Edge or to existing Raiser's Edge customers. However, Blackbaud NetCommunity, in concert with The Raiser's Edge, provides a single source of up-to-date constituent information across an entire organization, regardless of how individual constituents interact and communicate with the organization.

Sphere eMarketing

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

Everyday Hero

Everyday Hero is an event-driven web-based fundraising solution in Asia-Pacific and the UK. The Everyday Hero solution is focused on meeting the peer-to-peer fundraising needs of nonprofits internationally. It is a leading donor acquisition tool, and helps nonprofits in Asia-Pacific and the UK connect with a younger, more online-focused generation of donors, a first step in helping nonprofits develop long-term relationships with their supporters. We currently plan to make Everyday Hero available to nonprofits in the U.S. beginning in 2014.

Online Express

Blackbaud Online Express is a simple, cloud-based online fundraising and marketing tool designed for smaller nonprofit organizations using The Raiser’s Edge. Launched in 2013, it provides nonprofits with easy-to-use features and functionality such as email marketing, donation forms, event registrations, and dashboard metrics.

Financial Management

The Financial Edge

The Financial Edge is an accounting solution 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 provides nonprofit organizations with the means to help manage fiscal and fiduciary responsibility, enabling them to be more accountable to their constituents.

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 and performance/grades records, producing demographic, statistic, and analytical reports and printing report cards and transcripts.

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. Blackbaud's Student Information System helps significantly reduce time spent on data maintenance and creation of class schedules and allows institutions to communicate efficiently with prospects, students and alumni.

Ticketing

The Patron Edge

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

General Admissions Management

Altru

Altru is an arts and cultural solution suite provided to our customers as a SaaS offering. 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.

Events Management

TeamRaiser

TeamRaiser is a complete online fundraising solution that allows nonprofits to tap into the personal networks of their strongest supporters and mobilize volunteers online. Organized around central fundraising events such as runs, walks or rides, it gives nonprofit constituents the ability to create fundraising web pages and send donation appeals via email to their family and friends.

Sphere Friends Asking Friends

Sphere Friends Asking Friends 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, implementation and customization 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 consult on how to improve a business process. This work is performed by consultants who have extensive and relevant domain experience in all aspects of nonprofit management, accounting, project management and IT services. We believe that no other software company provides this broad a range of consulting and technology services and solutions dedicated to the nonprofit industry.

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

Analytics services

Target Analytics provides comprehensive solutions for donor acquisition, prospect research, data enrichment, and performance management, enabling nonprofits to define effective campaign strategies and maximize fundraising results. Target Analytics offers services, software, analytics and data within the following areas:

Donor Acquisition - Target Analytics leverages unique data assets to create acquisition mailing lists and predictive models that identify donor populations that meet the affinity, value and response criteria of our nonprofit clients. Nonprofit organizations use our prospect lists to solicit gifts and other support.

Prospect Research - Nonprofit organizations use Target Analytics' prospect research solutions to develop major gift and personal fundraising cultivation strategies. Prospect research solutions include: custom data modeling that delivers critical information on a prospect's likelihood to make a gift to an organization; wealth screenings that deliver detailed wealth information and giving capacity data on prospects; and web-based prospect management software that combines public data with donor information from a nonprofit's database to build a complete view of prospects for targeting and securing gifts.

Data Enrichment - Target Analytics Data Enrichment Services enhance the quality of the data in our customers' databases. Services include: identifying outdated address files in the database and making corrections based on the requirements and certifications of the United States Postal Service, as well as appending data by using known fields in an organization's constituent records to search and identify key demographic and contact information.

Performance Management - Target Analytics creates relevant and insightful reports that benchmark performance and illustrate key industry trends based on performance attributes provided by our nonprofit clients. Nonprofit organizations use our performance and industry analysis reports to assess marketing and operational effectiveness and also to influence operational planning.

Maintenance

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

Payment processing

Our products provide our customers payment processing capabilities that enable their donors to make donations and purchase goods and services using numerous payment options, including credit card and automated clearing house (“ACH”) checking transactions, through secure online transactions. Blackbaud Merchant Services is a value-added service integrated with our solutions that makes credit card processing simple and secure. Customers are charged one rate for transactions, with no extra fees, making Blackbaud Merchant Services a competitive option. The service also provides customers with a payment card industry (“PCI”) compliant process and streamlined bank reconciliation.

Customers

We have customers in every principal vertical market within the nonprofit industry. At the end of 2013, we had more than 29,000 active customers ranging from small, local charities, to healthcare and higher education organizations, to the largest national health and human services organizations. Our largest single customer accounted for approximately 1% of our 2013 consolidated revenue.

Sales and Marketing

The majority of our software and related services are sold through our direct sales force. Our direct sales force is complemented by a team of account development representatives responsible for sales lead generation and qualification. These sales and marketing professionals are located throughout the United States, United Kingdom, the Netherlands, Canada, Australia and New Zealand. As of December 31, 2013, we had 271 direct sales employees. We plan to continue expanding our direct sales force in the Americas, Europe, Australia and Asia as our operations grow internationally and market demand continues to recover from the current economic environment.

We generally begin a customer relationship with the sale of one of our primary products or services, such as The Raiser's Edge, Blackbaud CRM or Luminate, 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-volunteer programs. In addition to having employees select grant recipients for our endowment fund, we celebrate individual acts of service through a competitive grant program that honors excellent examples of volunteerism and benefits the organizations they serve.

Competition

The market for software and related services in the nonprofit sector is highly competitive and fragmented. For certain areas of the market, entry barriers are low. However, we believe our experience and product depth makes us a strong competitor. We expect to continue to see new competitors as the market matures and as nonprofit organizations become more aware of the advantages and efficiencies attainable through the use of specialized software. A number of diversified software enterprises have made acquisitions or developed products for the market, including Ellucian, Abila (formerly Sage Nonprofit Solutions), FrontStream Payments, Bloomerang and Campus Management. Other companies that compete with us, such as Microsoft, Salesforce.com and Oracle, have greater marketing resources, revenue and market recognition than we do. They offer some products that are designed specifically for nonprofits, in addition to some of their products which have a degree of functionality for nonprofits that could be considered competitive. These larger companies could decide to focus more on the nonprofit sector 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, some of which are sold with subscription pricing;
- Providers of traditional, less automated fundraising services, such as services that support traditional direct mail campaigns, special events fundraising, telemarketing and personal solicitations;
- Custom-developed products created either internally or outsourced to custom service providers; and
- Software developers offering general products not designed to address specific needs of nonprofit organizations.

We compete with several software developers that provide specialized products, such as on-demand software specifically designed for nonprofit use. In addition, we compete with custom-developed solutions created either internally by nonprofit organizations or outside by custom service providers. We believe that we compete successfully, because building efficient, highly functional custom solutions equal to ours requires technical resources that are beyond the capabilities of custom solution providers or require resources that might not be available within nonprofit organizations. 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, peer to peer, 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, more tailored to the needs of nonprofits 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, 2013, we had 464 employees working on research and development. Our research and development expenses for 2013, 2012 and 2011 were $65.6 million, $64.7 million and $47.7 million, respectively.

Technology and Architecture

We have products, such as Blackbaud CRM, 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 on-premise, hosted applications, and SaaS. 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.

Each of our Luminate products, including Luminate Online, Luminate CRM and TeamRaiser, are SaaS applications that are open and extensible and employ a multi-tenant architecture requiring only a web browser for client access. Luminate Online and TeamRaiser share a common codebase and database, and are built on the Java runtime environment. Luminate CRM is built on the SalesForce.com platform.

Our version 7.x generation products (e.g. The Raiser's Edge and Blackbaud CRM) utilize a three-tier client server architecture built on the Microsoft Component Object Model, or COM.

Regardless of product choice, the development strategies of our solutions are designed to be:

- *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 do and intend to continue to license technologies from third parties that are integrated into our products.

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,” “Blackbaud CRM” and “Luminate.” We have applied for additional trademarks. We currently have two active patents on our technology, and have a total of three pending patent applications.

Employees

As of December 31, 2013, we had 2,666 employees, none of which 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.

Working Capital

For a discussion of our working capital practices, see “Management’s discussion and analysis of financial conditions and results of operations — Liquidity and capital resources” in Item 7 in this report.

Available Information

Our website address is www.blackbaud.com. We make available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as is reasonably practicable after such material is electronically filed with or furnished to the SEC, but other information on our website is not incorporated into this report. The SEC maintains an Internet site that contains these reports at www.sec.gov. The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Executive Officers of the Registrant

The following table sets forth information concerning our executive officers as of February 15, 2014:

Name	Age	Title
Michael P. Gianoni	53	President and Chief Executive Officer
Anthony W. Boor	51	Senior Vice President and Chief Financial Officer
Charles T. Cumbaa	61	Senior Vice President, New Business Development
Joseph D. Moye	52	President, Enterprise Customer Business Unit
Kevin Mooney	55	President, General Markets Business Unit
Bradley J. Holman	52	President, International Business Unit
John J. Mistretta	58	Senior Vice President of Human Resources

Michael P. Gianoni joined us as President and Chief Executive Officer in January 2014. Prior to joining us, he served as Executive Vice President and Group President, Financial Institutions at Fiserv, Inc., a global technology provider serving the financial services industry, from January 2010 to December 2013. He joined Fiserv as President of its Investment Services division in December 2007, where he was responsible for product, technology, sales, finance, operations and strategy. Mr. Gianoni was Executive Vice President and General Manager of CheckFree Investment Services, which provided investment management solutions to financial services organizations, from June 2006 until December 2007 when CheckFree was acquired by Fiserv. From May 1994 to November 2005, he served as Senior Vice President of DST Systems Inc., a global provider of technology-based service solutions, where he led various divisions focused on developing new platforms while ensuring stronger operational controls. Mr. Gianoni holds an AS in electrical engineering from Waterbury State Technical College, a BS with a business concentration from Charter Oak State College and an MBA from the University of New Haven.

Anthony W. Boor joined us as Senior Vice President and Chief Financial Officer in November 2011 and served as our interim President and Chief Executive Officer from August 2013 to January 2014. Prior to joining us, he served as an executive with Brightpoint, Inc., a global provider of device lifecycle services to the wireless industry, beginning in 1999, most recently as its Executive Vice President, Chief Financial Officer and Treasurer. He also served as the interim President of Europe, Middle East and Africa during Brightpoint's significant restructuring of that region. Mr. Boor served as Director of Business Operations for Brightpoint North America from August 1998 to July 1999. Prior to joining Brightpoint, Mr. Boor was employed in various financial positions with Macmillan Computer Publishing, Inc., a Viacom owned book publishing company specializing in computer hardware and software related topics, Day Dream Publishing, Inc., a publishing company specializing in calendars, posters and time management materials, Ernst & Young LLP, an accounting firm, Expo New Mexico, a state owned fair and expo grounds and live para-mutual horse racing venue, KPMG LLP, an accounting firm, and Ernst & Whinney LLP, an accounting firm. He holds a BS in Accounting from New Mexico State University.

Charles T. Cumbaa has served as our Senior Vice President of New Business Development since May 2012. He joined us in May 2001 and served as Senior Vice President of Products and Services until December 2009. He also served as our President, Enterprise Customer Business Unit from January 2010 to April 2012. Prior to joining us, Mr. Cumbaa was Executive Vice President with Intertech Information Management, a provider of information management solutions, 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, a sales force automation company. Prior to that, he was employed by McKinsey & Company, a consulting firm. Mr. Cumbaa holds a BA from Mississippi State University and an MBA from Harvard Business School.

Joseph D. Moye has served as our President, Enterprise Customer Business Unit since October 2012. Before joining us, Mr. Moye was President and Chief Executive Officer for Capgemini Government Solutions, a provider of consulting and technology services to government agencies, from October 2009 to October 2012 where he led the company's expansion in the U.S. public sector marketplace. From October 2006 to September 2009, he was Vice President of Capgemini Group. From January 2000 to September 2005, he was President and Chief Executive Officer of Gazelle Consulting, Inc., a branded leader in business intelligence professional services. Gazelle was acquired by Adjoined Consulting in 2005 and Mr. Moye integrated his team, led the combined business intelligence practice of Adjoined and, ultimately Kanbay's practice after its acquisition of Adjoined, prior to Capgemini acquiring Kanbay. Before founding Gazelle Consulting, Mr. Moye held multiple leadership positions with Sequent Computer Systems, a provider of data center systems and solutions, and Unisys, a provider of IT services, software and technology, where he was responsible for leading business units and channels both domestically and internationally. Mr. Moye holds a BS in Business Administration from Florida State University.

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

Bradley 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 BCom. from University of Western Australia.

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, a financial services company, from 1998 to 2005. Earlier in his career, Mr. Mistretta held various senior Human Resources positions over a thirteen year period at the banking firm Citicorp. Mr. Mistretta holds a MS in Counseling and a BA in Psychology from the State University of New York at Oswego.

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, volatility in credit, equity and foreign exchange markets, higher tax rates and other changes in tax laws, overall economic slowdown and other economic factors could adversely affect donations to nonprofits, 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. These factors also affect our customers who may reduce their purchasing of our solutions due to adverse effects of certain economic factors.

We significantly increased our leverage in connection with acquisitions

We incurred a substantial amount of indebtedness in connection with recent acquisitions. As a result of this indebtedness, our interest payment obligations have increased. The degree to which we are leveraged could have adverse effects on our business, including the following:

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

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

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

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

- Software developers offering specialized products designed to address specific needs of nonprofit organizations, some of which are sold with subscription pricing;
- Providers of traditional, less automated fundraising services, such as services that support traditional direct mail or email 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. Companies such as Microsoft, Salesforce.com and Oracle offer some products that are designed specifically for nonprofit organizations, in addition to some of their products which have a degree of functionality for nonprofit organizations that could be considered competitive. Also, if one or more of our competitors or potential competitors were to merge or partner with one of our other competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. For example, a large diversified software enterprise, such as Microsoft, Oracle or Salesforce.com, could decide to enter the market directly, including through acquisitions. Competitive pressures can adversely impact our business by limiting the prices we can charge our customers and making the adoption and renewal of our solutions more difficult.

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

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

We derive a substantial portion of our revenue from the sale of The Raiser's Edge, Luminate Online, Blackbaud CRM and The Financial Edge, and other products that help customers manage constituent relationships and related services, and we expect revenue from these products and related services 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 28%, 30% and 35% of our total revenue in 2013, 2012 and 2011, respectively. Because we often 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. On the other hand, for our subscription products, we sell our software on an annual or multiyear basis and for annualized fees substantially lower than we would charge for a perpetual license for the same product, so that we depend on customer renewals for future revenues. If renewal rates for the products are lower than expected for any reason, our operating results would be materially and adversely affected. In addition, we frequently sell these 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, Luminate Online, Blackbaud CRM, The Financial Edge 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 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. Our sales cycle for all of our products and services is subject to significant risks and delays over which we have little or no control, including:

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

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

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

The implementation of our products and services, particularly in our large CRM engagements, frequently involves complex configuration, business process reengineering and system interfaces and can extend for a year or more. Our enterprise CRM product offerings are complex 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 increases, 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 or other concessions. 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 seek 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 or at all, our business, operating results and financial condition could be harmed. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our products and services and their ability to continue their operations and spending levels.

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

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

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

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

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

We currently utilize data center hosting facilities to provide SaaS and hosting services to our customers. Any damage to, or failure of, our data center systems generally could result in interruptions in service to our customers, notwithstanding any disaster recovery arrangements that may currently be in place at these facilities. Because our SaaS, Internet-based and hosting service offerings are complex, and we have incorporated a variety of new computer hardware and software systems 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 to 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 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 terms of the customer agreements typically range from 1-3 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.

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 hurricanes and earthquakes, could disrupt one or more of these facilities and adversely affect our operations. In addition, our Charleston headquarters require a remediation effort to improve weather resistance. This remediation effort is the responsibility of the landlord, but delays in the remediation or disruption caused by the remediation effort could have an adverse effect on 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.

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. The commercially available network and application security, internal control measures, and physical security procedures to safeguard our systems, may not be sufficient to prevent a security breach, intrusion, loss or theft of personal information will not occur, which may harm our business, customer reputation and future financial results. Any such breach may require us to expend significant resources to address, including notification under data privacy regulations.

Additionally, despite our efforts to combat such measures, computer hackers may attempt to penetrate or bypass our data protection and other security measures and gain unauthorized access to our networks, systems and data or compromise the confidential information of data of our customers. Computer hackers may be able to develop and deploy computer viruses, worms, and other malicious software programs that could attack our products and services, exploit potential security vulnerabilities of our products and services, create system disruptions and cause shutdowns or denials of service. Data may also be accessed or modified improperly as a result of employee or supplier error or malfeasance and third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our data, our customers' data or our IT systems. These risks for us will increase as we continue to grow our cloud-based offerings and services and store and process increasingly large amounts of our customers' confidential information and data and host or manage parts of our customers' business in cloud-based IT environments, especially in customer sectors involving particularly sensitive data such as health sciences, financial services and the government. We also have an active acquisition program and have acquired a number of companies, products, services and technologies over the years. While we make significant efforts to address any IT security issues with respect to our acquisitions, we may still inherit such risks when we integrate these acquisitions within our business.

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

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

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

Governments in some jurisdictions have enacted or are considering enacting consumer data privacy legislation, including laws and regulations applying to the solicitation, collection, processing and use of consumer data. This legislation could reduce the demand for our software products if we fail to design or enhance our products to enable our customers to comply with the privacy and security measures required by the legislation. Moreover, we may be exposed to liability under existing or new consumer data privacy legislation. For example, we are subject to the privacy provisions of the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and might be subject to similar provisions of the Gramm-Leach-Bliley Act and related regulations. Even technical violations of these laws can result in penalties that are assessed for each non-compliant transaction. As part of the American Recovery and Reinvestment Act of 2009, Congress passed the Health Information Technology for Economic and Clinical Health Act, or HI-TECH Act. The HI-TECH Act expands the reach of data privacy and security requirements of HIPAA to service providers. HIPAA and associated United States Department of Health and Human Services regulations permit our customers in the healthcare industry to use certain demographic protected health information (such as name, email or physical address and dates of service) for fundraising purposes and to disclose that subset of protected health information to their service providers for fundraising. We may be included in this service provider group under the revised HIPAA regulations by virtue of our service provider relationship with our customers in the healthcare industry. In general, we seek to contractually prohibit our healthcare industry customers from using other types of health information of their clients for fundraising purposes that would be non-compliant with HIPAA, but we believe monitoring our healthcare customers' compliance with such prohibitions is not legally required of service providers and would be cost prohibitive. The law and regulations under HI-TECH are new and still subject to change or interpretation by legal authorities who could cause additional compliance burdens. If we or our customers were found to be subject to and in violation of any of these laws or other data privacy laws or regulations, our business could 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.

We are in the information technology business, and our products and services store, retrieve, manipulate and manage our customers’ information and data. The effectiveness of our software products relies on our customers’ storage and use of data concerning their donors, including financial, personally identifying and other sensitive data and our business uses similar systems that require us to store and use data with respect to our customers and personnel. Our collection and our customers’ collection and use of this data might raise privacy and security concerns and negatively impact our business or the demand for our products and services. If a breach of data security were to occur, our business may be materially and adversely impacted and products may be perceived as less desirable, which would negatively affect our business and operating results.

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 achieve or 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 operations process a significant volume and dollar value of transactions on a daily basis, especially in our payroll and payments businesses. Due to the size and volume of transactions that we handle, effective processing systems and controls are essential to ensure that transactions are handled appropriately. Despite our efforts, it is possible that we may make errors or that funds may be misappropriated due to fraud. The systems supporting our business are comprised of multiple technology platforms that are difficult to scale. If we are unable to effectively manage our systems and processes we may be unable to process customer data in an accurate, reliable and timely manner, which may harm our business. In our payments processing services business, if merchants for whom we process payment transactions are unable to pay refunds due to their customers in connection with disputed or fraudulent merchant transactions, we may be required to pay those amounts and our payments may exceed the amount of the customer reserves we have established to make such payments.

As a result of the evolution of our business model to meet customer demand, roughly two thirds of our revenue is now from subscriptions and services, which produces substantially lower gross margins than our traditional license and maintenance revenue. Continuation of this trend will dilute our overall gross margins.

Over the past several years we have evolved our business model toward subscription and service based delivery and away from the traditional software model of perpetual licenses with term-based maintenance. For example, in 2013 our subscription revenue exceeded our combined license and maintenance revenue for the first time, and together subscription and services revenue comprised approximately two thirds of our total revenue. These changes in our model have been driven by customer demand, and we believe have the long-term benefit of producing more predictable and recurring long-term revenue streams. However our subscription and services revenue generate substantially lower gross margins than our product license revenue. For example, in 2013, our subscriptions and services gross margins were 56% and 18%, respectively, whereas for the same period our license and maintenance revenue gross margins were 83% and 81%, respectively. We expect that over time the shift toward subscription and services revenue will continue. If we are unable to achieve economies of scale in our subscription business or increase efficiency in our services business, our overall margins will be adversely affected. 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 adverse 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.

Certain of our services are contracted under fixed fee arrangements, which we base on estimates. If our estimated number of hours to perform engagement implementation services are less than our actual hours, 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, varying accounting treatments, 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;
- The extent of software customization included in the implementation projects; and
- The extent to which outside consulting organizations provide services directly to customers.

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

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;
- Varying accounting treatments based upon the facts and circumstances of each arrangement;
- Utilization of our professional services personnel;
- Market acceptance of new products we release or acquire;
- Changes in general economic conditions and conditions in the markets we serve;
- Costs related to acquisitions of technologies or businesses;
- The growth rates of certain market segments in which we compete;
- The amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- Changes in our pricing policies and terms of contracts, whether initiated by us or as a result of competition;
- The rate of expansion and productivity of our sales force and the impact of reorganizations of our sales force;
- Technical difficulties or interruptions in our service;
- Changes in foreign currency exchange rates;
- Changes in the effective tax rates due to changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses, changes in the valuation of deferred tax assets and liabilities and our ability to utilize them, changes in federal, state or international tax laws and accounting principles, changes in judgment from the evaluation of new information that results in a recognition, derecognition or change in measurement of a tax position taken in a prior period, results of tax examinations by local and foreign taxing authorities;
- Expenses related to significant, unusual or discrete events which are recorded in the period in which the events occur;
- Regulatory compliance costs; and
- Extraordinary expenses such as litigation or other dispute-related settlement payments.

Many of these factors are outside of our control, and the occurrence of one or more of them might cause our operating results to vary widely. As such, we believe that quarter-to-quarter comparisons of our revenues, operating results, changes in our deferred revenue and unbilled deferred revenue balances and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

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.

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

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

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

To meet our objectives successfully, we must attract and retain highly qualified personnel with specialized skill sets. If we are unable to attract suitably qualified management, there could be a material adverse impact on our business. In addition, 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. 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. 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, the Netherlands, Ireland, Australia and New Zealand, 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 $63.9 million, $61.0 million and $53.6 million for the years ended December 31, 2013, 2012 and 2011, respectively. Accordingly, international revenue increased 4.8% and 13.8% in 2013 and 2012, respectively. Expansion of our international operations will require a significant amount of attention from our management and substantial financial resources and might require us to add qualified management in these markets. Our direct sales model requires us to attract, retain and manage qualified sales personnel capable of selling into markets outside the United States. In some cases, our costs of sales might increase if our customers require us to sell through local distributors.

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

- Difficulties associated with and costs of staffing and managing international operations;
- Differing technology standards;
- Difficulties in collecting accounts receivable and longer collection periods;

- Political and economic instability;
- Imposition of currency exchange controls;
- Potentially adverse tax consequences;
- Reduced protection for intellectual property rights in certain countries;
- Dependence on local vendors;
- Protectionist laws and business practices that favor local competition;
- Compliance with multiple conflicting and changing governmental laws and regulations;
- Seasonal reductions in business activity specific to certain markets;
- Longer sales cycles;
- Restrictions on repatriation of earnings or new taxation thereon;
- Differing labor regulations;
- Differing accounting rules and practices;
- Restrictive privacy regulations in different countries, particularly in the European Union;
- Restrictions on the export of technologies such as data security and encryption;
- Compliance with U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to government officials; and
- Import and export restrictions and tariffs.

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

Material defects or errors in the software we use to deliver our services could harm our reputation, result in significant costs to us and impair our ability to sell our services.

The software applications underlying our services are inherently complex and may contain material defects or errors, particularly when first introduced or when new versions or enhancements are released. We have from time to time found defects in our service, and new errors in our existing service may be detected in the future. Any defects that cause interruptions to the availability of our services could result in adverse impacts to our business, including:

- A reduction in sales or delay in market acceptance of our services;
- Sales credits or refunds to our customers;
- Loss of existing customers and difficulty in attracting new customers;
- Diversion of development resources;
- Harm to our reputation; and
- Increased warranty and insurance costs.

After the release of our services, defects or errors may also be identified from time to time by our internal team and by our customers. The costs incurred in correcting any material defects or errors in our services may be substantial and could harm our operating results. 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. We believe that the loss of any third-party technologies currently integrated into our products could have a material adverse effect on our business. Our inability in the future to obtain any third-party licenses on commercially reasonable terms, or at all, could delay future product development until equivalent technology can be identified, licensed or developed and integrated. This inability in turn would harm our business and operating results. Our use of third-party technologies exposes us to increased risks including, but not limited to, risks associated with the integration of new technology into our products, the diversion of our resources from development of our own proprietary technology and our inability to generate revenue from licensed technology sufficient to offset associated acquisition and maintenance costs.

Claims that we or our technologies infringe upon the intellectual property or other proprietary rights of a third party may require us to incur significant costs, enter into royalty or licensing agreements or develop or license substitute technology.

We may in the future be subject to claims that our technologies in our products and services infringe upon the intellectual property or other proprietary rights of a third party. In addition, the vendors providing us with technology that we use in our own technology could become subject to similar infringement claims. Although we believe that our products and services do not infringe any intellectual property or other proprietary rights, we cannot be certain that our products and services do not, or that they will not in the future, infringe intellectual property or other proprietary rights held by others. Any claims of infringement could cause us to incur substantial costs defending against the claim, even if the claim is without merit, and could distract our management from our business. Moreover, any settlement or adverse judgment resulting from the claim could require us to pay substantial amounts, or obtain a license to continue to use the products and services that are the subject of the claim, and/or otherwise restrict or prohibit our use of the technology. There can be no assurance that we would be able to obtain a license on commercially reasonable terms from the third party asserting any particular claim, or that we would be able to successfully develop alternative technology on a timely basis, or that we would be able to obtain a license from another provider of suitable alternative technology to permit us to continue offering, and our customers to continue using, the products and services. In addition, we generally provide in our customer agreements for certain products and services that we will indemnify our customers against third-party infringement claims relating to technology we provide to those customers, which could obligate us to pay damages if the products and services were found to be infringing. Infringement claims asserted against us, our vendors or our customers may have a material adverse effect on our business, prospects, financial condition and results of operations.

Our solutions utilize open source software, which may subject us to litigation, require us to re-engineer our solutions, or otherwise divert resources away from our development efforts.

We use open source software in connection with certain of our solutions. Such open source software is generally licensed by its authors or other third parties under open source licenses, including, for example, the GNU General Public License, the GNU Lesser General Public License, “Apache-style” licenses, “BSD-style” licenses and other open source licenses. There is little legal precedent governing the interpretation of many of the terms of some of these licenses, and therefore the potential impact of these terms on our business is currently unable to be determined and may result in unanticipated obligations regarding our products and technologies. From time to time, companies that incorporate open source software into their products have faced claims challenging the ownership of open source software and/or compliance with open source license terms. Therefore, we could be subject to litigation by parties claiming ownership of open source software or noncompliance with open source licensing terms. Some open source software licenses require users who distribute open source software as part of their own software to publicly disclose all or part of the source code to such software and/or make available any derivative works of the open source code on unfavorable terms or at no cost. While we monitor our use of open source software and try to ensure that none is used in a manner that would require us to disclose the source code or that would otherwise breach the terms of an open source agreement, such use could inadvertently occur and we may be required to release proprietary source code, pay damages for breach of contract, re-engineer our applications, discontinue sales in the event re-engineering cannot be accomplished on a timely basis, or take other remedial action that may divert resources away from our development efforts, any of which could adversely affect our business.

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

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

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

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

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

Our credit facility contains restrictions, including covenants limiting our ability to incur additional debt, grant liens, make acquisitions and other investments, prepay specified debt, consolidate, merge or acquire other businesses, sell assets, pay dividends and other distributions, repurchase stock and enter into transactions with affiliates. There can be no assurance that we will be able to remain in compliance with the covenants to which we are subject in the future and, if we fail to do so, that we will be able to obtain waivers from our lenders or amend the covenants.

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

Our business and financial performance could be negatively impacted by changes in tax laws or regulations.

We and our customers are subject to a wide variety of tax laws and regulations in jurisdictions around the world. In response to recent economic challenges, we anticipate that many of the jurisdictions in which we and our customers do business will review tax and other revenue raising laws and regulations. New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time. Further, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us or our customers. Any changes to these existing tax laws could adversely affect our domestic and international business operations, and our business and financial performance. Additionally, these events could require us or our customers to pay additional tax amounts on a prospective or retroactive basis, as well as require us or our customers to pay fines and/or penalties and interest for past amounts deemed to be due. Additionally, new, changed, modified or newly interpreted or applied tax laws could increase our customers' and our compliance, operating and other costs, as well as the costs of our products. Further, these events could decrease the capital we have available to operate our business. Any or all of these events could adversely impact our business and financial performance.

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. As of December 31, 2013, we have deferred tax assets recognized of $60.1 million, of which $5.8 million relates to our 1999 recapitalization.

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. Additionally, if we are unable to utilize our deferred tax assets, our cash flow available to fund operations could be adversely effected.

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

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

Included in our deferred tax asset balance is $14.6 million related to federal net operating loss carryforwards at December 31, 2013. 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 set forth in 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 effect on our future cash flow, financial condition and results of operations.

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

We have completed significant acquisitions over the past five years and we may undertake additional acquisitions in the future. 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 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 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. If we are unable to successfully integrate the operations and personnel of our recently acquired companies, or if there is any significant delay in achieving integration, we will not realize the revenue growth, synergies and other anticipated benefits we expected and our business and results of operations could be adversely affected.

If we are unable to retain key personnel of our acquisitions, our business may suffer.

The success of our acquisitions will depend in part on our ability to retain their engineering, sales, marketing, development and other personnel. It is possible that these employees might decide to terminate their employment. If key employees terminate their employment, the sales, marketing or development activities of acquired companies might be adversely affected, our management's attention might be diverted from successfully integrating the acquired operations and to hiring suitable replacements and, as a result, our business might suffer.

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 return on investment.

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

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

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

Increasing government regulation could affect our business.

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

- User privacy;
- Payment processing;
- 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.

Item 1B. Unresolved staff comments

None.

Item 2. Properties

We lease our headquarters in Charleston, South Carolina which consists of approximately 220,000 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 additional facilities in Charleston, South Carolina; Austin, Texas; Indianapolis, Indiana, Cambridge, Massachusetts; Washington D.C.; San Diego and Emeryville, California; Overland Park, Kansas; Lincoln, Nebraska; Miami, Florida; Almere, the Netherlands; Glasgow, Scotland; Dublin, Ireland; London, England; East Brisbane, Australia; and Sydney, Australia. We believe that our properties are in good operating condition and adequately serve our current business operations for all of our business segments. We also anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

Item 3. Legal proceedings

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

Item 4. Mine safety disclosures

Not applicable.

PART II

Item 5. Market for registration'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 sales prices for shares of our common stock, as reported by NASDAQ for the periods indicated.

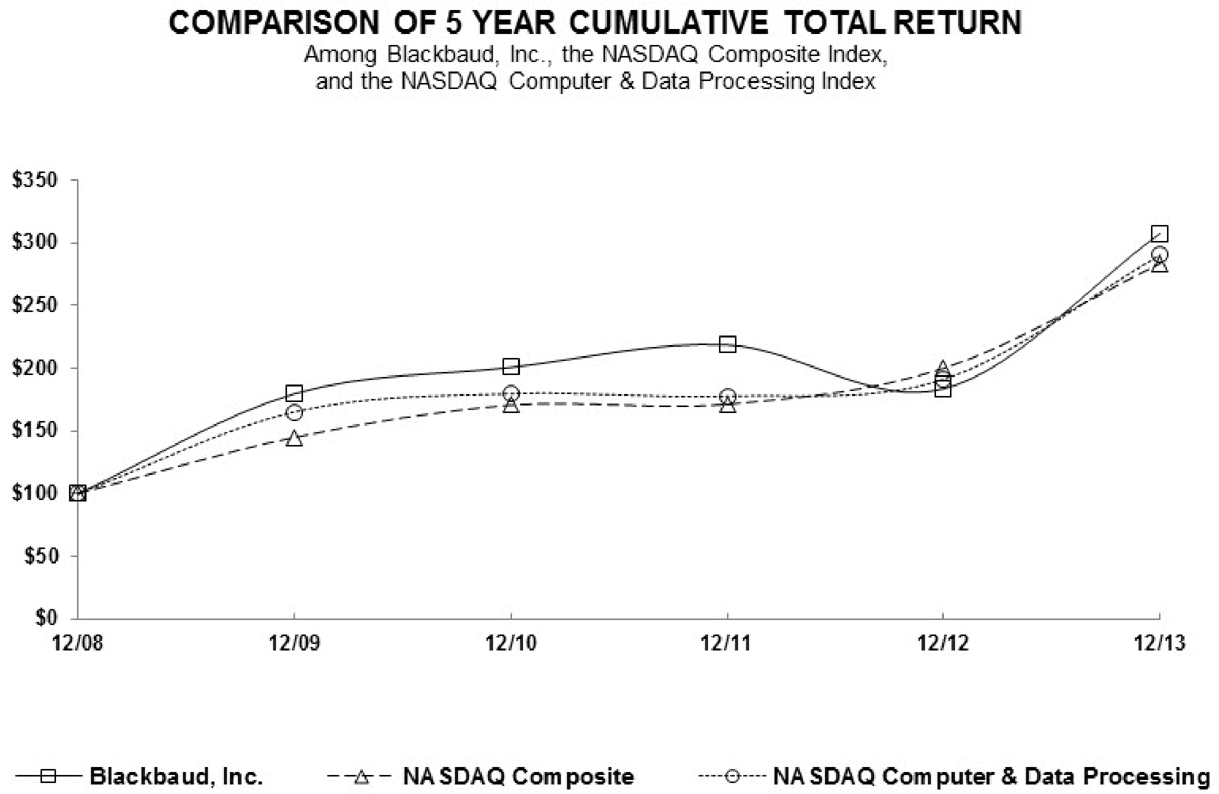
Blackbaud quarterly high and low stock prices

		High		Low
Fiscal year ended December 31, 2013				
First quarter	$	30.84	$	22.85
Second quarter	$	34.44	$	27.68
Third quarter	$	40.00	$	32.54
Fourth quarter	$	42.23	$	33.88
Fiscal year ended December 31, 2012				
First quarter	$	34.00	$	22.63
Second quarter	$	33.93	$	24.02
Third quarter	$	28.34	$	22.98
Fourth quarter	$	24.88	$	20.99

As of February 12, 2014, there were approximately 156 stockholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, this number is not representative of the total number of stockholders represented by these stockholders of record. On February 12, 2014, the closing price of our common stock was $32.56.

Stock performance graph

The following performance graph shall not be deemed to be “soliciting material” or “filed” or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act except as shall be expressly set forth by specific reference in such filing. The performance graph compares the performance of our common stock to the NASDAQ Composite Index and the NASDAQ Computer and Data Processing Index. The graph covers the most recent five-year period ending December 31, 2013. The graph assumes that the value of the investment in our common stock and each index was $100.00 at December 31, 2008, and that all dividends are reinvested.



		12/31/2008		12/31/2009		12/31/2010		12/31/2011		12/31/2012		12/31/2013
Blackbaud, Inc.	$	100.00	$	179.61	$	200.64	$	218.64	$	183.59	$	307.39
NASDAQ Composite	$	100.00	$	144.88	$	170.58	$	171.30	$	199.99	$	283.39
NASDAQ Computer & Data Processing	$	100.00	$	165.29	$	179.77	$	177.69	$	191.22	$	290.35

Common stock acquisitions and repurchases

The following table provides information about shares of common stock acquired or repurchased during the three months ended December 31, 2013. All of these acquisitions were of common stock withheld by us to satisfy minimum tax obligations of employees due upon vesting of restricted stock awards and units and exercise of stock appreciation rights.

Period	Total number of shares acquired or purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs(1)	Approximate dollar value of shares that may yet be purchased under the plan or programs (in thousands)
Beginning balance, October 1, 2013				$ 50,000
October 1, 2013 through October 31, 2013	6,187	$ 40.52	—	$ 50,000
November 1, 2013 through November 30, 2013	141,615	$ 35.56	—	$ 50,000
December 1, 2013 through December 31, 2013	23	$ 36.97	—	$ 50,000
Total	147,825	$ 35.77	—	$ 50,000

(1) In August 2010, our Board of Directors approved a stock repurchase program that authorized us to purchase up to $50.0 million of our outstanding shares of common stock. We have not made any repurchases under the program to date, and the program does not have an expiration date.

Dividend policy and restrictions

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

In accordance with this dividend policy, we paid quarterly dividends at an annual rate of $0.48 per share in 2013 and 2012, resulting in an aggregate dividend payment to stockholders of $22.1 million and $21.7 million in 2013 and 2012, respectively. In February 2014, our Board of Directors approved an annual dividend rate of $0.48 per share for 2014. We declared a first quarter dividend of $0.12 per share payable on March 14, 2014, to stockholders of record on February 28, 2014, 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 2014. Dividends at this rate would total approximately $22.6 million in the aggregate on the common stock in 2014 (assuming 47.0 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 2014 at an annual rate of $0.48 per share is approximately $22.6 million (assuming 47.0 million shares of common stock are outstanding, net of treasury stock).

We have a stock repurchase program that authorizes us to purchase up to $50.0 million of our outstanding shares of common stock. The program does not have an expiration date. The shares could be purchased in a self-tender for 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 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 2014, 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 2014, and we cannot assure our stockholders that during or following 2014 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, 2013, we had $11.9 million in cash and cash equivalents. In addition, we anticipate that we will have sufficient earnings in 2014 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 2014, our Board of Directors will seek periodically to assure itself of this sufficiency before actually declaring any dividends.

We entered into an amended and restated credit facility in February 2012. The amended credit facility restricts our ability to declare and pay dividends on our common stock. In order to pay any cash dividends and/or repurchase shares of stock: (1) no default or event of default shall have occurred and be continuing under the credit facility, and (2) we must be in compliance with a leverage ratio set forth in the credit agreement. See “Management’s discussion and analysis of financial conditions and results of operations — Liquidity and capital resources” in this report.

Item 6. Selected financial data

The selected 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 to fully understand factors that may affect the comparability of the information presented below.

The following data, insofar as it relates to each of the years ended December 31, 2013, 2012 and 2011, has been derived from the audited annual financial statements, including the consolidated balance sheets at December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, cash flows and stockholders’ equity for the three years ended December 31, 2013, 2012 and 2011 and notes thereto appearing elsewhere herein. The following data, insofar as it relates to each of the years ended December 31, 2010 and 2009, and the consolidated balance sheets as of December 31, 2011, 2010 and 2009 are derived from audited financial statements not included in this report.

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

(in thousands, except per share data)	Year ended December 31, 2013	2012	2011	2010	2009
Consolidated statements of comprehensive income data:					
Revenue					
License fees	$ 16,715	$ 20,551	$ 19,475	$ 23,719	$ 25,656
Subscriptions	212,656	162,102	103,544	83,912	73,194
Services	126,548	119,626	108,781	87,663	87,239
Maintenance	138,745	136,101	130,604	124,559	116,413
Other revenue	9,153	9,039	8,464	6,712	6,968
Total revenue	503,817	447,419	370,868	326,565	309,470
Cost of revenue					
Cost of license fees	2,763	2,993	3,345	3,003	3,697
Cost of subscriptions(1)	93,649	68,773	42,536	31,155	28,158
Cost of services(1)	104,005	97,208	79,086	66,755	61,585
Cost of maintenance(1)	25,741	26,001	25,178	24,123	21,594
Cost of other revenue	6,505	7,485	7,049	7,103	6,098
Total cost of revenue	232,663	202,460	157,194	132,139	121,132
Gross profit	271,154	244,959	213,674	194,426	188,338
Operating expenses					
Sales and marketing(1)	97,614	95,218	75,361	69,469	63,495
Research and development(1)	65,645	64,692	47,672	45,499	45,520
General and administrative(1)	50,320	63,133	36,933	32,636	33,383
Restructuring	3,494	175	—	—	—
Amortization	2,539	2,106	980	798	768
Impairment of cost method investment	—	200	1,800	—	—
Total operating expenses	219,612	225,524	162,746	148,402	143,166
Income from operations	51,542	19,435	50,928	46,024	45,172
Interest income	67	146	183	84	637
Interest expense	(5,818)	(5,864)	(200)	(74)	(962)
Other income (expense), net	(462)	(392)	346	(98)	220
Income before provision for income taxes	45,329	13,325	51,257	45,936	45,067
Income tax provision	14,857	6,742	18,037	16,749	17,547
Net income	$ 30,472	$ 6,583	$ 33,220	$ 29,187	$ 27,520
Earnings per share					
Basic	$ 0.68	$ 0.15	$ 0.76	$ 0.68	$ 0.64
Diluted	$ 0.67	$ 0.15	$ 0.75	$ 0.67	$ 0.63
Common shares and equivalents outstanding					
Basic weighted average shares	44,685	44,146	43,523	43,145	42,771
Diluted weighted average shares	45,421	44,692	44,149	43,876	43,600
Dividends per share	$ 0.48	$ 0.48	$ 0.48	$ 0.44	$ 0.40
Summary of stock-based compensation:					
Cost of subscriptions	$ 1,032	$ 860	$ 571	$ 392	$ 387
Cost of services	2,464	2,786	1,966	1,742	1,433
Cost of maintenance	545	538	741	814	750
Total included in cost of revenue	4,041	4,184	3,278	2,948	2,570
Sales and marketing	2,351	2,527	1,325	1,366	1,605
Research and development	3,731	3,556	3,039	2,844	2,944
General and administrative	6,787	8,973	7,242	5,901	5,291
Total included in operating expenses	12,869	15,056	11,606	10,111	9,840
Total stock-based compensation	$ 16,910	$ 19,240	$ 14,884	$ 13,059	$ 12,410

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

(in thousands)	December 31, 2013	2012	2011	2010	2009
Consolidated balance sheet data					
Cash and cash equivalents	$ 11,889	$ 13,491	$ 52,520	$ 28,004	$ 22,769
Deferred tax asset, including current portion	13,629	15,799	30,927	47,478	59,284
Working (deficit) capital	(126,913)	(97,947)	(52,093)	(57,056)	(74,458)
Total assets	706,610	705,747	392,590	323,806	299,927
Deferred revenue, including current portion	190,574	185,018	163,437	150,661	137,950
Total long-term liabilities	188,384	246,368	12,547	9,319	7,891
Common stock	56	55	54	53	52
Additional paid-in capital	220,763	203,638	175,401	158,372	134,643
Total stockholders' equity	$ 161,544	$ 147,684	$ 140,002	$ 116,469	$ 110,293

Blackbaud, Inc.
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 1A 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 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements reflect our current view with respect to future events and financial performance and are subject to risks and uncertainties, including those set forth under "Item 1A. Risk factors" and elsewhere in this report, that could cause actual results to differ materially from historical or anticipated results. Except as required by law, we do not intend, and undertake no obligation to revise or update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

Executive summary

We provide cloud-based and on-premise software solutions 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 their finances and optimize internal operations. We continue to make investments in our product portfolio and go-to-market organization to ensure we are properly positioned to benefit from shifts in the market, including demand for our subscription-based offerings. As of December 31, 2013, we had more than 29,000 active customers distributed across multiple verticals within the nonprofit market including education, foundations, health and human services, religion, arts and cultural, public and societal benefits, environment and animal welfare as well as international foreign affairs.

We derive revenue from charging subscription fees for the use of our SaaS solutions, selling perpetual licenses and providing a broad offering of services, including consulting, training, installation and implementation services, 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 transaction processing services, benchmarking studies and data modeling services.

We completed our acquisition of Convio in May 2012 for $335.7 million in consideration. We have included the results of operations of Convio in our consolidated results of operations from the date of acquisition, which impacts the comparability of our statements of comprehensive income when comparing 2013 to 2012 and 2012 to 2011. Because we have integrated a substantial amount of the Convio operations and have made product rationalization decisions, it is not possible to determine the revenue and operating costs attributable solely to the acquired business for 2013.

Overall, revenue in 2013 increased $56.4 million or 13% when compared to 2012. This increase was primarily the result of the inclusion of Convio for the full year in 2013 compared to only eight months in 2012 as well as growth in demand for our online and hosted solutions, as our business continues to shift towards subscription-based offerings. An increase in the volume of transactions for which we process payments also contributed to the increase in subscription revenue as well as a change in presentation from net to gross for revenues and costs associated with certain of our payment processing services effective October 2013.

Income from operations for 2013 increased by $32.1 million or 165% when compared to 2012. The increase in income from operations was primarily attributable to a reduction in costs from improved operational efficiencies realized as we integrated Convio's operations and a reduction in acquisition related costs. Also contributing to the increase was the inclusion of Convio's subscription-based offerings, which have historically yielded higher gross margins than our historical subscription-based offerings and an increase in demand for our online fundraising offerings and our payment processing services, which have historically yielded higher gross margins than our other offerings. These favorable impacts on income from operations were partially offset by an increase in amortization of acquired intangibles.

At December 31, 2013, our cash and cash equivalents were $11.9 million and outstanding borrowings were $152.9 million. During 2013, we generated $107.2 million in cash flow from operations, paid $22.1 million in dividends, used $20.1 million to purchase computer equipment and software and reduced our debt balance by $62.6 million.

During 2013, we continued to experience growth in overall revenue primarily driven by the inclusion of Convio's product offerings and the growing demand for our subscription-based offerings. We plan to further increase our focus on subscription-based offerings as we execute on our key growth initiatives and strengthen our leadership position, while achieving our targeted level of profitability. In the near term, we anticipate there will continue to be a dilutive impact on our profitability as we invest in our product portfolio to meet demand for our subscription offerings and shift from a perpetual license-based model, with upfront revenue recognition, to a subscription-based model, with recognition of revenue occurring ratably over the subscription term.

We also plan to continue investing in our product, sales and marketing organizations and our back-office processes, the infrastructure that supports our subscription-based offerings and certain product development initiatives to achieve optimal scalability of our operations as we execute on our key growth initiatives.

Results of operations

During 2013, 2012 and 2011, we acquired companies that provided us with strategic opportunities to expand our share of the nonprofit market through the integration of complementary products and services to serve the changing needs of our customers. The following are the companies we acquired and their respective acquisition date:

- Public Interest Data, Inc., or PIDI – February 1, 2011;
- Everyday Hero Pty. Ltd., or EDH – October 6, 2011;
- Convio, Inc., or Convio – May 4, 2012; and
- MyCharity, Ltd. – March 6, 2013

We have included the results of operations of acquired companies in our consolidated statements of comprehensive income from the date of their respective acquisition, which impacts the comparability of our results of operations when comparing 2013 to 2012 and 2012 to 2011. Because we have integrated a substantial amount of these operations, it is impracticable to determine the operating costs attributable solely to the acquired businesses for 2013. We have noted in the discussion below, to the extent meaningful, the impact on the comparability of our consolidated statements of comprehensive income due to the inclusion of acquired companies.

Comparison of the years ended December 31, 2013 and 2012

Revenue by segment

The table below compares revenue by segment for year ended December 31, 2013, with the same period in 2012.

	Year ended December 31,			
(in millions)	**2013**	**2012**	**Change**	**% Change**
ECBU	$ 195.6	$ 165.1	$ 30.5	18%
GMBU	225.3	203.2	22.1	11%
IBU	41.5	40.1	1.4	3%
Target Analytics	39.8	37.5	2.3	6%
Other	1.6	1.5	0.1	7%
Total revenue	$ 503.8	$ 447.4	$ 56.4	13%

The increases in revenue for ECBU and GMBU during 2013 when compared to 2012 were primarily attributable to growth in subscriptions revenue as a result of the inclusion of Luminate Online, previously a Convio product, and an increase in the volume of transactions for which we process payments. Also contributing to the growth in ECBU revenue were increases in revenue from consulting services and our Blackbaud CRM hosting services. Also contributing to the growth in GMBU revenue was the continued increase in demand for our online and hosted solutions as our business shifts towards subscription-based offerings.

IBU revenue increased during 2013 when compared to 2012 primarily due to incremental subscriptions revenue. The growth in IBU subscriptions revenue was primarily attributable to an increase in variable transaction revenue associated with the use of our products to fundraise online. Also contributing to the increase in IBU subscriptions revenue was an increase in demand for our online and hosted fundraising solutions including Everyday Hero, the Raiser's Edge and eTapestry.

Target Analytics revenue growth during 2013 when compared to 2012 was primarily the result of an increase in demand for our prospect research offerings. Also contributing to the increase in Target Analytics revenue was growth in our performance management and data enrichment portfolios, driven by improved sales execution.

Included in ECBU, GMBU and IBU revenue for 2013 is $3.3 million, $5.0 million and $0.2 million, respectively, attributable to a prospective change in presentation from net to gross for revenue and costs associated with our payment processing services as a result of certain third-party arrangements that had changes in contractual terms effective October 2013.

Operating results

License fees

	Year ended December 31,			
(in millions)	2013	2012	Change	% Change
License fees revenue	$ 16.7	$ 20.6	$ (3.9)	(19)%
Cost of license fees	2.8	3.0	(0.2)	(7)%
License fees gross profit	$ 13.9	$ 17.6	$ (3.7)	(21)%
License fees gross margin	83%	85%		

We derive license fees revenue from the sale of our software products under a perpetual license agreement.

During 2013, revenue from license fees decreased primarily as a result of smaller contributions of revenue from our Raiser's Edge and Financial Edge offerings when compared to 2012. In addition, we continue to meet the demand of our emerging and mid-sized customers that increasingly prefer subscription-based hosted applications instead of solutions offered under traditional on-premise perpetual license arrangements. Also contributing to the decreases in revenue from license fees was a prospective change in presentation from gross to net for revenue and costs associated with certain third-party software arrangements that had changes in contractual terms effective January 2013. The net revenue attributable to these third-party software arrangements has been included in "Other revenue" for 2013.

Cost of license fees is primarily comprised of third-party software royalties, variable reseller commissions, amortization of software development costs and amortization of intangibles from business combinations. The decrease in cost of license fees during 2013 when compared to 2012 was primarily due to a decrease in third-party software royalties resulting from a prospective change in presentation from gross to net for revenue and costs associated with certain third-party software arrangements that had changes in contractual terms effective January 2013.

The decrease in license fees gross margin during 2013 when compared to 2012 was primarily due to the decrease in license fees revenue combined with more sales of products that have third-party software royalty costs associated with them.

Subscriptions

	Year ended December 31,			
(in millions)	**2013**	**2012**	**Change**	**% Change**
Subscriptions revenue	$ 212.7	$ 162.1	$ 50.6	31%
Cost of subscriptions	93.7	68.8	24.9	36%
Subscriptions gross profit	$ 119.0	$ 93.3	$ 25.7	28%
Subscriptions gross margin	56%	58%		

Revenue from subscriptions is primarily comprised of revenue from charging for the use of our software products, which includes providing access to hosted applications and hosting services, access to certain data services and our online subscription training offerings, as well as revenue from variable transaction fees associated with the use of our products to fundraise online. We continue to experience growth in sales of our hosted applications and hosting services as we meet the demand of our emerging and mid-sized customers that increasingly prefer subscription-based offerings.

The increase in subscriptions revenue was primarily attributable to the inclusion of Convio for the full year in 2013 compared to only eight months in 2012, and an increase in demand for our online fundraising offerings. Also contributing to the growth in subscriptions revenue was an increase in the volume of transactions for which we process payments as well as an $8.5 million increase attributable to a prospective change in presentation from net to gross for revenues and costs associated with certain of our payment processing services effective October 2013.

Cost of subscriptions is primarily comprised of human resource costs, stock-based compensation expense, third-party royalty and data expenses, hosting expenses, allocated depreciation, facilities and IT support costs, amortization of software development costs, amortization of intangibles from business combinations and other costs incurred in providing support and services to our customers. The increase in cost of subscriptions during 2013 when compared to 2012 was primarily attributable to increases in amortization of intangibles from business combinations, hosting costs, human resource costs and allocated depreciation, facilities and IT support costs. The increase also included $8.5 million of costs attributable to a prospective change in presentation from net to gross for revenues and costs associated with certain of our payment processing services effective October 2013.

Amortization of intangibles from business combinations increased by $6.6 million during 2013 when compared to 2012 primarily due to the acquisition of Convio and the inclusion of a full year of intangibles amortization in 2013 compared to only eight months in 2012.

Hosting costs, human resource costs and allocated depreciation, facilities and IT support costs increased by $3.2 million, $3.1 million and $2.8 million, respectively, during 2013 when compared to 2012. These increases were primarily a result of the inclusion of Convio and investments made to support anticipated growth in our subscription-based offerings.

Subscriptions gross margin decreased during 2013 when compared to 2012 primarily as a result of the cost increase from the prospective change in presentation from net to gross revenues and costs as discussed above and non-cash amortization of intangible assets purchased. Excluding the effect of the change in presentation, gross margin was relatively unchanged from 2012.

Services

	Year ended December 31,			
(in millions)	2013	2012	Change	% Change
Services revenue	$ 126.5	$ 119.6	$ 6.9	6%
Cost of services	104.0	97.2	6.8	7%
Services gross profit	$ 22.5	$ 22.4	$ 0.1	—%
Services gross margin	18%	19%		

We derive services revenue from 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, sales of 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 is intended to enable organizations to more effectively target their fundraising activities. We typically recognize services revenue upon delivery. We also recognize certain direct and incremental costs associated with consulting services revenue as that revenue is earned. We recognize revenue from upfront activation fees ratably over the estimated period the customer benefits from those upfront services. We continue to expense indirect costs in the period the services are provided.

The increase in services revenue during 2013 when compared to 2012 was attributable to increases in consulting, education and analytic services revenue of $4.1 million, $1.8 million and $1.0 million, respectively. Consulting services revenue increased primarily due to the inclusion of Convio for the full year in 2013 compared to only eight months in 2012. The volume of education services revenue increased due to higher demand for our subscription-based training. Analytic services revenue increased primarily due to an increase in demand for our prospect research offerings. Also contributing to the increase in analytic services revenue was growth in our performance management and data enrichment portfolios, driven by improved sales execution.

Cost of services is primarily comprised of human resource costs, stock-based compensation expense, third-party contractor expenses, costs incurred in providing customer training, data expense incurred to perform analytic services, allocated depreciation, facilities and IT support costs and amortization of intangibles from business combinations. The increase in cost of services during 2013 when compared to 2012 was primarily attributable to increases in human resource costs, the recognition of deferred implementation service costs and allocated depreciation, facilities and IT support costs. Human resource costs increased $3.8 million primarily as a result of increases in accrued bonus costs, merit-based salary increases and employee health care costs. Our recognition of implementation service costs increased $2.2 million during 2013 when compared to 2012 due to a decrease in the amount of costs that are being deferred in connection with our shift from traditional license and related service arrangements to subscription offerings. Allocated depreciation, facilities and IT support costs increased $0.8 million due to the inclusion of allocable costs from the Convio operations as well as investments we have made in our infrastructure to make our operations more scalable.

Services gross margin decreased in 2013 when compared to 2012 primarily due to increases in human resource costs and allocated costs outpacing the growth of services revenue. Also contributing to the decrease in services gross margin was the inclusion of Convio's service offerings for a full year in 2013, which have historically yielded lower gross margins. Since our acquisition of Convio in May 2012, we have made significant progress integrating operations and realizing gross margin synergies from the combination. However, the impact on services gross margin is obscured by the inclusion of Convio operating results for the full year in 2013 compared to only eight months in 2012.

Maintenance

	Year ended December 31,			
(in millions)	2013	2012	Change	% Change
Maintenance revenue	$ 138.7	$ 136.1	$ 2.6	2 %
Cost of maintenance	25.7	26.0	(0.3)	(1)%
Maintenance gross profit	$ 113.0	$ 110.1	$ 2.9	3 %
Maintenance gross margin	81%	81%		

Revenue from maintenance is comprised of annual fees derived from maintenance contracts associated with new software licenses and annual renewals of existing maintenance contracts. These contracts provide customers with updates, enhancements and upgrades to our software products and online, telephone and email support. Maintenance contracts are typically for a term of one year, and maintenance renewal rates in the periods reported did not vary materially compared to prior periods.

The increase in maintenance revenue during 2013 when compared to 2012 was primarily comprised of (i) $10.9 million of incremental maintenance from new customers associated with new license agreements and increases in contracts with existing customers; and (ii) approximately $4.2 million of incremental maintenance from contract inflationary rate adjustments; partially offset by (iii) a $8.4 million reduction in maintenance from contracts that were not renewed and reductions in contracts with existing customers; and (iv) $3.3 million decrease in maintenance revenue attributable to a prospective change in presentation from gross to net for revenue and costs associated with certain third-party software arrangements that had changes in contractual terms effective January 2013. The net revenue attributable to these third-party software arrangements has been included in "Other revenue" for 2013.

Cost of maintenance is primarily comprised of human resource costs, stock-based compensation expense, third-party contractor expenses, third-party royalty costs, allocated depreciation, facilities and IT support costs, amortization of intangibles from business combinations and other costs incurred in providing support and services to our customers. Cost of maintenance decreased during 2013 when compared to 2012 primarily due to a decrease in proprietary software costs, partially offset by increases in human resource costs and allocated depreciation, facilities and IT support costs. The decrease in proprietary software costs was primarily attributable to a prospective change in presentation from gross to net for revenue and costs associated with certain third-party software arrangements that had changes in contractual terms effective January 2013. The increase in human resource costs was primarily due to merit-based salary increases and an increase in employee health care costs.

Maintenance gross margin in 2013 remained relatively unchanged when compared 2012.

Other revenue

	Year ended December 31,			
(in millions)	2013	2012	Change	% Change
Other revenue	$ 9.2	$ 9.0	$ 0.2	2 %
Cost of other revenue	6.5	7.5	(1.0)	(13)%
Other gross profit	$ 2.7	$ 1.5	$ 1.2	80 %
Other gross margin	29%	17%		

Other revenue includes reimbursement of travel-related expenses primarily incurred during the performance of services at customer locations, third-party software referral fees, the sale of business forms that are used in conjunction with our software products and fees from user conferences.

Other revenue increased during 2013 when compared to 2012 primarily due to a $1.5 million increase in third-party software referral revenue upon the prospective change in presentation from gross to net for revenue and costs associated with certain third-party software arrangements that had changes in contractual terms effective January 2013. During 2012, revenue from these arrangements was recorded on a gross basis to license fees, subscription and maintenance. The increase in third-party software referral fees during 2013 when compared to 2012 was partially offset by a decrease in revenue from reimbursement of travel-related expenses associated with services revenue.

Cost of other revenue includes human resource costs, costs of business forms, costs of user conferences, reimbursable expenses relating to the performance of services at customer locations, allocated depreciation, facilities and IT support costs and amortization of intangibles from business combinations. Cost of other revenue decreased during 2013 when compared to 2012 primarily due to fewer reimbursable expenses related to services provided at customer locations.

Other revenue gross margin increased in 2013 when compared to 2012 primarily due to an increase in third-party software referral fees attributable to the prospective change in presentation from gross to net for revenue and costs associated with certain third-party software arrangements that had changes in contractual terms effective January 2013.

Operating expenses

Sales and marketing

	Year ended December 31,			
(in millions)	**2013**	**2012**	**Change**	**% Change**
Sales and marketing expense	$ 97.6	$ 95.2	$ 2.4	3%
% of revenue	19%	21%		

Sales and marketing expense includes human resource costs, stock-based compensation expense, travel-related expenses, sales commissions, advertising and marketing materials, public relations costs and allocated depreciation, facilities and IT support costs.

Sales and marketing expense increased during 2013 when compared to 2012 primarily due to a $1.1 million increase in sales commissions, a $0.9 million increase in allocated depreciation, facilities and IT support costs and a $0.8 million increase in human resource costs. The increase in sales commissions is primarily due to an increased amount of commissionable revenue from 2012 to 2013. The increase in allocated depreciation, facilities and IT support costs resulted from both the inclusion of allocable costs from the Convio operations as well as investments we have made in our infrastructure to make our operations more scalable. The increase in human resource costs was primarily due to increases in employee health care costs and accrued bonus costs, partially offset by a reduction in headcount in connection with the realignment of our workforce, which began in January 2013.

Since the acquisition of Convio in May 2012, we have made significant progress integrating operations and realizing cost synergies from the combination, which is reflected in the improvements in sales and marketing expense as a percentage of revenue for 2012 to 2013.

Research and development

	Year ended December 31,			
(in millions)	**2013**	**2012**	**Change**	**% Change**
Research and development expense	$ 65.6	$ 64.7	$ 0.9	1%
% of revenue	13%	14%		

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. Research and development expense includes human resource costs, stock-based compensation expense, third-party contractor expenses, software development tools and certain other expenses related to researching and developing new products, and allocated depreciation, facilities and IT support costs.

Research and development expense increased during 2013 when compared to 2012 primarily due to a $1.5 million increase in human resource costs and a $1.7 million increase in allocated depreciation, facilities and IT support costs, partially offset by a $2.0 million increase in the amount of software development costs that were capitalized. Human resource costs increased primarily due to the inclusion of additional headcount from Convio. The increase in allocated depreciation, facilities and IT support costs resulted from both the inclusion of allocable costs from the Convio operations as well as investments we have made in our infrastructure to make our operations more scalable. We expect incremental research and development expense in 2014 as we continue to invest in product enhancement and new product innovation.

Since the acquisition of Convio in May 2012, we have made significant progress integrating operations and realizing cost synergies from the combination, which is reflected in the improvement in research and development expense as a percentage of revenue from 2012 to 2013.

General and administrative

	Year ended December 31,			
(in millions)	**2013**	**2012**	**Change**	**% Change**
General and administrative expense	$ 50.3	$ 63.1	$ (12.8)	(20)%
% of revenue	10%	14%		

General and administrative expense consists primarily of human resource costs for general corporate functions including senior management, finance, accounting, legal, human resources and corporate development, stock-based compensation expense, third-party professional fees, insurance, allocated depreciation, facilities and IT support costs, acquisition-related expense and other administrative expenses.

General and administrative expense decreased during 2013 when compared to 2012 primarily due to decreases in acquisition-related costs and stock-based compensation as well as an increase in the amount of costs allocated out of general and administrative expense including depreciation, IT support costs and certain facilities costs. These reductions in general and administrative expense were partially offset by increases in facilities costs, human resource costs and costs associated with the replacement of our CEO. Acquisition-related costs associated with our acquisition of Convio decreased $13.1 million during 2013 when compared to 2012. Stock-based compensation decreased $2.2 million during 2013 when compared to 2012 primarily due to the departure of employees in connection with the realignment of our workforce, which began in January 2013, and the departure of certain executive officers, including our CEO during 2013. Business costs allocated out of general and administrative expense increased $5.6 million during 2013 when compared to 2012 primarily due to the inclusion of Convio's operations for the full year in 2013 compared to only eight months in 2012. Facilities costs increased by $3.9 million primarily due to the inclusion of Convio's operations for the full year in 2013 compared to only eight months in 2012. Human resource costs increased $3.3 million during 2013 when compared to 2012 primarily due to additional resources needed to support the growth of our business. We also incurred $2.4 million of incremental costs during 2013 when compared to 2012 associated with severance provided to our former CEO and search costs for our new CEO.

Non-GAAP financial measures

The operating results analyzed below are presented on a non-GAAP basis. We use non-GAAP revenue, non-GAAP income from operations and non-GAAP operating margin internally in analyzing our operational performance. Accordingly, we believe these non-GAAP measures are useful to investors, as a supplement to GAAP measures, in evaluating our ongoing operational performance. While we believe these non-GAAP measures provide useful supplemental information, non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be completely comparable to similarly titled measures of other companies due to potential differences in the exact method of calculation between companies.

Non-GAAP financial measures discussed below exclude the impact of (i) the write-down of Convio's deferred revenue balance; (ii) stock-based compensation expense; (iii) amortization of intangibles from business combinations; (iv) acquisition integration costs; (v) restructuring costs; (vi) CEO severance costs; (vii) employee severance costs; (viii) acquisition-related expenses; (ix) a write-off of proprietary software licenses; and (x) the impairment of a cost method investment, because we believe they are not directly related to our operating performance in any particular period, but are for our long-term benefit over multiple periods. We believe that these non-GAAP financial measures reflect our ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in our business.

(in millions)	Year ended December 31, 2013	2012	Change	% Change
GAAP revenue	$ 503.8	$ 447.4	$ 56.4	13 %
Non-GAAP adjustments:				
Add: Convio deferred revenue write-down	1.1	5.6	(4.5)	(80)%
Non-GAAP revenue	$ 504.9	$ 453.0	$ 51.9	11 %
GAAP income from operations	$ 51.5	$ 19.4	$ 32.1	165 %
GAAP operating margin	10%	4%		
Non-GAAP adjustments:				
Add: Convio deferred revenue writedown	1.1	5.6	(4.5)	(80)%
Add: Stock-based compensation expense	16.9	19.2	(2.3)	(12)%
Add: Amortization of intangibles from business combinations	24.6	17.4	7.2	41 %
Add: Acquisition integration costs	1.8	6.7	(4.9)	(73)%
Add: Restructuring costs	3.5	0.2	3.3	1,650 %
Add: CEO severance	1.3	—	1.3	100 %
Add: Employee severance	0.6	—	0.6	100 %
Add: Acquisition-related expenses	—	6.4	(6.4)	(100)%
Add: Write-off of prepaid proprietary software licenses	—	0.4	(0.4)	(100)%
Add: Impairment of cost method investment	—	0.2	(0.2)	(100)%
Total Non-GAAP adjustments	49.8	56.1	(6.3)	(11)%
Non-GAAP income from operations	$ 101.3	$ 75.5	$ 25.8	34 %
Non-GAAP operating margin	20%	17%		

The increase in non-GAAP income from operations and non-GAAP operating margin during 2013 when compared to 2012 was primarily due to (i) the inclusion of Convio's subscription-based offerings which have historically yielded higher gross margins than our historical subscription-based offerings; (ii) an increase in demand for our online fundraising offerings and our payment processing services, which have also historically yielded higher gross margins than our other offerings; and (iii) cost synergies realized from our improved operational efficiencies as we integrated the Convio operations.

Restructuring

Restructuring costs consist primarily of severance and termination benefits associated with the realignment of our workforce in response to changes in the nonprofit industry and global economy, as well as the move of our San Diego, California operations to our Austin, Texas location. We incurred $3.2 million in before-tax restructuring charges related to the realignment of our workforce during 2013. We incurred $0.3 million and $0.2 million in before-tax restructuring charges related to our San Diego office transition during 2013 and 2012, respectively.

Interest expense

Interest expense remained relatively unchanged during 2013 when compared to 2012. Our interest expense is directly related to the borrowings we incurred to fund our acquisition of Convio in May 2012.

Deferred revenue

The table below compares the components of deferred revenue from our consolidated balance sheets:

(in millions)	Timing of recognition	December 31, 2013	December 31, 2012	Change	% Change
Maintenance	Over the term of the agreement, generally one year	$ 85.2	$ 81.7	$ 3.5	4 %
Subscriptions	Over the term of the agreement, generally one to three years	72.5	65.9	6.6	10 %
Services	As services are delivered	32.2	36.9	(4.7)	(13)%
License fees and other	Upon delivery of the product or service	0.7	0.5	0.2	40 %
Total deferred revenue		190.6	185.0	5.6	3 %
Less: Long-term portion		9.1	11.1	(2.0)	(18)%
Current portion		$ 181.5	$ 173.9	$ 7.6	4 %

To the extent that our customers are billed for our products and services in advance of delivery, we record such amounts in deferred revenue. Deferred revenue attributable to maintenance and subscriptions increased during 2013 primarily as a result of an increase in renewal billings. We generally invoice our maintenance and subscription customers in annual cycles. The decrease in deferred revenue from services during 2013 was mostly due to a decrease in upfront billings on consulting arrangements. The increase in deferred revenue from license fees and other was attributable to an increase in third-party software referral fees attributable to a change in presentation from gross to net for revenue and costs associated with certain third-party software arrangements that had changes in contractual terms effective January 2013.

Comparison of the years ended December 31, 2012 and 2011

Revenue

The table below compares revenue from our consolidated statements of comprehensive income for the years ended December 31, 2012 and 2011.

	Year ended December 31,			
(in millions)	2012	2011	Change	% Change
License fees	$ 20.6	$ 19.5	$ 1.1	6%
Subscriptions	162.1	103.5	58.6	57%
Services	119.6	108.8	10.8	10%
Maintenance	136.1	130.6	5.5	4%
Other	9.0	8.5	0.5	6%
Total revenue	$ 447.4	$ 370.9	$ 76.5	21%

When removing the impact of revenue from acquired companies, revenue increased by $21.9 million, or 6% in 2012. This increase in revenue was primarily attributable to growth in our subscriptions revenue as a result of both an increase in demand for an our online fundraising offerings as well as an increase in transaction fees associated with our payment processing services. The increase in demand for our subscription offerings was primarily driven by the ongoing evolution of our product offerings from a license-based to subscription-based model. Although we continued to experience a shift in our emerging (first-time users) and mid-sized customers’ buying preference away from perpetual licenses towards hosted solutions, license revenue increased in 2012 when compared to 2011 as a result of an increase in sales of our Blackbaud CRM offering to large and/or strategic customers. The increase in maintenance revenue is attributable to maintaining high renewal rates, new maintenance contracts associated with new license agreements and increases in contracts with existing customers during 2012 when compared to 2011. Services revenue grew in 2012 principally as a result of increased demand for our education services.

Operating results

License fees

	Year ended December 31,			
(in millions)	2012	2011	Change	% Change
License fees revenue	$ 20.6	$ 19.5	$ 1.1	6 %
Cost of license fees	3.0	3.3	(0.3)	(9)%
License fees gross profit	$ 17.6	$ 16.2	$ 1.4	9 %
License fees gross margin	85%	83%		

Revenue from license fees increased in 2012 primarily due to a greater contribution of revenue from larger Blackbaud CRM arrangements when compared to 2011.

The decrease in cost of license fees in 2012 when compared to 2011 was principally attributable to a decrease in third-party software royalties. Third-party software royalties associated with our license-based products decreased as the demand for our perpetual license arrangements decreased and subscription-based offerings increased.

The increase in license fees gross margin during 2012 was the result of fewer sales of products that have third party software royalty costs associated with them. Additionally, the increase in revenue from Blackbaud CRM arrangements contributed to the increase in license fees gross margin during 2012.

Subscriptions

	Year ended December 31,			
(in millions)	2012	2011	Change	% Change
Subscriptions revenue	$ 162.1	$ 103.5	$ 58.6	57%
Cost of subscriptions	68.8	42.5	26.3	62%
Subscriptions gross profit	$ 93.3	$ 61.0	$ 32.3	53%
Subscriptions gross margin	58%	59%		

Included in subscriptions revenue for 2012 and 2011 was $45.6 million and $0.7 million of revenue attributable to acquired companies, respectively. Excluding the revenue from acquired companies, the increase in subscriptions revenue of $13.7 million, or 13%, was principally attributable to an increase in demand for our online fundraising and data management offerings as well as an increase in transaction fees associated with our payment processing services.

The increase in cost of subscriptions in 2012 was principally attributable to increases in hosting costs, human resource costs and amortization of intangibles from business combinations.

Hosting costs increased by $8.3 million during 2012 as a result of incremental costs due to the inclusion of acquired companies. Additionally, hosting costs increased due to incremental investments to improve our hosting services and additional hosting capacity required as a result of the growth in demand for our hosted applications and other online services. Human resource costs increased $6.6 million during 2012. The increase in human resource costs is attributable to additional headcount due to the inclusion of acquired companies and additional resources needed to support the growth in demand for our subscription-based offerings.

Amortization of intangibles from business combinations increased $8.6 million in 2012 primarily due to the amortization expense for the acquired Convio intangible assets.

The decrease in subscriptions gross margin during 2012 compared to 2011 was primarily due to investments we made in our infrastructure, including additional headcount, expanded facilities, improved operational processes and computer equipment to support the growth in our subscription offerings.

Services

(in millions)	Year ended December 31, 2012	2011	Change	% Change
Services revenue	$ 119.6	$ 108.8	$ 10.8	10 %
Cost of services	97.2	79.1	18.1	23 %
Services gross profit	$ 22.4	$ 29.7	$ (7.3)	(25)%
Services gross margin	19%	27%		

Included in services revenue in 2012 and 2011 is $9.8 million and $0.1 million of revenue attributable to acquired companies, respectively. Excluding the revenue from acquired companies, the increase in services revenue of $1.1 million, or 1%, is principally due to an increase in education services revenue of $1.4 million, partially offset by a decrease in analytic services revenue of $0.6 million. The rates we charged for our education service offerings remained relatively constant year over year and, as such, the increase in revenue was the result of a change in volume. The increase in revenue from education services was the result of higher demand for subscription-based training. Consulting services revenue remained relatively unchanged in 2012 compared to 2011 primarily due to a greater portion of our service engagements being with larger enterprise customers as our mid-market moves to subscription-based offerings. These larger enterprise engagements can experience volatility in utilization due to the complex nature of these engagements.

The increase in cost of services in 2012 is primarily attributable to an increase in human resource costs. Human resource costs increased $12.7 million in 2012 as a result of an increase in headcount. The increase in headcount was attributable to the inclusion of additional resources from acquired companies.

An increase in allocated depreciation, facilities and IT support costs also contributed to the increase in cost of services in 2012 when compared to 2011 due to the inclusion of allocable costs from the Convio operations.

The services gross margin decreased in 2012 primarily as a result of the increases in headcount and allocated costs discussed above.

Maintenance

(in millions)	Year ended December 31, 2012	2011	Change	% Change
Maintenance revenue	$ 136.1	$ 130.6	$ 5.5	4%
Cost of maintenance	26.0	25.2	0.8	3%
Maintenance gross profit	$ 110.1	$ 105.4	$ 4.7	4%
Maintenance gross margin	81%	81%		

The increase in maintenance revenue in 2012 compared to 2011 was principally comprised of (i) $12.7 million of maintenance from new customers associated with new license agreements and increases in contracts with existing customers and (ii) $4.1 million from maintenance contract inflationary rate adjustments, partially offset by (iii) $11.3 million from maintenance contracts that were not renewed and reductions in contracts with existing customers.

Cost of maintenance increased during 2012 when compared to 2011 primarily as a result of increases in allocated costs and proprietary software costs. The increase in proprietary software costs was attributable to increases in maintenance contracts with existing customers for software products which include third-party royalty costs associated with the maintenance revenue. Maintenance gross margin in 2012 remained relatively unchanged when compared to 2011.

Other revenue

	Year ended December 31,			
(in millions)	2012	2011	Change	% Change
Other revenue	$ 9.0	$ 8.5	$ 0.5	6%
Cost of other revenue	7.5	7.0	0.5	7%
Other gross profit	$ 1.5	$ 1.5	$ —	—%
Other gross margin	17%	18%		

Other revenue increased in 2012 when compared to 2011 primarily due to an increase in fees from user conferences. Additionally, an increase in revenue from reimbursement of travel-related expenses associated with services revenue contributed to the increase in other revenue during 2012.

Cost of other revenue increased in 2012 primarily due to increases in reimbursable expenses related to services provided at customer locations. Other gross margin in 2012 remained relatively unchanged when compared to 2011.

Operating expenses

Sales and marketing

	Year ended December 31,			
(in millions)	2012	2011	Change	% Change
Sales and marketing expense	$ 95.2	$ 75.4	$ 19.8	26%
% of revenue	21%	20%		

Sales and marketing expense increased in 2012 primarily due to increases in human resource costs and commission expense. Human resource costs increased primarily due to the inclusion of additional headcount from acquired companies as well as incremental headcount to support the increase in sales and marketing efforts of our growing operations. The increase in commission expense is principally due to an increased amount of commissionable revenue in 2012.

Research and development

	Year ended December 31,			
(in millions)	2012	2011	Change	% Change
Research and development expense	$ 64.7	$ 47.7	$ 17.0	36%
% of revenue	14%	13%		

Research and development expense increased during 2012 primarily due to increased human resource and third-party contractor costs. Human resource and third-party contractor costs increased primarily due to the inclusion of additional headcount from acquired companies as well as investments we continue to make in our product development efforts, including our direct marketing offerings. Additionally, research and development costs increased during 2012 due to an increase in allocated business costs.

General and administrative

	Year ended December 31,			
(in millions)	**2012**	**2011**	**Change**	**% Change**
General and administrative expense	$ 63.1	$ 36.9	$ 26.2	71%
% of revenue	14%	10%		

General and administrative expense increased during 2012 primarily due to increases in acquisition transaction costs, acquisition integration and restructuring costs, acquisition-related stock-based compensation, professional fees and human resource costs. The increase in costs associated with our acquisition of Convio including transaction costs, acquisition integration and restructuring costs and stock-based compensation expense was $13.2 million during 2012. Professional fees increased $4.3 million during 2012 compared to 2011, primarily due to strategic investments we are making in our business optimization efforts and the re-engineering of our accounting processes. The remaining increase was primarily attributable to an increase in human resource costs from additional headcount to support our growing operations and increased skills and competencies of our support resources.

Non-GAAP income from operations

Non-GAAP financial measures discussed below exclude the impact of (i) the write-down of Convio's deferred revenue balance; (ii) stock-based compensation expense; (iii) amortization expense; (iv) acquisition-related expenses; (v) acquisition integration and restructuring costs; (vi) a write-off of proprietary software licenses; (vii) an impairment of cost method investment; and (viii) a gain on sale of assets, because we believe they are not directly related to our operating performance in any particular period, but are for our long-term benefit over multiple periods. We believe that these non-GAAP financial measures reflect our ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in our business.

	Year ended December 31,			
(in millions)	**2012**	**2011**	**Change**	**% Change**
GAAP income from operations	$ 19.4	$ 50.9	$ (31.5)	(62)%
Non-GAAP adjustments:				
Add: Convio deferred revenue writedown	5.6	—	5.6	100 %
Add: Stock-based compensation expense	19.2	14.9	4.3	29 %
Add: Amortization of intangibles from business combinations	17.4	7.6	9.8	129 %
Add: Acquisition-related expenses	6.4	1.8	4.6	256 %
Add: Acquisition integration and restructuring costs	6.9	—	6.9	100 %
Add: Write-off of prepaid proprietary software licenses	0.4	—	0.4	100 %
Add: Impairment of cost method investment	0.2	1.8	(1.6)	(89)%
Less: Gain on sale of assets	—	(0.5)	0.5	(100)%
Total Non-GAAP adjustments	56.1	25.6	30.5	119 %
Non-GAAP income from operations	$ 75.5	$ 76.5	$ (1.0)	(1)%
Non-GAAP operating margin	17%	21%		

The decrease in non-GAAP income from operations and non-GAAP operating margin during 2012 was principally due to: (i) the continued shift from a license-based model with upfront revenue recognition to a subscription-based model, which recognizes revenue ratably over the agreement term; (ii) incremental investments we made in our product development efforts and to improve the performance of our hosting services; and (iii) strategic investments we made in our business optimization efforts and the re-engineering of our accounting processes. Contributing to the decrease in 2012 is the growth of cost of services exceeding the growth of our services revenue.

Interest expense

Interest expense increased $5.7 million during 2012 when compared to 2011. This increase in interest expense is directly related to the borrowings we incurred to fund our acquisition of Convio in May 2012.

Income tax provision

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

	2013	2012	2011
Effective tax rate	32.8%	50.6%	35.2%

The decrease in the effective tax rate during 2013 when compared to 2012 was primarily due to an increase in the benefit from research and development credits and a decrease in nondeductible acquisition costs, partially offset by an increase in nondeductible compensation of certain executive officers and an increase in pretax income. The research and development credits were reinstated in January 2013 with retrospective application to the 2012 tax year. The provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate of 35.0% due primarily to research and development tax credits, which were partially offset by foreign loss jurisdictions where we have determined a valuation allowance is appropriate, as well as state taxes. Our effective income tax rate may fluctuate quarterly as a result of factors, including transactions entered into, changes in the geographic distribution of our earnings or losses, our assessment of certain tax contingencies, valuation allowances, and changes in tax law in jurisdictions where we conduct business.

The effective rate in 2012 increased when compared to 2011 primarily due to a decrease in pretax income, reduction in federal research and development credits and nondeductible transaction costs associated with the Convio acquisition.

We have deferred tax assets for federal, state, and international net operating loss carryforwards and state tax credits. The federal and state net operating loss carryforwards are subject to various Internal Revenue Code limitations and applicable state tax laws. The foreign net operating loss carryforwards, a portion of the state net operating loss carryforwards and a portion of state tax credits have a valuation reserve due to the uncertainty of realizing such carryforwards and credits in the future.

We file income tax returns in the U.S. for federal and various state jurisdictions as well as in foreign jurisdictions including Canada, United Kingdom, Australia, the Netherlands and Ireland. We are generally subject to U.S. federal income tax examination for calendar tax years ending 2010 through 2013 as well as state and foreign income tax examinations for various years depending on statute of limitations of those jurisdictions.

We have taken federal and state tax positions 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 expiration of statutes of limitations. The reasonably possible decrease approximates $1.3 million at December 31, 2013, which would favorably affect the effective tax rate.

Seasonality

Our revenues normally fluctuate as a result of certain seasonal variations in our business. Our revenue from professional services is typically lower in the first quarter when many of those services commence and in the fourth quarter due to the holiday season. In addition, our revenue from transaction fees is typically at its lowest in the first quarter due to the timing of customer fundraising initiatives and events. As a result of these and other factors, our total revenue is lower in the first quarter than in the remainder of our fiscal year, with the third and fourth quarters historically achieving the highest total revenues. Our expenses, however, do not vary significantly as a result of these factors, but do fluctuate on a quarterly basis due to varying timing of expenditures. Our cash flow from operations normally fluctuates quarterly due to the combination of the timing of customer contract renewals, delivery of professional services and occurrence of customer events as well as the payment of bonuses, among other factors. Historically, due to lower revenues in our first quarter, combined with the payment of bonuses from the prior year in our first quarter, our cash flow from operations is lowest in our first quarter, and due to the timing of client budget cycles, our cash flow from operations is lower in our second quarter as compared to our third and fourth quarters. In addition, deferred revenues can vary on a seasonal basis for the same reasons. This pattern may change, however, as a result of acquisitions, new market opportunities, new product introductions or other factors.

Liquidity and capital resources

At December 31, 2013, cash and cash equivalents totaled $11.9 million, compared to $13.5 million at December 31, 2012. The decrease in cash and cash equivalents during 2013 was principally attributable to cash generated from operations of $107.2 million, offset by a net reduction in debt of $62.6 million, payment of dividends of $22.1 million, the purchase of computer software and equipment of $20.1 million and software development costs that were capitalized of $3.2 million.

Our principal sources of liquidity are operating cash flow, funds available under our credit facility and cash on hand. Our operating cash flow 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 sources of funds and anticipated cash flows from operations will be adequate for at least the next twelve months to finance our operations, fund anticipated capital expenditures, meet our debt obligations 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.

We have drawn on our credit facility from time to time to help us meet financial needs, such as business acquisitions and payments to satisfy minimum tax withholding obligations that arose on the vesting of restricted stock awards and our related acquisition of treasury stock. At December 31, 2013, our available borrowing capacity under our credit facility was $152.2 million. We believe our credit facility will provide us with sufficient flexibility to meet our future financial needs. The credit facility matures in February 2017.

At December 31, 2013, the carrying amounts of our total current liabilities exceeded the carrying amounts of our total current assets primarily due to the use of cash provided by operating activities for investing and financing activities, including incremental payments made on outstanding borrowings.

At December 31, 2013, we had $152.9 million of outstanding borrowings under our credit facility. Our average daily borrowings were $187.3 million during 2013.

Following is a summary of the financial covenants as defined by credit facility:

Financial covenant	Requirement	As of December 31, 2013
Leverage ratio	< 2.75 to 1.00	1.40 to 1.00
Interest coverage ratio	> 3.50 to 1.00	20.13 to 1.00
Maximum capital expenditures	$67.8 million for the fiscal year ended December 31, 2013	$16.9 million

Under our credit facility, we also have restrictions on our ability to declare and pay dividends and our ability to repurchase shares of our common stock. In order to pay any cash dividends and/or repurchase shares of stock: (1) no default or event of default shall have occurred and be continuing under the credit facility, and (2) we must be in compliance with the leverage ratio set forth in the credit agreement. At December 31, 2013, we were in compliance with all debt covenants under our credit facility.

At December 31, 2013, our total cash and cash equivalents balance includes approximately $5.9 million of cash that was held by operations outside the U.S. While these funds may not be needed to fund our U.S. operations for at least the next 12 months, if we need these funds, we may be required to accrue and pay taxes to repatriate the funds. Our current plans anticipate repatriating undistributed earnings in Canada. We currently do not intend nor anticipate a need to repatriate our other cash held outside the U.S.

Operating cash flow

Net cash provided by operating activities of $107.2 million increased by $38.6 million during 2013 when compared to the prior year, primarily due to an increase in earnings as adjusted for non-cash transactions. Throughout both 2013 and 2012, 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, trade accounts payable, accrued expenses and other liabilities and deferred revenue. Cash flow from operations associated with working capital increased $2.6 million in 2013 when compared to 2012. The net increase was primarily due to a decrease in our days sales outstanding that resulted in more cash collections on accounts receivable during 2013 when compared to 2012. The increase was partially offset by an increase in cash paid for employee bonuses due to a change in the timing of these payments.

Investing cash flow

During 2012, we used approximately $280.7 million for the acquisition of Convio. Outside of this acquisition, cash used in investing activities was relatively unchanged year over year. During 2013, we spent $20.1 million on computer equipment and software associated with the infrastructure that supports our subscription-based offerings compared to $20.6 million during 2012. The decrease in cash used for property and equipment was offset in 2013 by a $2.0 million increase in capitalized software development costs from investments in our subscription-based offerings.

Financing cash flow

During 2013, we had a net reduction in debt of $62.6 million primarily from payments made on outstanding borrowings compared to a net increase in debt of $215.5 million, used to fund the acquisition of Convio during 2012. Payment of deferred financing costs increased $1.7 million during 2012 when compared to 2011 as a result of our amended and restated credit facility. Also during 2013, we paid dividends of $22.1 million, which was relatively consistent with the amounts paid in 2012 and 2011.

Commitments and contingencies

As of December 31, 2013, we had future minimum commitments 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(1)	$ 96.5	$ 10.7	$ 10.6	$ 31.1	$ 44.1
Debt and interest(2)	161.2	20.3	17.7	123.2	—
Purchase obligations(3)	$ 11.8	$ 5.1	$ 4.6	$ 2.1	$ —
Total	$ 269.5	$ 36.1	$ 32.9	$ 156.4	$ 44.1

(1) Our commitments related to operating leases have not been reduced by the future minimum lease commitments under sublease agreements, incentive payments or the reimbursement of leasehold improvements.

(2) Included in the table above is $8.3 million of interest. The actual interest expense recognized in our consolidated statements of comprehensive income will depend on the amount of debt, the length of time the debt is outstanding and the interest rate, which could be different from our assumptions used in the above table.

(3) We utilize third-party technology in conjunction with our products and services, with contractual arrangements varying in length from one to three years. In certain cases, these arrangements require a minimum annual purchase commitment by us.

The term loans under our credit facility require periodic principal payments. The balance of the term loans and any amounts drawn on the revolving credit loans are due upon maturity of the credit facility in February 2017.

The total liability for uncertain tax positions as of December 31, 2013 and 2012, was $3.7 million and $3.8 million, respectively. As of December 31, 2013 and 2012, we have accrued interest and penalties related to tax positions taken on our tax returns of $0.6 million and $0.7 million, respectively.

In February 2014, our Board of Directors approved our annual dividend rate of $0.48 per share for 2014. Dividends at the annual rate would aggregate to $22.6 million assuming 47.0 million shares of common stock are outstanding, although dividends are not guaranteed and our Board of Directors may decide to change or suspend dividend payments at any time for any reason. Our ability to continue to declare and pay dividends quarterly this year and beyond might be restricted by, among other things, the terms of our credit facility, general economic conditions and our ability to generate adequate operating cash flow.

Off-balance sheet arrangements

As of December 31, 2013, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have, a current or future effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Foreign currency exchange rates

Approximately 13% of our total net revenue for the year ended December 31, 2013 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 within other comprehensive loss as a component of stockholders’ equity, was a loss of $1.1 million and $1.2 million at December 31, 2013 and December 31, 2012, respectively.

The vast majority of our contracts are entered into by our U.S., Canadian or U.K. 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, Irish and the Netherlands subsidiaries are generally denominated in pounds sterling, Australian dollars, Euros 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. Conversely, as the U.S. dollar strengthened, foreign currency translation resulted in a decrease in our revenue and expenses denominated in non-U.S. currencies. During 2013, foreign translation resulted in a decrease in our revenues and expenses denominated in non-U.S. currencies. Though we do not believe our exposure to currency exchange rates has had a material impact on our consolidated results of operations or financial position, we intend to continue to monitor such exposure and take action as appropriate.

Inflation

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

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 (GAAP). The preparation of these financial statements requires us to make estimates and assumptions that 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. On an ongoing basis, we reconsider and evaluate our estimates and assumptions, including those that impact revenue recognition, long-lived and intangible assets and goodwill, stock-based compensation, the provision for income taxes, capitalization of software development costs, our allowance for sales returns and doubtful accounts, deferred sales commissions, accounting for business combinations and loss 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: (i) charging for the use of our software products in a hosted environment; (ii) selling perpetual licenses of our software products; (iii) providing professional services including implementation, training, consulting, analytic, hosting and other services; and (iv) providing software maintenance and support services.

We recognize revenue when all of the following conditions are met:

- Persuasive evidence of an arrangement exists;
- The product or services have been delivered;
- The fee is fixed or determinable; and
- Collection of the resulting receivable is probable.

Determining whether and when these criteria have been met can require significant judgment and estimates. We deem acceptance of an agreement to be evidence of an arrangement. Delivery of our services occurs when the services have been performed. Delivery of our products occurs when the product is shipped or transmitted, and title and risk of loss have transferred to the customers. Our typical agreements do 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. Revenue is recognized net of sales returns and allowances.

We follow guidance provided in ASC 605-45, *Principal Agent Considerations*, which states that determining whether a company should recognize revenue based on the gross amount billed to a customer or the net amount retained is a matter of judgment that depends on the facts and circumstances of the arrangement and that certain factors should be considered in the evaluation.

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 beginning on the activation date over the term of the agreement, which generally ranges from one to three years. Any related set-up fees are recognized ratably over the estimated period that the customer benefits from the related hosting service. The estimated period of benefit is evaluated on an annual basis using historical customer retention information by product or service.

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

For arrangements that have multiple elements and do not include software licenses, we allocate arrangement consideration at the inception of the arrangement to those elements that qualify as separate units of accounting. The arrangement consideration is allocated to the separate units of accounting based on relative selling price method in accordance with the selling price hierarchy, which includes: (i) vendor specific objective evidence (VSOE) if available; (ii) third-party evidence (TPE) if VSOE is not available; and (iii) best estimate of selling price (BESP) if neither VSOE nor TPE is available. In general, we use VSOE to allocate the selling price to subscription and service deliverables.

We offer certain payment processing services with the assistance of third-party vendors. When we are the primary obligor in a transaction, have latitude in establishing prices and are the party determining the service specifications or have several but not all of these indicators, we record the revenue on a gross basis. Otherwise, we record revenue associated with the related subscribers on a net basis, netting the cost of revenue associated with the service against the gross amount billed the customer and record the net amount as revenue.

Revenue from transaction processing fees is recognized when the service is provided and the amounts are determinable. Revenue directly associated with processing donations for customers are included in subscriptions revenue.

License fees

We sell software licenses with maintenance, varying levels of professional services and, in certain instances, with hosting services. We allocate revenue to each of the elements in these arrangements using the residual method under which we first allocate revenue to the undelivered elements, typically the non-software license components, based on objective evidence of the fair value of the various elements. We determine the fair value of the various elements using different methods. Fair value for maintenance services associated with software licenses is based upon renewal rates stated in the agreements with customers, which demonstrate a consistent relationship of maintenance pricing as a percentage of the contractual license fee. Fair value of professional services and other products and services is based on the average selling price of these same products and services to other customers when sold on a stand-alone basis. Any remaining revenue is allocated to the delivered elements which is normally the software license in the arrangement.

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 generally 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 using the percentage-of-completion method.

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. In arrangements where we provide customers the right to updates to the lists during the contract period, revenue is recognized ratably over the contract period.

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 recognize the related revenue upon the customer attending and completing training. Additionally, we sell fixed-rate programs, which permit customers to attend unlimited training 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, 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 for the above-described services in advance of delivery, we record such amounts in deferred revenue.

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 four operating segments (*see* Note 16 to our consolidated financial statements) and our payment processing operations. We test goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Significant judgment is required in the assessment of qualitative factors including but not limited to an evaluation of macroeconomic conditions as they relate to our business, industry and market trends, as well as the overall future financial performance of our reporting units and future opportunities in the markets in which they operate. To the extent the qualitative factors indicate that the fair value is likely less than the carrying amount, we compare the fair value of the reporting unit with its carrying amount.

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.

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. The 2013 annual impairment test of our goodwill indicated there was no impairment.

Stock-based compensation

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. We determine the fair value of stock options and stock appreciation rights using a Black-Scholes 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. We determine the fair value of awards that contain market conditions using a Monte Carlo simulation model. 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 we expect will 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 estimated and actual forfeitures.

Income taxes

We make estimates and judgments in accounting for income taxes. The calculation of income tax provision requires estimates due to transactions, credits and calculations where the ultimate tax determination is uncertain. Uncertainties arise as a consequence of the actual source of taxable income between domestic and foreign locations, the outcome of tax audits and the ultimate utilization of tax credits. To the extent actual results differ from estimated amounts recorded, such differences will impact the income tax provision in the period in which the determination is made.

We make estimates in determining tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. We record valuation allowances to reduce our deferred tax assets to the amount expected to be realized. In assessing the adequacy of a recorded valuation allowance significant judgment is required. We consider all positive and negative evidence and a variety of factors including the scheduled reversal of deferred tax liabilities, historical and projected future taxable income, and prudent and feasible tax planning strategies. If we determine there is less than a 50% likelihood that we will be able to use a deferred tax asset in the future in excess of its net carrying value, then an adjustment to the deferred tax asset valuation allowance is made to reduce income tax expense, thereby increasing net income in the period such determination was made.

We measure and recognize uncertain tax positions. To recognize such positions we must first determine if it is more likely than not that the position will be sustained on audit. We must then measure the benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. Significant judgment is required in the identification and measurement of uncertain tax positions.

Software Development Costs

We incur certain costs associated with the development of internal-use software and software developed related to our cloud-based solutions, which are accounted for as internal-use software. The costs incurred in the preliminary stages of internal-use software development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized costs for internal-use software are recorded as part of computer software costs within property and equipment. Capitalized costs for software developed for our cloud-based solutions are recorded to other assets. Internal-use software is amortized on a straight line basis over its estimated useful life, which is generally three years.

Although our development efforts are primarily focused on our cloud-based solutions, we also incur cost in connection with the development of certain of our software products licensed to customers on a perpetual basis, which are accounted for as costs of software to be sold, leased or otherwise marketed. Costs for the development of software to be sold are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. Capitalized software development costs include direct labor costs and fringe benefit costs attributed to programmers, software engineers and quality control teams working on products after they reach technological feasibility but before they are generally available to customers for sale. Capitalized software development costs are typically amortized over the estimated product life on a straight-line basis, which is generally three years.

Sales returns and allowance for doubtful accounts

We maintain a reserve for returns and credits which is estimated based on several factors including historical experience, known credits yet to be issued, the aging of customer accounts and the nature of service level commitments. A considerable amount of judgment is required in assessing these factors. Provisions for sales returns are charged against the related revenue items.

Accounts receivable are recorded at original invoice amounts less an allowance for doubtful accounts, 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. 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. Accounts are written off after all means of collection are exhausted and recovery is considered remote. Provisions for doubtful accounts are recorded in general and administrative expense.

Deferred sales commissions

We pay 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.

Business combinations

We are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed at the acquisition date based upon their estimated fair values. Goodwill as of the acquisition date represents the excess of the purchase consideration of an acquired business over the fair value of the underlying net tangible and intangible assets acquired and liabilities assumed. This allocation and valuation require management to make significant estimates and assumptions, especially with respect to long-lived and intangible assets.

Critical estimates in valuing intangible assets include, but are not limited to, estimates about: future expected cash flows from customer contracts, proprietary technology and non-compete agreements; the acquired company's brand awareness and market position, assumptions about the period of time the brand will continue to be valuable; as well as expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed, and discount rates. Our estimates of fair value are based upon assumptions we believe to be reasonable, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur.

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 adopted accounting pronouncements

Effective January 1, 2013, we adopted ASU 2013-02, *Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires that entities provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The adoption of ASU 2013-02 did not have a material impact on our consolidated financial statements. We have presented the amounts reclassified out of accumulated other comprehensive income by component in Note 10 and Note 14 to our consolidated financial statements.

Effective January 1, 2013, we adopted ASU 2012-02, *Intangibles - Goodwill and Other (Topic 350), Testing Indefinite-Lived Intangible Assets for Impairment*, which simplifies how entities test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test currently required by ASC Topic 350-30 on general intangibles other than goodwill. The adoption of ASU 2012-02 did not have a material impact on our consolidated financial statements.

Recently issued accounting pronouncements

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. Under ASU 2013-11, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward or a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 is effective for fiscal years and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. We do not anticipate any material impact from the adoption of ASU 2013-11.

Item 7A. Quantitative and qualitative disclosures about market risk

We have market rate sensitivity for interest rates and foreign currency exchange rates.

Interest rate risk

Our variable rate debt is our primary financial instrument with market risk exposure for changing interest rates. We manage interest rate risk through a combination of short-term and long-term borrowings and the use of derivative instruments entered into for hedging purposes. Due to the nature of our debt, the materiality of the fair values of the derivative instruments and the highly liquid, short-term nature and level of our cash and cash equivalents as of December 31, 2013, we believe there is no material risk of exposure to changing interest rates for those positions. There were no significant changes in how we manage interest rate risk between December 31, 2012 and December 31, 2013.

Foreign currency risk

For a discussion of our exposure to foreign currency exchange rate fluctuations, see “Management’s discussion and analysis of financial conditions and results of operations — Foreign currency exchange rates” 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.

9A. Controls and procedures

Evaluation of disclosure controls and procedures

Disclosure controls and procedures (as defined in Exchange Act Rule 13a-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 (as defined in Rule 13a-15(e)) pursuant to Exchange Act Rule 13a-15(b). 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, our 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, 2013, based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (1992 framework). Based on this evaluation under the Internal Control - Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2013.

Attestation report of registered public accounting firm

The effectiveness of our internal control over financial reporting as of December 31, 2013, has been audited by our independent registered public accounting firm, as stated in their attestation report, which is included in this Annual Report on Form 10-K.

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 Meetings 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 2014 Annual Meeting of Stockholders expected to be held on June 23, 2014, 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 2014 Annual Meeting of Stockholders expected to be held on June 23, 2014.

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 2014 Annual Meeting of Stockholders expected to be held on June 23, 2014.

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 2014 Annual Meeting of Stockholders expected to be held on June 23, 2014.

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 2014 Annual Meeting of Stockholders expected to be held on June 23, 2014.

PART IV

Item 15. Exhibits and financial statement schedules

(a) The following documents are included as part of the Annual Report on Form 10-K.

1. *Financial statements*

The following statements are filed as part of this report:

2. *Financial statement schedules*

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.

3. *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/A	4/6/2004	2.1	
2.2	Stock Purchase Agreement dated January 16, 2007 by and among Target Software, Inc., Target Analysis Group, Inc., all of the stockholders of Target Software, Inc. and Target Analysis Group, Inc., Charles Longfield, as stockholder representative, and Blackbaud, Inc.	8-K	1/18/2007	2.2	
2.3	Agreement and Plan of Merger dated as of May 29, 2008 by and among Blackbaud, Inc., Eucalyptus Acquisition Corporation and Kintera, Inc.	8-K	5/30/2008	2.3	
2.4	Share Purchase Agreement dated as of April 29, 2009 between RLC Group B.V., as the Seller, and Blackbaud, Inc., as the Purchaser	10-Q	8/7/2009	10.42	
2.5 *	Stock Purchase Agreement dated as of February 1, 2011 by and among Public Interest Data, Inc., all for the stockholders of Public Interest Data, Inc., Stephen W. Zautke, as stockholder representative and Blackbaud, Inc.	10-Q	5/10/2011	2.3	
2.6	Agreement and Plan of Merger dated as of January 16, 2012 by and among Blackbaud, Inc., Caribou Acquisition Corporation and Convio, Inc.	8-K	1/17/2012	2.4	
2.7	Stock Purchase Agreement dated as of October 6, 2011 by and among Everyday Hero Pty. Ltd., all of the stockholders of Everyday Hero Pty. Ltd., Nathan Betteridge as stockholder representative and Blackbaud Pacific Pty. Ltd.	10-K	2/29/2012	2.7	
3.4	Amended and Restated Certificate of Incorporation of Blackbaud, Inc.	DEF 14A	4/30/2009		
3.5	Amended and Restated Bylaws of Blackbaud, Inc.	8-K	3/22/2011	3.4	

Exhibit Number		Description of Document	Filed In Registrant's Form	Dated	Exhibit Number	Filed Herewith
10.5		Trademark License and Promotional Agreement dated as of October 13, 1999 between Blackbaud, Inc. and Charleston Battery, Inc.	S-1	2/20/2004	10.5	
10.6	†	Blackbaud, Inc. 1999 Stock Option Plan, as amended	S-1/A	4/6/2004	10.6	
10.8	†	Blackbaud, Inc. 2001 Stock Option Plan, as amended	S-1/A	4/6/2004	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	6/20/2006	10.20	
10.26	†	Form of Notice of Restricted Stock Grant and Restricted Stock Agreement under the Blackbaud, Inc. 2004 Stock Plan	10-K	2/28/2007	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	2/28/2007	10.27	
10.33	†	Blackbaud, Inc. 2008 Equity Incentive Plan	DEF 14A	4/29/2008		
10.34	†	Form of Notice of Grant and Stock Option Agreement under Blackbaud, Inc. 2008 Equity Incentive Plan	S-8	8/4/2008	10.34	
10.35	†	Form of Notice of Grant and Restricted Stock Agreement under Blackbaud, Inc. 2008 Equity Incentive Plan	S-8	8/4/2008	10.35	
10.36	†	Form of Notice of Grant and Stock Appreciation Rights Agreement under Blackbaud, Inc. 2008 Equity Incentive Plan	S-8	8/4/2008	10.36	
10.37	†**	Kintera, Inc. 2000 Stock Option Plan, as amended, and form of Stock Option Agreement thereunder	10-K/A	3/26/2008	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	3/26/2008	10.3	
10.39	†	Form of Retention Agreement	10-Q	11/10/2008	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	12/11/2008	10.37	
10.41	†	Blackbaud, Inc. 2009 Equity Compensation Plan for Employees from Acquired Companies	S-8	7/2/2009	10.41	
10.43	†	Amended and Restated Employment and Noncompetition Agreement dated January 28, 2010 between Blackbaud, Inc. and Marc Chardon	8-K	2/1/2010	10.43	
10.44		Credit Agreement dated as of June 17, 2011 by and among Blackbaud, Inc., as Borrower, the lenders referred to therein, and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender, with Wells Fargo Securities, LLC, J.P. Morgan Securities LLC, and SunTrust Robinson Humphrey, Inc. as Joint Lead Arrangers and Joint Book Managers	8-K	6/23/2011	10.44	
10.45		Guaranty Agreement dated as of June 17, 2011, by certain subsidiaries of Blackbaud, Inc., as Guarantors, in favor of Wells Fargo Bank, National Association, as Administrative Agent	8-K	6/23/2011	10.45	

Exhibit Number		Description of Document	Filed In Registrant's Form	Dated	Exhibit Number	Filed Herewith
10.46		Pledge Agreement dated as of June 17, 2011 by Blackbaud, Inc. and certain subsidiaries of Blackbaud, Inc. in favor of Wells Fargo Bank, National Association, as Administrative Agent for the ratable benefit of itself and the lenders referred to therein	8-K	6/23/2011	10.46	
10.47	†	Employment Agreement dated November 7, 2008 between Blackbaud, Inc. and Tim Williams	10-Q	11/8/2011	10.47	
10.48	†	Employment Agreement dated November 7, 2008 between Blackbaud, Inc. and Louis Attanasi	10-Q	11/8/2011	10.48	
10.49	†	Employment Agreement dated November 7, 2008 between Blackbaud, Inc. and Charlie Cumbaa	10-Q	11/8/2011	10.49	
10.50	†	Employment Agreement dated June 25, 2008 between Blackbaud, Inc. and Kevin Mooney	10-Q	11/8/2011	10.50	
10.51	†	Amendment No. 1 to the Amended and Restated Employment and Noncompetition Agreement dated December 13, 2011 between Blackbaud, Inc. and Marc Chardon	8-K	12/16/2011	10.51	
10.52		Form of Tender and Support Agreement by and among Blackbaud, Inc. and certain stockholders of Convio, Inc.	8-K	1/17/2012	10.52	
10.53		Amended and Restated Credit Agreement dated as of February 9, 2012 by and among Blackbaud, Inc., as Borrower, the lenders referred to therein, JPMorgan Chase Bank, N.A., as Administrative Agent, Swingline Lender and an Issuing Lender, SunTrust Bank, as Syndication Agent, and Bank of America, N.A. and Regions Bank, as Co-Documentation Agents, with J.P. Morgan Securities LLC and SunTrust Robinson Humphrey, Inc., as Joint Lead Arrangers and Joint Bookrunners	8-K	2/15/2012	10.53	
10.54		Amended and Restated Pledge Agreement dated as of February 9, 2012 by Blackbaud, Inc. in favor of JPMorgan Chase Bank, N.A., as Administrative Agent for the ratable benefit of itself and the lenders referred to therein	8-K	2/15/2012	10.54	
10.55	†	Employment Agreement dated November 14, 2011 between Blackbaud, Inc. and Anthony W. Boor	10-K	2/29/2012	10.55	
10.56	†	Services Agreement dated November 11, 2011 between Blackbaud, Inc. and Timothy V. Williams	10-K	2/29/2012	10.56	
10.57	†	Employment Agreement dated November 16, 2010 between Blackbaud, Inc. and Jana B. Eggers	10-K	2/29/2012	10.57	
10.58		Guaranty Agreement dated as of May 4, 2012, by certain subsidiaries of Blackbaud, Inc., as Guarantors, in favor of JP Morgan Chase Bank, N.A., as Administrative Agent	8-K	5/7/2012	10.58	
10.59	†***	Convio, Inc. 2009 Amended and Restated Stock Incentive Plan, as amended, and forms of stock option agreements	S-1/A	3/19/2010	10.1	
10.60	†***	Convio, Inc. Form of Nonstatutory Stock Option Notice (Double Trigger)	8-K	2/28/2011	10.1	
10.61	†***	Convio, Inc. Form of Restricted Stock Unit Notice (Double Trigger) and Agreement	8-K	2/28/2011	10.2	
10.62	†***	Convio, Inc. 1999 Stock Option/Stock Issuance Plan, as amended, and forms of stock option agreements	S-1	1/22/2010	10.2	

Exhibit Number		Description of Document	Filed In Registrant's Form	Dated	Exhibit Number	Filed Herewith
10.63	†	Blackbaud, Inc. 2008 Equity Incentive Plan, as amended	8-K	6/26/2012	10.59	
10.64	†	Amendment to the Blackbaud, Inc. 2008 Equity Incentive Plan	8-K	6/26/2012	10.60	
10.65	†	Form of Employment Agreement between Blackbaud, Inc. and each of Anthony W. Boor, Charles T. Cumbaa, Jana B. Eggers, Kevin W. Mooney and Joseph D. Moye	10-K	2/26/2013	10.65	
10.66		Lease Amendment and Remediation Agreement entered into as of March 22, 2013, by and between Blackbaud, Inc. and Duck Pond Creek-SPE, LLC.	8-K	3/28/2013	10.66	
10.67	†	Letter Agreement entered into as of January 24, 2013, by and between Blackbaud, Inc. and Marc. Chardon	10-Q	5/7/2013	10.67	
10.68	†	Form of Management Transition Retention Agreement between Blackbaud, Inc. and each of Anthony W. Boor, Charles T. Cumbaa, Jana B. Eggers, Kevin W. Mooney and Joseph D. Moye	10-Q	5/7/2013	10.68	
10.69	†	Management Transition Retention Agreement between Blackbaud, Inc. and Bradley J. Holman	10-Q	5/7/2013	10.69	
10.70	†	Letter Agreement dated October 23, 2013 between Blackbaud, Inc. and Anthony W. Boor	8-K	10/25/2013	10.70	
10.71	†	Offer Letter Agreement dated November 7, 2013 between Blackbaud, Inc. and Michael P. Gianoni	10-K	2/26/2014	10.71	X
10.72	†	Employment and Noncompetition Agreement dated November 8, 2013 between Blackbaud, Inc. and Michael P. Gianoni	10-K	2/26/2014	10.72	X
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

* The registrant has applied for an extension of the confidential treatment it was previously granted 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.

** The Kintera, 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.

*** The Convio, Inc. 2009 Amended and Restated Stock Incentive Plan, as amended, and forms of stock option agreements thereunder ("Convio 2009 Original Plan Documents") and the Convio, Inc. 1999 Stock Option/Stock Issuance Plan, as amended, and forms of stock option agreements thereunder ("Convio 1999 Plan Documents") were filed by Convio in its Forms S-1/A and S-1, filed March 19, 2010 and January 22, 2010 as exhibits 10.1 and 10.2, respectively. The Convio, Inc. Form of Nonstatutory Stock Option Notice (Double Trigger) and Convio, Inc. Form of Restricted Stock Unit Notice (Double Trigger) and Agreement were filed by Convio in its Form 8-K on February 28, 2011 as exhibits 10.1 and 10.2 (together with the Convio 2009 Original Plan Documents, the "Convio 2009 Plan Documents"). We assumed the Convio 2009 Plan Documents and Convio 1999 Plan Documents when we acquired Convio in May 2012. We filed the Convio 2009 Plan Documents and Convio 1999 Plan Documents by incorporation by reference as exhibits 10.59, 10.60, 10.61 and 10.62 in our Form S-8 on May 7, 2012.

**** 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.

† Indicates management contract or compensatory plan, contract or arrangement.

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: February 26, 2014	/S/ MICHAEL P. GIANONI
	President and Chief Executive Officer
	(Principal 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/ MICHAEL P. GIANONI **Michael P. Gianoni**	President, Chief Executive Officer and Director (Principal Executive Officer)	Date: February 26, 2014
/S/ ANTHONY W. BOOR **Anthony W. Boor**	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	Date: February 26, 2014
/S/ ANDREW M. LEITCH **Andrew M. Leitch**	Chairman of the Board	Date: February 26, 2014
/S/ TIMOTHY CHOU **Timothy Chou**	Director	Date: February 26, 2014
/S/ GEORGE H. ELLIS **George H. Ellis**	Director	Date: February 26, 2014
/S/ DAVID G. GOLDEN **David G. Golden**	Director	Date: February 26, 2014
/S/ SARAH E. NASH **Sarah E. Nash**	Director	Date: February 26, 2014
/S/ JOYCE M. NELSON **Joyce M. Nelson**	Director	Date: February 26, 2014

BLACKBAUD, INC.

Index to consolidated financial statements

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 comprehensive income, statements of cash flows and statements of stockholders' equity present fairly, in all material respects, the financial position of Blackbaud, Inc. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 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, 2013, based on criteria established in the 1992 *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

Charlotte, North Carolina
February 26, 2014

Blackbaud, Inc.
Consolidated balance sheets

(in thousands, except share amounts)	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 11,889	$ 13,491
Donor restricted cash	107,362	68,177
Accounts receivable, net of allowance of $5,613 and $8,546 at December 31, 2013 and 2012, respectively	66,969	75,692
Prepaid expenses and other current assets	30,115	40,589
Deferred tax asset, current portion	13,434	15,799
Total current assets	229,769	213,748
Property and equipment, net	49,550	49,063
Goodwill	264,599	265,055
Intangible assets, net	143,441	168,037
Other assets	19,251	9,844
Total assets	$ 706,610	$ 705,747
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 10,244	$ 13,623
Accrued expenses and other current liabilities	40,443	45,996
Donations payable	107,362	68,177
Debt, current portion	17,158	10,000
Deferred revenue, current portion	181,475	173,899
Total current liabilities	356,682	311,695
Debt, net of current portion	135,750	205,500
Deferred tax liability	36,880	24,468
Deferred revenue, net of current portion	9,099	11,119
Other liabilities	6,655	5,281
Total liabilities	545,066	558,063
Commitments and contingencies (see Note 11)		
Stockholders' equity:		
Preferred stock; 20,000,000 shares authorized, none outstanding	—	—
Common stock, $0.001 par value; 180,000,000 shares authorized, 55,699,817 and 54,859,604 shares issued at December 31, 2013 and 2012, respectively	56	55
Additional paid-in capital	220,763	203,638
Treasury stock, at cost; 9,573,102 and 9,209,371 shares at December 31, 2013 and 2012, respectively	(183,288)	(170,898)
Accumulated other comprehensive loss	(1,385)	(1,973)
Retained earnings	125,398	116,862
Total stockholders' equity	161,544	147,684
Total liabilities and stockholders' equity	$ 706,610	$ 705,747

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

Blackbaud, Inc.
Consolidated statements of comprehensive income

	Years ended December 31,		
(in thousands, except share and per share amounts)	**2013**	**2012**	**2011**
Revenue			
License fees	$ 16,715	$ 20,551	$ 19,475
Subscriptions	212,656	162,102	103,544
Services	126,548	119,626	108,781
Maintenance	138,745	136,101	130,604
Other revenue	9,153	9,039	8,464
Total revenue	503,817	447,419	370,868
Cost of revenue			
Cost of license fees	2,763	2,993	3,345
Cost of subscriptions	93,649	68,773	42,536
Cost of services	104,005	97,208	79,086
Cost of maintenance	25,741	26,001	25,178
Cost of other revenue	6,505	7,485	7,049
Total cost of revenue	232,663	202,460	157,194
Gross profit	271,154	244,959	213,674
Operating expenses			
Sales and marketing	97,614	95,218	75,361
Research and development	65,645	64,692	47,672
General and administrative	50,320	63,133	36,933
Restructuring	3,494	175	—
Amortization	2,539	2,106	980
Impairment of cost method investment	—	200	1,800
Total operating expenses	219,612	225,524	162,746
Income from operations	51,542	19,435	50,928
Interest income	67	146	183
Interest expense	(5,818)	(5,864)	(200)
Other (expense) income, net	(462)	(392)	346
Income before provision for income taxes	45,329	13,325	51,257
Income tax provision	14,857	6,742	18,037
Net income	$ 30,472	$ 6,583	$ 33,220
Earnings per share			
Basic	$ 0.68	$ 0.15	$ 0.76
Diluted	$ 0.67	$ 0.15	$ 0.75
Common shares and equivalents outstanding			
Basic weighted average shares	44,684,812	44,145,535	43,522,563
Diluted weighted average shares	45,421,140	44,691,845	44,149,054
Dividends per share	$ 0.48	$ 0.48	$ 0.48
Other comprehensive income (loss)			
Foreign currency translation adjustment	53	(34)	(336)
Unrealized gain (loss) on derivative instruments, net of tax	535	(791)	—
Total other comprehensive income (loss)	588	(825)	(336)
Comprehensive income	$ 31,060	$ 5,758	$ 32,884

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

Blackbaud, Inc.
Consolidated statements of cash flows

	Years ended December 31,		
(in thousands)	**2013**	**2012**	**2011**
Cash flows from operating activities			
Net income	$ 30,472	$ 6,583	$ 33,220
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	43,164	32,241	16,995
Provision for doubtful accounts and sales returns	5,403	9,591	5,646
Stock-based compensation expense	16,910	19,240	14,884
Excess tax benefits from stock-based compensation	—	(81)	(932)
Deferred taxes	13,873	7,585	13,533
Impairment of cost method investment	—	200	1,800
Gain on sale of assets	—	—	(549)
Amortization of deferred financing costs	613	678	164
Other non-cash adjustments	1,261	(293)	(1,042)
Changes in operating assets and liabilities, net of acquisition of businesses:			
Accounts receivable	3,161	(9,397)	(8,692)
Prepaid expenses and other assets	2,977	(8,817)	(2,915)
Trade accounts payable	(218)	(1,363)	1,714
Accrued expenses and other liabilities	(17,055)	(388)	(1,056)
Donor restricted cash	(39,801)	(27,990)	(22,862)
Donations payable	39,801	27,990	22,862
Deferred revenue	6,683	12,912	12,757
Net cash provided by operating activities	107,244	68,691	85,527
Cash flows from investing activities			
Purchase of property and equipment	(20,086)	(20,557)	(18,215)
Purchase of net assets of acquired companies, net of cash acquired	(876)	(280,687)	(23,385)
Capitalized software development costs	(3,197)	(1,245)	(1,012)
Proceeds from sale of assets	—	—	874
Net cash used in investing activities	(24,159)	(302,489)	(41,738)
Cash flows from financing activities			
Proceeds from issuance of debt	103,008	315,000	—
Payments on debt	(165,600)	(99,500)	—
Payments of deferred financing costs	—	(2,440)	(767)
Proceeds from exercise of stock options	385	3,146	2,041
Excess tax benefits from stock-based compensation	—	81	932
Dividend payments to stockholders	(22,081)	(21,731)	(21,429)
Payments on capital lease obligations	—	—	(40)
Net cash (used in) provided by financing activities	(84,288)	194,556	(19,263)
Effect of exchange rate on cash and cash equivalents	(399)	213	(10)
Net (decrease) increase in cash and cash equivalents	(1,602)	(39,029)	24,516
Cash and cash equivalents, beginning of year	13,491	52,520	28,004
Cash and cash equivalents, end of year	$ 11,889	$ 13,491	$ 52,520
Supplemental disclosure of cash flow information			
Cash (paid) received during the year for:			
Interest	$ (5,108)	$ (5,098)	$ (2)
Taxes, net of refunds	$ 4,132	$ (3,456)	$ 4,601
Purchase of equipment included in accounts payable	$ (1,557)	$ (4,641)	$ (4,760)

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

Blackbaud, Inc.
Consolidated statements of stockholders' equity

(in thousands, except share amounts)	Common stock Shares	Common stock Amount	Additional paid-in capital	Treasury stock	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
Balance at December 31, 2010	53,316,280	$ 53	$ 158,372	$(161,186)	$ (812)	$ 120,042	$ 116,469
Net income	—	—	—	—	—	33,220	33,220
Payment of dividends	—	—	—	—	—	(21,429)	(21,429)
Exercise of stock options, stock appreciation rights and restricted stock units	262,428	1	2,040	—	—	—	2,041
Surrender of 176,942 shares upon restricted stock vesting and exercise of stock appreciation rights	—	—	—	(5,040)	—	—	(5,040)
Tax impact of exercise of equity-based compensation	—	—	193	—	—	—	193
Stock-based compensation	—	—	14,796	—	—	88	14,884
Restricted stock grants	502,426	—	—	—	—	—	—
Restricted stock cancellations	(121,602)	—		—	—	—	—
Other comprehensive loss	—	—	—	—	(336)	—	(336)
Balance at December 31, 2011	53,959,532	$ 54	$ 175,401	$(166,226)	$ (1,148)	$ 131,921	$ 140,002
Net income	—	—	—	—	—	6,583	6,583
Payment of dividends	—	—	—	—	—	(21,731)	(21,731)
Exercise of stock options, stock appreciation rights and restricted stock units	355,180	—	3,146	—	—	—	3,146
Surrender of 189,547 shares upon restricted stock vesting and exercise of stock appreciation rights	—	—	—	(4,672)	—	—	(4,672)
Tax impact of exercise of equity-based compensation	—	—	81	—	—	—	81
Stock-based compensation	—	—	19,151	—	—	89	19,240
Equity-based awards assumed in business combination	—	—	5,859	—	—	—	5,859
Restricted stock grants	687,652	1	—	—	—	—	1
Restricted stock cancellations	(142,760)	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	(825)	—	(825)
Balance at December 31, 2012	54,859,604	$ 55	$ 203,638	$(170,898)	$ (1,973)	$ 116,862	$ 147,684
Net income	—	—	—	—	—	30,472	30,472
Payment of dividends	—	—	—	—	—	(22,081)	(22,081)
Exercise of stock options, stock appreciation rights and restricted stock units	609,500	—	385	—	—	—	385
Surrender of 363,731 shares upon restricted stock vesting and exercise of stock appreciation rights	—	—	—	(12,390)	—	—	(12,390)
Tax impact of exercise of equity-based compensation	—	—	(25)	—	—	—	(25)
Stock-based compensation	—	—	16,765	—	—	145	16,910
Restricted stock grants	458,462	1	—	—	—	—	1
Restricted stock cancellations	(227,749)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	588	—	588
Balance at December 31, 2013	55,699,817	$ 56	$ 220,763	$(183,288)	$ (1,385)	$ 125,398	$ 161,544

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

Blackbaud, Inc.
Notes to consolidated financial statements

1. Organization

We provide cloud-based and on-premise software solutions 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 their finances and optimize internal operations. As of December 31, 2013, we had more than 29,000 active customers distributed across multiple verticals within the nonprofit market including education, foundations, health and human services, religion, arts and cultural, public and societal benefits, environment and animal welfare as well as international foreign affairs.

2. Summary of significant accounting policies

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). In order to provide comparability between periods presented, amortization of software development costs and amortization of deferred financing costs have been broken out separately from other non-cash adjustments in the previously reported consolidated statements of cash flows to conform to the consolidated statement of cash flow presentation of the current period. After this change in presentation, amounts related to the amortization of software development costs are included in depreciation and amortization and amounts related to the amortization of deferred financing costs are presented separately within cash flows from operating activities. Similarly, restructuring costs have been broken out separately from general and administrative expense in the previously reported consolidated statements of comprehensive income to conform to the consolidated statement of comprehensive income presentation of the current period. After this change in presentation, restructuring costs are presented separately within operating expenses.

Basis of consolidation

The consolidated financial statements include the accounts of Blackbaud, Inc. 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 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. On an ongoing basis, we reconsider and evaluate our estimates and assumptions, including those that impact revenue recognition, long-lived and intangible assets and goodwill, stock-based compensation, the provision for income taxes, capitalization of software development costs, our allowance for sales returns and doubtful accounts, deferred sales commissions and professional services costs, valuation of derivative instruments, accounting for business combinations and loss contingencies. Changes in the facts or circumstances underlying these estimates could result in material changes and actual results could materially differ from these estimates.

Revenue recognition

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

We recognize revenue when all of the following conditions are met:

- Persuasive evidence of an arrangement exists;
- The products or services have been delivered;
- The fee is fixed or determinable; and
- Collection of the resulting receivable is probable.

Blackbaud, Inc.
Notes to consolidated financial statements (continued)

Determining whether and when these criteria have been met can require significant judgment and estimates. We deem acceptance of an agreement to be evidence of an arrangement. Delivery of our services occurs when the services have been performed. Delivery of our products occurs when the product is shipped or transmitted, and title and risk of loss have transferred to the customers. Our typical agreements do 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. Revenue is recognized net of sales returns and allowances.

We follow guidance provided in ASC 605-45, *Principal Agent Considerations*, which states that determining whether a company should recognize revenue based on the gross amount billed to a customer or the net amount retained is a matter of judgment that depends on the facts and circumstances of the arrangement and that certain factors should be considered in the evaluation.

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 beginning on the activation date over the term of the agreement, which generally ranges from one to three years. Any related set-up fees are recognized ratably over the estimated period that the customer benefits from the related hosting service. The estimated period of benefit is evaluated on an annual basis using historical customer retention information by product or service.

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

For arrangements that have multiple elements and do not include software licenses, we allocate arrangement consideration at the inception of the arrangement to those elements that qualify as separate units of accounting. The arrangement consideration is allocated to the separate units of accounting based on relative selling price method in accordance with the selling price hierarchy, which includes: (i) vendor specific objective evidence (VSOE) of fair value if available; (ii) third-party evidence (TPE) if VSOE is not available; and (iii) best estimate of selling price (BESP) if neither VSOE nor TPE is available. In general, we use VSOE to allocate the selling price to subscription and service deliverables.

We offer certain payment processing services with the assistance of third-party vendors. When we are the primary obligor in a transaction, have latitude in establishing prices and are the party determining the service specifications or have several but not all of these indicators, we record the revenue and cost on a gross basis. Otherwise, we record revenue associated with the related subscribers on a net basis, netting the cost of revenue associated with the service against the gross amount billed the customer and record the net amount as revenue.

Revenue from transaction processing services is recognized when the service is provided and the amounts are determinable. Revenue directly associated with processing donations for customers are included in subscriptions revenue.

License fees

We sell perpetual software licenses with maintenance, varying levels of professional services and, in certain instances, with hosting services. We allocate revenue to each of the elements in these arrangements using the residual method under which we first allocate revenue to the undelivered elements, typically the non-software license components, based on VSOE of fair value of the various elements. We determine VSOE of fair value of the various elements using different methods. VSOE of fair value for maintenance services associated with software licenses is based upon renewal rates stated in the agreements with customers, which demonstrate a consistent relationship of maintenance pricing as a percentage of the contractual license fee. VSOE of fair value of professional services and other products and services is based on the average selling price of these same products and services to other customers when sold on a stand-alone basis. Any remaining revenue is allocated to the delivered elements which is normally the software license in the arrangement.

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 generally 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 using the percentage-of-completion method.

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. In arrangements where we provide customers the right to updates to the lists during the contract period, revenue is recognized ratably over the contract period.

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 recognize the related revenue upon the customer attending and completing training. Additionally, we sell fixed-rate programs, which permit customers to attend unlimited training 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, 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 may 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 for the above-described services in advance of delivery, we record such amounts in deferred revenue.

Fair value measurements

We measure certain financial assets and liabilities at fair value on a recurring basis, including derivative instruments. Fair value is defined as the exchange price that would be received upon purchase of an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. We use a three-tier fair value hierarchy to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 - Quoted prices for identical assets or liabilities in active markets;
- Level 2 - Quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

Our financial assets and liabilities are classified in their entirety within the hierarchy based on the lowest level of input that is significant to fair value measurement. Changes to a financial assets' or liabilities' level within the fair value hierarchy are determined as of the end of a reporting period. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

Blackbaud, Inc.
Notes to consolidated financial statements (continued)

Financial liabilities measured at fair value on a recurring basis consisted of the following, as of:

(in thousands)	Fair value measurement using Level 1	Level 2	Level 3	Total
Fair value as of December 31, 2013				
Financial Liabilities:				
Derivative instruments[(1)]	—	427	—	427
Total financial liabilities	$ —	$ 427	$ —	$ 427
Fair value as of December 31, 2012				
Financial liabilities:				
Derivative instruments[(1)]	—	1,296	—	1,296
Total financial liabilities	$ —	$ 1,296	$ —	$ 1,296

(1) The fair value of our interest rate swaps was based on model-driven valuations using LIBOR rates, which are observable at commonly quoted intervals. Accordingly, our interest rate swaps are classified within Level 2 of the fair value hierarchy.

We believe the carrying amounts of our cash and cash equivalents, donor restricted cash, accounts receivable, trade accounts payable, accrued expenses and other current liabilities and donations payable approximate their fair values at December 31, 2013 and 2012, due to the immediate or short-term maturity of these instruments.

Financial assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets, goodwill and our credit facility. Intangible assets and goodwill are recognized at fair value in the period in which an acquisition is completed, or when they are considered to be impaired. We believe the carrying amount of our credit facility approximates its fair value at December 31, 2013 and 2012, as the debt bears interest rates that approximate market. As LIBOR rates are observable at commonly quoted intervals, it is classified within Level 2 of the fair value hierarchy. There were no non-recurring fair value adjustments recorded during the years ended December 31, 2013 or 2012.

Derivative instruments

We use derivative instruments to manage interest rate risk. We view derivative instruments as risk management tools and do not use them for trading or speculative purposes. Our policy requires that derivatives used for hedging purposes be designated and effective as a hedge of the identified risk exposure at the inception of the contract. Accordingly, changes in fair value of the derivative contract must be highly correlated with changes in the fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract.

We record all derivative instruments on our consolidated balance sheets at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized currently in earnings. If the derivative is designated as a cash flow hedge, the effective portions of the changes in fair value of the derivative are recorded in other comprehensive income and reclassified to earnings in a manner that matches the timing of the earnings impact of the hedged transactions. Ineffective portions of the changes in the fair value of cash flow hedges are recognized currently in earnings. See Note 10 for further discussion of our derivative instruments.

Reimbursable travel expense

We expense reimbursable travel costs as incurred and include them in cost of other revenue. The reimbursement of these costs by our customers is included in other revenue.

Sales taxes

We present sales taxes and other taxes collected from customers and remitted to governmental authorities on a net basis and, as such, exclude them from revenues.

Shipping and handling

We expense shipping and handling costs as incurred and include them in cost of other revenue. The reimbursement of these costs by our customers is included in other revenue.

Cash and cash equivalents

We consider 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 us and payable to our 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 either legally or internally imposed and reflects our intention with regard to such deposits.

Concentration of credit risk

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents, donor restricted cash and accounts receivable. Our cash and cash equivalents and donor restricted cash are placed with high credit-quality financial institutions. Our accounts receivable are derived from sales to customers who primarily operate in the nonprofit sector. With respect to accounts receivable, we perform ongoing evaluations of our customers and maintain an allowance for doubtful accounts based on historical experience and our expectations of future losses. As of and for the years ended December 31, 2013, 2012 and 2011, there were no significant concentrations with respect to our consolidated revenues or accounts receivable.

Property and equipment

We record property and equipment at cost and depreciate 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. We transferred these assets 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, 2013 and 2012.

Business combinations

We are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed at the acquisition date based upon their estimated fair values. Goodwill as of the acquisition date represents the excess of the purchase consideration of an acquired business over the fair value of the underlying net tangible and intangible assets acquired and liabilities assumed. This allocation and valuation require management to make significant estimates and assumptions, especially with respect to long-lived and intangible assets.

Critical estimates in valuing intangible assets include, but are not limited to, estimates about: future expected cash flows from customer contracts, proprietary technology and non-compete agreements; the acquired company's brand awareness and market position, assumptions about the period of time the brand will continue to be valuable; as well as expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed, and discount rates. Our estimates of fair value are based upon assumptions we believe to be reasonable, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur.

Goodwill

Goodwill represents the purchase price in excess of the net amount assigned to assets acquired and liabilities assumed by us in a business combination. Goodwill is allocated to reporting units and tested annually for impairment. Our reporting units are our four reportable segments and our payment processing operations. We will also test goodwill for impairment between annual impairment tests if indicators of potential impairment exist. We first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Significant judgment is required in the assessment of qualitative factors including but not limited to an evaluation of macroeconomic conditions as they relate to our business, industry and market trends, as well as the overall future financial performance of our reporting units and future opportunities in the markets in which they operate. To the extent the qualitative factors indicate that there is more than 50% likelihood that the fair value is less than the carrying amount, we compare the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, impairment is indicated and we will recognize an impairment loss in an amount equal to the difference. As a result of our 2013 qualitative assessments of goodwill assigned to each of our reporting units, we concluded it was not more likely than not that the fair value of each reporting unit was less than its carrying value, respectively. There was no impairment of goodwill during 2013, 2012 or 2011.

Intangible assets

We amortize finite-lived 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	1-8
Acquired software and technology	Straight-line	1-10
Non-compete agreements	Straight-line	1-5
Database	Straight-line	8

(1) Certain of the customer relationships are amortized on an accelerated basis.

Indefinite-lived intangible assets consist of tradenames. We evaluate the estimated useful lives and the potential for impairment of finite and indefinite-lived intangible assets on an annual basis, or more frequently if events or circumstances indicate revised estimates of useful lives may be appropriate or that the carrying amount may not be recoverable. If the carrying amount is no longer recoverable based upon the undiscounted cash flows of the asset, the amount of impairment is the difference between the carrying amount and the fair value of the asset. Substantially all of our intangible assets were acquired in business combinations. There was no impairment of intangible assets during 2013, 2012 or 2011.

Cost method investments

Cost method investments consist of investments in privately held companies where we do not have the ability to exercise significant influence or have control over the investee. We record these investments at cost and periodically test them for other-than-temporary impairment. During the years ended December 31, 2012 and 2011, we determined that our cost method investment had other-than-temporary impairment based on the projected liquidity of the investment. We used the income approach to determine the fair value of the investment in determining the impairment. An impairment loss of $0.2 million and $1.8 million was recorded in income from operations for the years ended December 31, 2012 and 2011, respectively. There were no remaining cost method investments at December 31, 2013 and 2012.

Deferred financing costs

Deferred financing costs included in other assets represent the direct costs of entering into both our revolving credit facility in June 2011 and our amended and restated credit facility in February 2012. 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

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. We determine the fair value of stock options and stock appreciation rights using a Black-Scholes 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. We determine the fair value of awards that contain market conditions using a Monte Carlo simulation model. 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 we expect will 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 estimated and actual forfeitures.

Income taxes

We make estimates and judgments in accounting for income taxes. The calculation of income tax provision requires estimates due to transactions, credits and calculations where the ultimate tax determination is uncertain. Uncertainties arise as a consequence of the actual source of taxable income between domestic and foreign locations, the outcome of tax audits and the ultimate utilization of tax credits. To the extent actual results differ from estimated amounts recorded, such differences will impact the income tax provision in the period in which the determination is made.

We make estimates in determining tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. We record valuation allowances to reduce our deferred tax assets to the amount expected to be realized. In assessing the adequacy of a recorded valuation allowance significant judgment is required. We consider all positive and negative evidence and a variety of factors including the scheduled reversal of deferred tax liabilities, historical and projected future taxable income, and prudent and feasible tax planning strategies. If we determine there is less than a 50% likelihood that we will be able to use a deferred tax asset in the future in excess of its net carrying value, then an adjustment to the deferred tax asset valuation allowance is made to reduce income tax expense, thereby increasing net income in the period such determination was made.

We measure and recognize uncertain tax positions. To recognize such positions we must first determine if it is more likely than not that the position will be sustained on audit. We must then measure the benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. Significant judgment is required in the identification and measurement of uncertain tax positions.

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.

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 in other expense, net. For each of the years ended December 31, 2013 and 2012, we recorded net foreign currency losses of $0.4 million. For the year ended December 31, 2011, we recorded net a foreign currency gain of $0.3 million.

Research and development

Research and development costs are expensed as incurred. These costs include human resource costs, stock-based compensation expense, third-party contractor expenses, software development tools and certain other expenses related to researching and developing new products, and allocated depreciation, facilities and IT support costs.

Software development costs

We incur certain costs associated with the development of internal-use software and software developed related to our cloud-based solutions, which are accounted for as internal-use software. The costs incurred in the preliminary stages of internal-use software development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized costs for internal-use software are recorded as part of computer software costs within property and equipment. Capitalized costs for software developed for our cloud-based solutions are recorded to other assets. Internal-use software is amortized on a straight line basis over its estimated useful life, which is generally three years.

Although our development efforts are primarily focused on our cloud-based solutions, we also incur cost in connection with the development of certain of our software products licensed to customers on a perpetual basis, which are accounted for as costs of software to be sold, leased or otherwise marketed. Costs for the development of software to be sold are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. Capitalized software development costs include direct labor costs and fringe benefit costs attributed to programmers, software engineers and quality control teams working on products after they reach technological feasibility but before they are generally available to customers for sale. Capitalized software development costs are typically amortized over the estimated product life on a straight-line basis, which is generally three years.

Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. There were no impairments during the years ended December 31, 2013, 2012 or 2011. At December 31, 2013 and 2012, software development costs, net of accumulated amortization, were $4.2 million and $2.0 million, respectively, and are included in other assets on the consolidated balance sheets. Amortization expense related to software development costs was $1.0 million, $0.4 million and $0.1 million for the years ended December 31, 2013, 2012 and 2011, respectively, and is included in both cost of license fees and cost of subscriptions.

Sales returns and allowance for doubtful accounts

We maintain a reserve for returns and credits which is estimated based on several factors including historical experience, known credits yet to be issued, the aging of customer accounts and the nature of service level commitments. A considerable amount of judgment is required in assessing these factors. Provisions for sales returns and credits are charged against the related revenue items.

Accounts receivable are recorded at original invoice amounts less an allowance for doubtful accounts, 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. 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. Accounts are written off 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 our allowance for sales returns.

Years ended December 31, (in thousands)	Balance at beginning of year	Provision/adjustment	Write-off	Balance at end of year
2013	$ 7,730	$ 4,132	$ (6,704)	$ 5,158
2012	3,652	8,914	(4,836)	7,730
2011	2,263	5,619	(4,230)	3,652

Below is a summary of the changes in our allowance for doubtful accounts.

Years ended December 31, (in thousands)	Balance at beginning of year	Provision/adjustment	Write-off	Balance at end of year
2013	$ 816	$ 775	$ (1,136)	$ 455
2012	261	976	(421)	816
2011	424	27	(190)	261

Sales commissions

We pay 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 our 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
2013	$ 18,142	$ 20,487	$ (18,541)	$ 20,088
2012	16,452	19,693	(18,003)	18,142
2011	11,548	18,415	(13,511)	16,452

Advertising costs

We expense advertising costs as incurred, which was $1.1 million, $1.2 million and $1.1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Restructuring costs

Restructuring costs include charges for the costs of exit or disposal activities. The liability for costs associated with exit or disposal activities is measured initially at fair value and only recognized when the liability is incurred.

Impairment of long-lived assets

We review 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 are present, the undiscounted cash flow method is used to determine whether the asset is impaired. No impairment of long-lived assets resulted in 2013, 2012 or 2011.

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.

Earnings per share

We compute 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 exercise, settlement and vesting of all dilutive securities using the "treasury stock method" when the effect is not anti-dilutive. Potentially dilutive securities consist of shares issuable upon the exercise of stock options, settlement of stock appreciation rights and vesting of restricted stock awards and units.

Blackbaud, Inc.
Notes to consolidated financial statements (continued)

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

(in thousands, except share and per share amounts)	Year ended December 31, 2013	2012	2011
Numerator:			
Net income	$ 30,472	$ 6,583	$ 33,220
Denominator:			
Weighted average common shares	44,684,812	44,145,535	43,522,563
Add effect of dilutive securities:			
Employee stock-based compensation	736,328	546,310	626,491
Weighted average common shares assuming dilution	45,421,140	44,691,845	44,149,054
Earnings per share:			
Basic	$ 0.68	$ 0.15	$ 0.76
Diluted	$ 0.67	$ 0.15	$ 0.75

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

	Year ended December 31, 2013	2012	2011
Shares excluded from calculations of diluted EPS	116,438	434,050	422,418

Recently adopted accounting pronouncements

Effective January 1, 2013, we adopted ASU 2013-02, *Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires that entities provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The adoption of ASU 2013-02 did not have a material impact on our consolidated financial statements. We have presented the amounts reclassified out of accumulated other comprehensive income by component in Note 10 and Note 14 to our consolidated financial statements.

Effective January 1, 2013, we adopted ASU 2012-02, *Intangibles - Goodwill and Other (Topic 350), Testing Indefinite-Lived Intangible Assets for Impairment*, which simplifies how entities test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test currently required by ASC Topic 350-30 on general intangibles other than goodwill. The adoption of ASU 2012-02 did not have a material impact on our consolidated financial statements.

Recently issued accounting pronouncements

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. Under ASU 2013-11, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward or a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 is effective for fiscal years and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. We do not anticipate any material impact from the adoption of ASU 2013-11.

3. Business combinations

2012 Acquisitions

Convio

In May 2012, we completed our acquisition of Convio, Inc. (Convio), for approximately $329.8 million in cash consideration and the assumption of unvested equity awards valued at approximately $5.9 million, for a total of $335.7 million. Convio was a leading provider of on-demand constituent engagement solutions that enabled nonprofit organizations to more effectively raise funds, advocate for change and cultivate relationships. The acquisition of Convio expands our subscription and online offerings and accelerates our evolution to a subscription-based revenue model. As a result of the acquisition, Convio has become a wholly-owned subsidiary of ours. The results of operations of Convio are included in our consolidated financial statements from the date of acquisition. Because we have integrated a substantial amount of the Convio operations and have made product rationalization decisions, it is not possible to determine the revenue and operating costs attributable solely to the acquired business. During the year ended December 31, 2012, we incurred $6.4 million of acquisition-related costs associated with the acquisition of Convio, which were recorded in general and administrative expense.

We financed the acquisition of Convio through cash on hand and borrowings of $312.0 million under our credit facility. In connection with closing the Convio acquisition, we designated Convio as a material domestic subsidiary under our credit facility. As a material domestic subsidiary, Convio guarantees amounts outstanding under the credit facility and pledges certain stock of its subsidiaries.

The following table summarizes the allocation of the purchase price based on the estimated fair value of the assets acquired and the liabilities assumed:

(in thousands)		
Net working capital, excluding deferred revenue	$	57,062
Property and equipment		6,591
Other long term assets		75
Deferred revenue		(7,847)
Deferred tax liability		(33,181)
Intangible assets and liabilities		139,650
Goodwill		173,324
	$	335,674

The estimated fair value of accounts receivable acquired approximates the contractual value of $12.8 million. The goodwill recognized is attributable primarily to the assembled workforce of Convio and the opportunities for expected synergies. None of the goodwill arising in the acquisition is deductible for income tax purposes. The estimated amount of goodwill assigned to the Enterprise Customer Business Unit and the General Markets Business Unit reporting segments was $124.8 million and $48.5 million, respectively.

The acquisition resulted in the identification of the following identifiable intangible assets:

	Intangible assets acquired (in thousands)	Weighted average amortization period (in years)
Customer relationships	$ 53,000	15
Marketing assets	7,800	7
Acquired technology	69,000	8
In-process research and development	9,100	7
Non-compete agreements	1,440	2
Unfavorable leasehold interests	(690)	7
	$ 139,650	

The fair value of the intangible assets was based on the income approach, cost approach, relief of royalty rate method and excess earnings methods. Customer relationships are amortized on an accelerated basis. Marketing assets, acquired technology and non-compete agreements are amortized on a straight-line basis. In-process research and development related to proprietary technology was placed into service subsequent to the time of acquisition and is amortized on a straight-line basis since the time of being placed into service over a weighted average amortization period of seven years.

The following unaudited pro forma condensed consolidated results of operations assume that the acquisition of Convio occurred on January 1, 2011. This unaudited pro forma financial information does not reflect any adjustments for anticipated synergies resulting from the acquisition and should not be relied upon as being indicative of the historical results that would have been attained had the transaction been consummated as of January 1, 2011, or of the results that may occur in the future.

	Year ended December 31,	
(in thousands, except per share amounts)	**2012**	**2011**
Revenue	$ 476,887	$ 451,221
Net income	$ 116	$ 27,697
Basic earnings per share	$ —	$ 0.64
Diluted earnings per share	$ —	$ 0.63

2011 Acquisitions

During the year ended December 31, 2011, we acquired two entities for total consideration of $24.2 million, all of which was paid in cash. The results of operations of acquired entities have been included in our consolidated financial statements 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 our consolidated results of operations. We 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 2011 is deductible for income tax purposes.

4. Property and equipment

Property and equipment consisted of the following, as of:

(in thousands)	Estimated useful life (years)	December 31, 2013	December 31, 2012
Equipment	3 - 5	$ 3,710	$ 2,430
Computer hardware	3 - 5	59,394	56,969
Computer software	3 - 5	19,989	17,540
Construction in progress	-	93	1,854
Furniture and fixtures	5 - 7	6,987	5,486
Leasehold improvements	term of lease	11,375	5,104
Total property and equipment		101,548	89,383
Less: accumulated depreciation		(51,998)	(40,320)
Property and equipment, net of depreciation		$ 49,550	$ 49,063

Depreciation expense was $17.5 million, $14.5 million and $9.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Property and equipment, net of depreciation, under capital leases at December 31, 2013 and 2012 was not material.

5. Goodwill and other intangible assets

The change in goodwill for each reportable segment during the year ended December 31, 2013, consisted of the following:

(in thousands)	ECBU	GMBU	IBU	Target Analytics	Other	Total
Balance at December 31, 2012	$ 148,322	$ 75,149	$ 6,311	$ 33,177	$ 2,096	$ 265,055
Additions related to business combinations	—	—	344	—	—	344
Adjustments related to prior year business combinations	(494)	(193)	—	—	—	(687)
Effect of foreign currency translation	—	—	(113)	—	—	(113)
Balance at December 31, 2013	$ 147,828	$ 74,956	$ 6,542	$ 33,177	$ 2,096	$ 264,599

We have no accumulated impairment losses as of December 31, 2013 and 2012. Additions to goodwill during the year ended December 31, 2013, related to an immaterial acquisition. Decreases were the result of adjustments to the allocation of the purchase price for the entity we acquired during the year ended December 31, 2012.

Blackbaud, Inc.
Notes to consolidated financial statements (continued)

We have 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 and related amortization as of:

	December 31,	
(in thousands)	**2013**	**2012**
Finite-lived gross carrying amount		
Customer relationships	$ 102,030	$ 101,878
Marketing assets	10,384	10,296
Acquired software and technology	94,144	94,378
Non-compete agreements	2,128	3,979
Database	4,275	4,275
Total finite-lived gross carrying amount	212,961	214,806
Accumulated amortization		
Customer relationships	(33,442)	(24,994)
Marketing assets	(4,529)	(2,852)
Acquired software and technology	(27,671)	(14,787)
Non-compete agreements	(1,739)	(2,727)
Database	(3,332)	(2,798)
Total accumulated amortization	(70,713)	(48,158)
Indefinite-lived gross carrying amount		
Marketing assets	1,193	1,389
Total intangible assets, net	$ 143,441	$ 168,037

Changes to the gross carrying amounts of intangible asset classes during 2013 were related to an immaterial acquisition, the write-off of certain non-compete agreements that expired and the effect of foreign currency translation.

Amortization expense

Amortization expense related to finite-lived intangible assets acquired in business combinations is allocated to cost of revenue and operating expenses on the consolidated statements of comprehensive income based on the revenue stream to which the asset contributes. The following table summarizes amortization expense:

	Year ended December 31,		
(in thousands)	**2013**	**2012**	**2011**
Included in cost of revenue:			
Cost of license fees	$ 421	$ 485	$ 635
Cost of subscriptions	18,578	11,969	3,341
Cost of services	2,528	1,992	1,572
Cost of maintenance	457	722	975
Cost of other revenue	75	75	75
Total included in cost of revenue	22,059	15,243	6,598
Included in operating expenses	2,539	2,106	980
Total	$ 24,598	$ 17,349	$ 7,578

Blackbaud, Inc.
Notes to consolidated financial statements (continued)

The following table outlines the estimated future amortization expense for each of the next five years for our finite-lived intangible assets as of December 31, 2013:

Year ended December 31,		Amortization expense (in thousands)
2014	$	22,573
2015		22,203
2016		21,799
2017		19,484
2018		18,123
Total	$	104,182

6. Prepaid expenses and other assets

Prepaid expenses and other assets consisted of the following as of:

(in thousands)		December 31, 2013		December 31, 2012
Deferred sales commissions	$	20,088	$	18,142
Prepaid software maintenance		6,875		5,530
Taxes, prepaid and receivable		1,112		7,398
Deferred professional services costs		7,445		8,057
Software development costs		4,172		1,994
Other assets		9,674		9,312
Total prepaid expenses and other assets		49,366		50,433
Less: Long-term portion		19,251		9,844
Total prepaid expenses and other current assets	$	30,115	$	40,589

7. Accrued expenses and other liabilities

Accrued expenses and other liabilities consisted of the following as of:

(in thousands)		December 31, 2013		December 31, 2012
Taxes payable	$	5,430	$	7,607
Accrued commissions and salaries		7,127		5,905
Accrued bonuses		9,258		11,966
Customer credit balances		3,281		4,577
Accrued software and maintenance		970		3,875
Unrecognized tax benefit		3,698		3,846
Other liabilities		17,334		13,501
Total accrued expenses and other liabilities		47,098		51,277
Less: Long-term portion		6,655		5,281
Total accrued expenses and other current liabilities	$	40,443	$	45,996

Blackbaud, Inc.
Notes to consolidated financial statements (continued)

8. Deferred revenue

Deferred revenue consisted of the following as of:

(in thousands)	December 31, 2013	December 31, 2012
Maintenance	$ 85,219	$ 81,741
Subscriptions	72,480	65,850
Services	32,153	36,904
License fees and other	722	523
Total deferred revenue	190,574	185,018
Less: Deferred revenue, net of current portion	9,099	11,119
Deferred revenue, current portion	$ 181,475	$ 173,899

9. Debt

Credit facility

We have a five-year $325.0 million credit facility, which includes the following facilities: (i) a dollar and a designated currency revolving credit facility with sublimits for letters of credit and swingline loans, and (ii) a delayed draw term loan. The stock and limited liability company interests of certain subsidiaries are pledged as collateral for the credit facility which is guaranteed by our material domestic subsidiaries.

Amounts borrowed under the dollar tranche revolving credit loans and delayed draw term loans under the credit facility bear interest at a rate per annum equal to, at our option, (a) Base Rate equal to the highest of (i) the prime rate, (ii) federal funds rate plus 0.50% and (iii) one month LIBOR plus 1%, in addition to a margin of 0.25% to 1.25%, or (b) LIBOR rate plus a margin of 1.25% to 2.25%. Swingline loans bear interest at a rate per annum equal to the Base Rate plus a margin of 0.25% to 1.25% or such other rate agreed to between the Swingline lender and us. Designated currency tranche revolving credit loans bear interest at a rate per annum equal to the LIBOR rate for the applicable currency plus a margin of 1.25% to 2.25%. The exact amount of any margin depends on the nature of the loan and our leverage ratio.

We also pay a quarterly commitment fee on the unused portion of the revolving credit facility from 0.20% to 0.35% per annum, depending on our leverage ratio. At December 31, 2013, the commitment fee was 0.25%.

The term loans under our credit facility require periodic principal payments. The balance of the term loans and any amounts drawn on the revolving credit loans are due upon maturity of the credit facility in February 2017. We evaluate the classification of our debt based on the required annual maturities of our credit facility.

The credit facility includes financial covenants related to the consolidated leverage ratio and interest ratio, as well as restrictions on the maximum amount of annual capital expenditures, our ability to incur obligations with other financial institutions, our ability to declare and pay dividends and our ability to repurchase shares of our common stock. At December 31, 2013, we were in compliance with all debt covenants under the credit facility.

The following table summarizes our debt balances and the related weighted average effective interest rates, which include our interest cost incurred and the effect of interest rate swap agreements.

(in thousands, except percentages)	Debt balance at December 31, 2013	Debt balance at December 31, 2012	Weighted average effective interest rate at December 31, 2013	Weighted average effective interest rate at December 31, 2012
Credit facility:				
Revolving credit loans	$ 70,408	$ 123,000	1.95%	2.68%
Term loans	82,500	92,500	2.39%	3.14%
Total debt	152,908	215,500	2.14%	2.88%
Less: Debt, current portion	17,158	10,000	2.39%	3.14%
Debt, net of current portion	$ 135,750	$ 205,500	2.11%	2.86%

As of December 31, 2013, the required annual maturities related to our credit facility were as follows:

Year ending December 31, (in thousands)	Annual maturities
2014	$ 17,158
2015	15,000
2016	15,000
2017	105,750
Total required maturities	$ 152,908

Deferred financing costs

In February 2012, we amended and restated our credit facility to increase our borrowing capacity. In connection with our amended and restated credit facility, we paid $2.4 million of financing costs. These costs together with a portion of the unamortized financing costs from our previous credit facility are being amortized over the term of the new facility. As of December 31, 2013 and December 31, 2012, deferred financing costs totaling $1.9 million and $2.5 million, respectively, are included in other assets on the consolidated balance sheets.

10. Derivative instruments

We use derivative instruments to manage interest rate risk. We have two interest rate swap agreements which effectively convert portions of our variable rate debt under our credit facility to a fixed rate for the terms of the swap agreements. The aggregate notional value of the swap agreements was $150.0 million with effective dates beginning in May 2012 through January 2017. We designated the swap agreements as cash flow hedges at the inception of the contracts.

The fair values of our derivative instruments were as follows as of:

(in thousands)	Balance sheet location	Liability fair value at December 31, 2013	Liability fair value at December 31, 2012
Derivative instruments designated as hedging instruments:			
Interest rate swaps, current portion	Accrued expenses and other current liabilities	$ 46	$ —
Interest rate swaps, long-term portion	Other liabilities	381	1,296
Total derivative instruments designated as hedging instruments		$ 427	$ 1,296

The effects of derivative instruments in cash flow hedging relationships were as follows:

(in thousands)	Loss recognized in accumulated other comprehensive loss as of December 31, 2013	Location of loss reclassified from accumulated other comprehensive loss into income	Amount reclassified from accumulated other comprehensive loss into income Year ended December 31, 2013
Interest rate swaps	$ 427	Interest expense	$ 794
	December 31, 2012		**Year ended December 31, 2012**
Interest rate swaps	$ 1,296	Interest expense	$ 466

We recognize income tax expense or benefit within accumulated other comprehensive loss each reporting period based on the change in fair value of our derivative instruments. The income tax benefit recognized in accumulated other comprehensive loss decreased $(0.3) million during the year ended December 31, 2013. The income tax benefit recognized in accumulated other comprehensive loss was $0.5 million for the year ended December 31, 2012.

11. Commitments and contingencies

Leases

We lease our headquarters facility under a 15-year lease agreement which was entered into in October 2008, and has two five-year renewal options. The current annual base rent of the lease is $4.0 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.

With our acquisition of Convio, we assumed a lease for office space in Austin, Texas which terminates on September 30, 2023, and has two five-year renewal options. Under the terms of the lease, we will increase our leased space by approximately 20,000 square feet on July 31, 2016. The current annual base rent of the lease is $2.2 million. The terms of the agreement include a rent holiday during the first year and base rent that escalates annually thereafter between 2% and 4%. The related rent expense is recorded on a straight-line basis over the length of the lease term. We have a standby letter of credit of $2.0 million for a security deposit for this lease.

We have provisions in our leases that entitle us to aggregate leasehold improvement allowances of $9.5 million. These amounts are recorded as a reduction to rent expense ratably over the terms of the leases. Rent expense was reduced related to these lease provisions by $0.6 million during the year ended December 31, 2013 and $0.3 million during each of the years ended December 31, 2012 and 2011, respectively. The leasehold improvement allowances have been included in the table of operating lease commitments below as a reduction in our lease commitments ratably over the then remaining terms of the leases. The timing of the reimbursements for the actual leasehold improvements may vary from the amounts reflected in the table below.

Additionally, we have subleased a portion of our facilities under various agreements extending through 2013. The reduction in rent expense related to these agreements during the year ending December 31, 2013 was not material to the consolidated statements of comprehensive income. Rent expense was reduced by $0.3 million and $0.4 million related to these agreements during the years ended December 31, 2012 and 2011, respectively.

We have also received, and expect to receive through 2016, quarterly South Carolina state incentive payments as a result of locating our headquarters facility in Berkeley County, South Carolina. These amounts are recorded as a reduction of rent expense and were $2.4 million, $2.2 million and $2.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Additionally, we lease various office space and equipment under operating leases. We also have various non-cancelable capital leases for computer equipment and furniture that are not significant.

Total rent expense was $9.0 million, $7.6 million and $4.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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Notes to consolidated financial statements (continued)

As of December 31, 2013, the future minimum lease commitments related to lease agreements, net of related sublease commitments and lease incentives, were as follows:

Year ended December 31, (in thousands)		Operating leases
2014	$	10,027
2015		9,872
2016		9,570
2017		9,616
2018		9,819
Thereafter		41,466
Total minimum lease payments	$	90,370

Other commitments

As discussed in Note 9 of these consolidated financial statements, the term loans under our credit facility require periodic principal payments. The balance of the term loans and any amounts drawn on the revolving credit loans are due upon maturity of the credit facility in February 2017.

We utilize third-party technology in conjunction with our products and services, with contractual arrangements varying in length from one to three years. In certain cases, these arrangements require a minimum annual purchase commitment by us. As of December 31, 2013, the remaining aggregate minimum purchase commitment under these arrangements was approximately $11.8 million through 2016. We incurred expense under these arrangements of $3.5 million for the year ended December 31, 2013.

Legal contingencies

We are subject to legal proceedings and claims that arise in the ordinary 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. We do not believe the amount of potential liability with respect to these actions will have a material adverse effect upon our consolidated financial position, results of operations or cash flows.

Guarantees and indemnification obligations

We enter into agreements in the ordinary course of business with, among others, customers, creditors, vendors and service providers. Pursuant to certain of these agreements we have agreed to indemnify the other party for certain matters, such as property damage, personal injury, acts or omissions of ours, or our 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.

We assess the fair value of our liability on the above indemnities to be immaterial based on historical experience and information known at December 31, 2013.

12. Income taxes

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. 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 and, accordingly, since October 14, 1999, have been subject to federal and state income taxes. We file income tax returns in the U.S. for federal and various state jurisdictions as well as in foreign jurisdictions including Canada, United Kingdom, Australia, the Netherlands and Ireland. We are generally subject to U.S. federal income tax examination for calendar tax years 2010 through 2013 as well as state and foreign income tax examinations for various years depending on statutes of limitations of those jurisdictions.

The following summarizes the components of income tax expense:

	Year ended December 31,		
(in thousands)	**2013**	**2012**	**2011**
Current taxes:			
U.S. Federal	$ 78	$ (1,764)	$ 3,434
U.S. State and local	1,127	410	1,030
International	(221)	511	40
Total current taxes	984	(843)	4,504
Deferred taxes:			
U.S. Federal	14,394	8,943	11,943
U.S. State and local	(694)	(796)	1,536
International	173	(562)	54
Total deferred taxes	13,873	7,585	13,533
Total income tax provision	$ 14,857	$ 6,742	$ 18,037

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

	Year ended December 31,		
(in thousands)	**2013**	**2012**	**2011**
U.S.	$ 48,137	$ 16,793	$ 50,946
International	(2,808)	(3,468)	311
Income before provision for income taxes	$ 45,329	$ 13,325	$ 51,257

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

	Year ended December 31,		
	2013	**2012**	**2011**
Federal statutory rate	35.0 %	35.0 %	35.0 %
Effect of:			
State income taxes, net of federal benefit	5.2	8.3	4.2
Change in state income tax rate applied to deferred tax balances	(2.5)	(2.2)	0.6
Fixed assets	(1.0)	(7.6)	—
Unrecognized tax benefit	0.3	2.9	(0.3)
State credits, net of federal benefit	(2.9)	(1.7)	(2.2)
Change in valuation reserve	0.7	4.1	0.7
Federal credits generated	(5.1)	—	(2.7)
Foreign tax rate	0.6	2.3	—
Acquisition costs	—	10.8	0.6
Foreign tax credits	(0.5)	(3.0)	—
Section 162(m) limitation	1.8	0.1	(0.4)
Other	1.2	1.6	(0.3)
Income tax provision effective rate	32.8 %	50.6 %	35.2 %

We recorded net excess tax benefits attributable to stock option and stock appreciation right exercises and restricted stock vesting of $0.1 million and $0.2 million in stockholders' equity during the years ended December 31, 2012 and 2011, respectively. We were unable to recognize additional excess tax benefits of stock-based compensation deductions generated during 2013 and 2012 of $3.8 million and $0.6 million, respectively, because the deductions did not reduce income tax payable after considering our net operating loss carryforwards. Although not recognized for financial reporting purposes, these unrecognized tax benefits are available to reduce future taxable income.

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Notes to consolidated financial statements (continued)

The federal and state research and development tax credits, which had previously expired on December 31, 2011, were reinstated as part of the American Taxpayer Relief Act of 2012 enacted on January 2, 2013. This legislation retroactively reinstated and extended the credits from the previous expiration date through December 31, 2013. The benefit of the federal and state credits for 2013 and 2012 has been included in 2013 tax expense, representing a $1.8 million and $1.6 million benefit, respectively.

The significant components of our deferred tax assets and liabilities were as follows:

	December 31,	
(in thousands)	**2013**	**2012**
Deferred tax assets relating to:		
Federal, state and foreign net operating loss carryforwards	$ 18,144	$ 30,839
Federal, state and foreign tax credits	18,947	15,438
Intangible assets	5,849	13,706
Effect of expensing nonqualified stock options and restricted stock	3,818	7,634
Accrued bonuses	3,286	4,361
Deferred revenue	3,850	4,342
Allowance for doubtful accounts	1,938	3,161
Other	4,286	8,321
Total deferred tax assets	60,118	87,802
Deferred tax liabilities relating to:		
Intangible assets	(55,018)	(65,882)
Fixed assets	(11,557)	(12,643)
Other	(5,752)	(7,318)
Total deferred tax liabilities	(72,327)	(85,843)
Valuation allowance	(11,042)	(10,651)
Net deferred tax asset (liabilities)	$ (23,251)	$ (8,692)

As of December 31, 2013, our federal, foreign and state net operating loss carryforwards for income tax purposes were approximately $41.8 million, $3.1 million and $52.6 million, respectively. The federal and state net operating loss carryforwards are subject to various Internal Revenue Code limitations and applicable state tax laws. If not utilized, the federal net operating loss carryforwards will begin to expire in 2032 and the state net operating loss carryforwards will expire over various periods beginning in 2014. A portion of the foreign and state net operating loss carryforwards have a valuation reserve due to management's uncertainty regarding the future ability to use such carryforwards. Our federal, foreign and state tax credit carryforwards for income tax purposes were approximately $6.3 million, $0.5 million and $12.2 million, net of federal tax, respectively. If not utilized, the federal tax credit carryforwards will begin to expire in 2022 and the state tax credit carryforwards will begin to expire in 2014. The state tax credits had a valuation reserve of approximately $8.5 million, net of federal tax, as of December 31, 2013.

The following table illustrates the change in our deferred tax asset valuation allowance:

(in thousands) **Year ended December 31,**	**Balance at beginning of year**	**Acquisition related change**	**Charges to expense**	**Balance at end of year**
2013	$ 10,651	$ 635	$ (244)	$ 11,042
2012	10,079	286	286	10,651
2011	9,614	—	465	10,079

The following table sets forth the change to our unrecognized tax benefit for the years ended December 31, 2013, 2012 and 2011:

		December 31,	
(in thousands)	**2013**	**2012**	**2011**
Balance at beginning of year	$ 3,846	$ 1,777	$ 1,414
Increases from prior period positions	1,254	2,766	87
Decreases in prior year position	(813)	(93)	(9)
Increases from current period positions	224	—	285
Lapse of statute of limitations	(813)	(604)	—
Balance at end of year	$ 3,698	$ 3,846	$ 1,777

The total amount of unrecognized tax benefit that, if recognized, would favorably affect the effective tax rate was $3.7 million at December 31, 2013. We recognize 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 sheets as of December 31, 2013 and 2012 was $0.6 million and $0.7 million, respectively. The total amount of interest and penalties included in the consolidated statements of comprehensive income as a decrease in income tax expense for 2012 was $0.3 million. The total amount of interest and penalties included in the consolidated statement of comprehensive income as an increase in income tax expense for 2013 and 2011 was $0.2 million and $0.1 million, respectively.

We have taken federal and state tax positions 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 expiration of statutes of limitations. The reasonably possible decrease approximates $1.3 million at December 31, 2013.

We concluded that a portion of the undistributed earnings of our foreign subsidiaries, as related solely to Canada, are not permanently reinvested and as a result we recorded a tax liability and applicable foreign tax credits for the effect of repatriating those foreign earnings. For the remaining undistributed earnings, which we do not consider to be significant, we concluded that these earnings would be permanently reinvested in the local jurisdictions and not repatriated to the United States. Accordingly, we have not provided for U.S. federal and foreign withholding taxes on those undistributed earnings of our foreign subsidiaries. It is not practicable to estimate the amount that might be payable if some or all of such earnings were to be remitted.

13. Stock-based compensation

Employee stock-based compensation plans

Under the Blackbaud, Inc. 2008 Equity Incentive Plan (2008 Equity Plan), we 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 consultants. We maintain other stock-based compensation plans including the 2004 Stock Plan, under which no additional grants may be made, and the 2009 Equity Compensation Plan for Employees from Acquired Companies, under which we may grant shares of 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 in July 2008, we maintain the Kintera, Inc. Amended and Restated 2003 Equity Incentive Plan, as amended (Kintera 2003 Plan), which we assumed upon the acquisition of Kintera. In connection with the acquisition of Convio in May 2012, we maintain the Convio, Inc. 1999 Stock Option/Stock Issuance Plan, as amended (Convio 1999 Plan) and Convio, Inc. 2009 Stock Incentive Plan, as amended (Convio 2009 Plan), which we assumed upon the acquisition of Convio. Our Compensation Committee of the Board of Directors administers all of these plans and the stock-based awards are granted under terms determined by them.

The total number of authorized stock-based awards available under our plans was 5,723,093 as of December 31, 2013. We issue common stock from our pool of authorized stock upon exercise of stock options and stock appreciation rights, vesting of restricted stock units or upon granting of restricted stock.

Historically, we have issued four types of awards under these plans: stock options, restricted stock awards, restricted stock units and stock appreciation rights. The following table sets forth the number of awards outstanding for each award type as of:

	Outstanding at December 31,	
Award type	**2013**	**2012**
Stock options	24,158	60,775
Restricted stock awards	1,015,934	1,202,121
Restricted stock units	130,512	389,913
Stock appreciation rights	1,292,996	2,786,828

The majority of the stock-based awards granted under these plans have a 10-year contractual term. Stock appreciation rights (SARs) have contractual lives of 7 years. Awards granted to our executive officers and certain members of management are subject to accelerated vesting upon a change in control as defined in the employees' retention agreement.

We recognize compensation expense associated with stock options and 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. We recognize 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. Compensation expense is recognized net of estimated forfeitures such that expense is recognized only for those stock-based awards that are expected to vest. A forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates.

Stock-based compensation expense is allocated to expense categories on the consolidated statements of comprehensive income based on where the associated employee's compensation is recorded. The following table summarizes stock-based compensation expense:

	Year ended December 31,		
(in thousands)	**2013**	**2012**	**2011**
Included in cost of revenue:			
Cost of subscriptions	$ 1,032	$ 860	$ 571
Cost of services	2,464	2,786	1,966
Cost of maintenance	545	538	741
Total included in cost of revenue	4,041	4,184	3,278
Included in operating expenses:			
Sales and marketing	2,351	2,527	1,325
Research and development	3,731	3,556	3,039
General and administrative	6,787	8,973	7,242
Total included in operating expenses	12,869	15,056	11,606
Total	$ 16,910	$ 19,240	$ 14,884

The total amount of compensation cost related to non-vested awards not recognized was $34.5 million at December 31, 2013. It is expected that 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 our stock-based compensation plans as of December 31, 2013.

Plan	Date of adoption	Options outstanding	Range of exercise prices
2004 Stock Plan	March 23, 2004	11,213	$8.60-$13.05
Kintera 2003 Plan	July 8, 2008 (1)	3,977	$10.59-$19.26
Convio 1999 Plan	May 5, 2012 (1)	6,538	$9.10-$15.54
Convio 2009 Plan	May 5, 2012 (1)	2,430	$15.62-$18.20
Total		24,158	

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

The following table summarizes our outstanding stock options as of December 31, 2013, and changes during the year then ended:

Options	Share options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2013	60,775	$ 11.09		
Exercised	(35,831)	10.76		
Forfeited	(513)	14.72		
Expired	(273)	13.25		
Outstanding at December 31, 2013	24,158	$ 11.49	3.1	$ 631
Unvested and expected to vest at December 31, 2013	388	$ 17.75	6.3	$ 8
Vested and exercisable at December 31, 2013	23,738	$ 11.38	3.1	$ 624

There have been no new stock option awards granted since 2005. The total intrinsic value of options exercised during the years ended December 31, 2013, 2012 and 2011 was $0.8 million, $3.2 million and $3.1 million, respectively. The total fair value of options that vested during the years ended December 31, 2013, 2012 and 2011 was not material. All outstanding options granted had a fair market value assigned at the grant date based on the use of the Black-Scholes option pricing model.

Restricted stock awards

We have 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. 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.

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The following table summarizes our unvested restricted stock awards as of December 31, 2013, and changes during the year then ended:

Restricted stock awards	Restricted stock awards		Weighted average grant-date fair value
Unvested at January 1, 2013	1,202,121	$	24.58
Granted	458,462		35.31
Vested	(416,900)		24.86
Forfeited	(227,749)		24.55
Unvested at December 31, 2013	1,015,934	$	29.30

As of December 31, 2013, the number and intrinsic value of restricted stock awards expected to vest was 965,270 and $36.3 million, respectively. The total fair value of restricted stock awards that vested during the years ended December 31, 2013, 2012 and 2011 was $10.4 million, $9.6 million and $9.9 million, respectively. The weighted average grant-date fair value of restricted stock awards granted during the years ended December 31, 2012 and 2011 was $22.77 and $27.98, respectively.

Restricted stock units

We have also granted restricted stock units subject to certain restrictions under the 2008 Equity Plan and assumed restricted stock units in connection with the Convio acquisition. Restricted stock units granted to employees vest in equal annual installments generally over three years from the grant date. We have also granted restricted stock units for which vesting is subject to meeting certain performance and/or market conditions. The fair market value of the stock at the time of the grant is amortized to expense on a straight-line basis over the period of vesting except for awards with market or performance conditions which are amortized on an accelerated basis 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.

The following table summarizes our unvested restricted stock units as of December 31, 2013, and changes during the year then ended:

Restricted stock units	Restricted stock units		Weighted average grant-date fair value
Unvested at January 1, 2013	389,913	$	27.55
Granted	25,427		35.70
Forfeited	(64,863)		27.69
Expired	(30,049)		24.70
Vested	(189,916)		28.13
Unvested at December 31, 2013	130,512	$	28.84

As of December 31, 2013, the number and intrinsic value of restricted stock units expected to vest was 125,247 and $4.7 million, respectively. The weighted average grant date fair value of restricted stock units granted for the years ended December 31, 2012 and 2011 was $21.41 and $26.68, respectively.

Stock appreciation rights

We have 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 four years from the date of grant subject to the recipient’s continued employment with us. The number of shares issued upon the exercise of the SARs is calculated as the difference between the share price of our 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.

Blackbaud, Inc.
Notes to consolidated financial statements (continued)

The following table summarizes our outstanding SARs as of December 31, 2013, and changes during the year then ended:

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, 2013	2,786,828	$	23.87			
Granted	60,367		28.47			
Exercised	(1,270,064)		23.53			
Forfeited	(282,552)		24.79			
Expired	(1,583)	$	26.17			
Outstanding at December 31, 2013	1,292,996	$	24.21	5.0	$	17,375
Unvested and expected to vest at December 31, 2013	844,760	$	24.21	5.5	$	11,350
Vested and exercisable at December 31, 2013	418,809	$	24.15	3.8	$	5,653

The total intrinsic value of SARs exercised during the year ended December 31, 2013, 2012 and 2011 was $12.9 million, $2.4 million and $2.2 million, respectively. The total fair value of SARs that vested during the year ended December 31, 2013, 2012 and 2011 was $3.4 million, $3.9 million and $3.6 million, respectively. The weighted average grant date fair value of SARs granted for the years ended December 31, 2013, 2012 and 2011 was $6.59, $6.36 and $8.10, respectively. All outstanding SARs granted had a fair market value assigned at the grant date based on the use of the Black-Scholes option pricing model. All SARs granted with a market condition had a fair market value assigned at the grant date based on the use of a Monte Carlo simulation model. Significant assumptions used in the Black-Scholes option pricing model for SARs granted in 2013, 2012 and 2011 were as follows:

	Year ended December 31,		
	2013	2012	2011
Volatility	32% to 35%	35% to 41%	41% to 42%
Dividend yield	1.7%	1.7%	1.7% to 1.8%
Risk-free interest rate	0.6% to 0.8%	0.5% to 0.6%	0.6% to 1.9%
Expected SAR life in years	4	4	4

The expected volatility assumption is based on the volatility derived from prices of our stock over a historical term consistent with the expected life of the SAR at the time of grant. 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 a United States Treasury instrument with a term consistent with the expected life of the SAR at the time of grant. The expected life of the SAR represents the period that the award is expected to be outstanding based on historical experience. In determining the appropriate expected life of the SAR, we segregate our grantees into categories based upon employee levels that are expected to be indicative of similar award-related behavior.

14. Stockholders' equity

Preferred stock

Our 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

Our Board of Directors has adopted a dividend policy which provides for the distribution to stockholders a portion of cash generated by us that is in excess of operational needs and capital expenditures. Our 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, 2013.

Declaration Date		Dividend per Share	Record Date	Payable Date
February 2013	$	0.12	February 28	March 15
May 2013	$	0.12	May 28	June 14
August 2013	$	0.12	August 28	September 13
November 2013	$	0.12	November 27	December 13

In February 2014, our Board of Directors declared a first quarter dividend of $0.12 per share payable on March 14, 2014 to stockholders of record on February 28, 2014.

Stock repurchase program

We have a repurchase program that authorizes us to purchase up to $50.0 million of our outstanding shares of common stock. The program does not have an expiration date. The shares can be purchased from time to time on the open market or in privately negotiated transactions depending upon market conditions and other factors.

We account for purchases of treasury stock under the cost method. The remaining amount available to purchase stock under the stock repurchase program was $50.0 million as of December 31, 2013.

Changes in accumulated other comprehensive loss by component

The changes in accumulated other comprehensive loss by component, consisted of the following:

(in thousands)		Gains and losses on cash flow hedges		Foreign currency translation adjustment		Total
Balance at December 31, 2012	$	(791)	$	(1,182)	$	(1,973)
Other comprehensive (loss) income before reclassifications		(259)		53		(206)
Amounts reclassified from accumulated other comprehensive loss to interest expense[(1)]		794		—		794
Net current-period other comprehensive income		535		53		588
Balance at December 31, 2013	$	(256)	$	(1,129)	$	(1,385)

(1) Included in the amount reclassified from accumulated other comprehensive loss during 2013 was an income tax benefit of $0.3 million.

15. Employee profit-sharing plan

We have a 401(k) profit-sharing plan (the 401K Plan) covering substantially all employees. Employees can contribute between 1% and 30% of their salaries in 2013, 2012 and 2011, and we match 50% of qualified employees' contributions up to 6% of their salary. The 401K Plan also provides for additional employer contributions to be made at our discretion. Total matching contributions to the 401K Plan for the years ended December 31, 2013, 2012 and 2011 were $5.1 million, $4.6 million and $4.0 million, respectively. There was no discretionary contribution by us to the 401K Plan in 2013, 2012 and 2011.

16. Segment information

As of December 31, 2013, our reportable segments were as follows: the Enterprise Customer Business Unit, or the ECBU, the General Markets Business Unit, or the GMBU, the International Business Unit, or IBU, and Target Analytics. Following is a description of each reportable segment:

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

Blackbaud, Inc.
Notes to consolidated financial statements (continued)

- The GMBU is focused on marketing, sales, delivery and support to all emerging and mid-sized prospects and customers in North America;
- The IBU is focused on marketing, sales, delivery and support to all prospects and customers outside of North America; and
- Target Analytics is primarily focused on marketing, sales and delivery of analytics services to all prospects and customers in North America.

Our chief operating decision maker is our 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. Currently, 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.

We have recast our segment disclosures for 2012 and 2011 to present them on a consistent basis with the current year. During 2013, we refined our methodology for allocating revenue and expenses to our reportable segments to provide further precision in those allocations. Summarized reportable segment financial results were as follows:

	Year ended December 31,		
(in thousands)	**2013**	**2012**	**2011**
Revenue by segment:			
ECBU	$ 195,570	$ 165,161	$ 127,945
GMBU	225,352	203,178	171,999
IBU	41,488	40,068	33,841
Target Analytics	39,845	37,453	35,769
Other(1)	1,562	1,559	1,314
Total revenue	$ 503,817	$ 447,419	$ 370,868
Segment operating income(2):			
ECBU	$ 103,443	$ 74,419	$ 53,141
GMBU	131,707	121,985	101,572
IBU	8,082	5,265	6,922
Target Analytics	16,582	17,619	16,882
Other(1)	1,342	1,485	1,203
	261,156	220,773	179,720
Less:			
Corporate unallocated costs(3)	168,106	164,749	106,330
Stock-based compensation costs	16,910	19,240	14,884
Amortization expense	24,598	17,349	7,578
Interest expense (income), net	5,751	5,718	17
Other expense (income), net	462	392	(346)
Income before provision for income taxes	$ 45,329	$ 13,325	$ 51,257

(1) Other includes revenue and the related costs from the sale of products and services not directly attributable to an operating segment.
(2) Segment operating income includes direct, controllable costs related to the sale of products and services by the reportable segment, except for IBU, which includes operating costs from our foreign locations such as sales, marketing, general, administrative, depreciation and facilities costs.

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

Blackbaud, Inc.
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Revenue by product and service group for each of our reportable segments were as follows:

	Year ended December 31,		
(in thousands)	**2013**	**2012**	**2011**
ECBU revenue:			
License fees	$ 7,374	$ 7,888	$ 6,741
Subscriptions	97,392	73,246	45,572
Services	48,471	44,882	39,662
Maintenance	39,503	35,905	32,759
Other	2,830	3,240	3,211
Total ECBU revenue	$ 195,570	$ 165,161	$ 127,945
GMBU revenue:			
License fees	$ 6,718	$ 9,068	$ 8,742
Subscriptions	88,766	65,482	41,017
Services	41,228	39,036	34,820
Maintenance	84,763	86,026	83,963
Other	3,877	3,566	3,457
Total GMBU revenue	$ 225,352	$ 203,178	$ 171,999
IBU revenue:			
License fees	$ 2,510	$ 3,476	$ 3,830
Subscriptions	12,743	10,038	4,575
Services	11,337	12,230	11,472
Maintenance	14,056	13,673	13,484
Other	842	651	480
Total IBU revenue	$ 41,488	$ 40,068	$ 33,841
Target Analytics revenue:			
License fees	$ 113	$ 119	$ 162
Subscriptions	13,755	13,320	12,292
Services	25,495	23,452	22,810
Maintenance	423	497	396
Other	59	65	109
Total Target Analytics revenue	$ 39,845	$ 37,453	$ 35,769
Other revenue:			
License fees	$ —	$ —	$ —
Subscriptions	—	16	88
Services	17	26	17
Maintenance	—	—	2
Other	1,545	1,517	1,207
Total Other revenue	$ 1,562	$ 1,559	$ 1,314
Total consolidated revenue	$ 503,817	$ 447,419	$ 370,868

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We derive a portion of our revenue from our 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	Asia Pacific	Total Foreign	Total
Revenue from external customers:						
2013	$ 439,887	$ 23,344	$ 24,107	$ 16,479	$ 63,930	$ 503,817
2012	386,376	22,770	23,022	15,251	61,043	447,419
2011	317,305	21,725	21,162	10,676	53,563	370,868
Property and equipment:						
December 31, 2013	$ 47,367	$ 72	$ 1,694	$ 417	$ 2,183	$ 49,550
December 31, 2012	47,826	188	810	239	1,237	49,063

It is impractical for us to identify our total assets by segment.

17. Quarterly results (unaudited)

(in thousands, except per share data)	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Total revenue	$ 134,872	$ 127,854	$ 125,468	$ 115,623
Gross profit	68,514	71,740	68,855	62,045
Income from operations	14,622	18,008	14,318	4,594
Income before provision for income taxes	13,287	16,490	12,532	3,020
Net income	11,790	9,393	6,623	2,666
Earnings per share				
Basic	$ 0.26	$ 0.21	$ 0.15	$ 0.06
Diluted	$ 0.26	$ 0.21	$ 0.15	$ 0.06

(in thousands, except per share data)	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Total revenue	$ 120,051	$ 122,472	$ 110,190	$ 94,706
Gross profit	64,299	67,344	59,685	53,631
Income (loss) from operations	9,875	6,185	(1,877)	5,252
Income (loss) before provision for income taxes	7,342	4,629	(3,446)	4,800
Net income (loss)	3,270	2,825	(2,271)	2,759
Earnings (loss) per share				
Basic	$ 0.07	$ 0.06	$ (0.05)	$ 0.06
Diluted	$ 0.07	$ 0.06	$ (0.05)	$ 0.06

Included in the fourth quarter 2013 was $8.5 million of subscription revenue which was attributable to a prospective change in presentation from net to gross for revenues and costs associated with certain of our payment processing services effective October 2013. Earnings (loss) 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 3.

18. Restructuring

During 2012, in an effort to consolidate our operating locations, we decided not to renew our lease for office space in San Diego, CA, which matured on June 30, 2013. As a result, we initiated a plan to transition most of our operations based in San Diego, CA to our Austin, TX location, which we substantially completed in June 2013 when the lease matured.

The following table summarizes our restructuring costs related to our San Diego office transition as of December 31, 2013:

(in thousands)	Total costs expected to be incurred	Costs incurred during the year ended December 31, 2013	Cumulative costs incurred as of December 31, 2013
By component:			
Employee severance and retention costs	$ 295	$ 120	$ 295
Employee relocation costs	187	187	187
	482	307	482
By reportable segment:			
Other	$ 482	$ 307	$ 482

The change in our liability related to our San Diego office transition during the year ended December 31, 2013, consisted of the following:

(in thousands)	Accrued at December 31, 2012	Increases for incurred costs	Costs paid	Accrued at December 31, 2013
Employee severance and retention costs	$ 175	$ 120	$ (295)	$ —
Employee relocation costs	—	187	(187)	—
	$ 175	$ 307	$ (482)	$ —

In January 2013, we implemented a realignment of our workforce in response to changes in the nonprofit industry and global economy. The realignment included a reduction in workforce of approximately 135 positions and was substantially completed during 2013.

The following table summarizes our restructuring costs related to the reduction in workforce as of December 31, 2013:

(in thousands)	Total costs expected to be incurred	Costs incurred during the year ended December 31, 2013	Cumulative costs incurred as of December 31, 2013
By component:			
Employee severance costs	$ 3,187	$ 3,187	$ 3,187
By reportable segment:			
ECBU	$ 828	$ 828	$ 828
GMBU	290	290	290
Target Analytics	136	136	136
Other	1,933	1,933	1,933
	$ 3,187	$ 3,187	$ 3,187

The change in our liability related to the reduction in workforce during 2013, consisted of the following:

(in thousands)	Accrued at December 31, 2012	Increases for incurred costs	Costs paid	Accrued at December 31, 2013
Employee severance costs	$ —	$ 3,187	$ (3,187)	$ —

EXHIBIT 10.71

November 7, 2013

Michael P. Gianoni
149 Essex Street, Apt. 6W
Jersey City, NJ 07302

Dear Mike,

I am very pleased to offer you the position of President and Chief Executive Officer of Blackbaud, Inc. reporting to the Board of Directors. Additionally, you will be appointed as a non-independent director to Blackbaud's Board of Directors. I anticipate that you will make a significant contribution to our company and look forward to the start date of your initial 3 year term beginning on or about January 13, 2014.

Your compensation will consist of the following components:

- Base salary of $600,000 annually which will be paid on a semi-monthly basis.

- You will be eligible for an annual bonus which will be targeted at 100% of your base pay but may range from 0-200% of the target based on performance. The annual bonus will be based on the achievement of pre-established performance goals set by the Board of Directors in its discretion. Your participation will begin in 2014. Additional plan details, including corporate performance measures, will be provided after your arrival.

- You will be awarded an initial grant of Restricted Shares and Performance Share Units (PSU) of Blackbaud common stock as further outlined in the Restricted Share and PSU Grant Agreement and the Blackbaud 2008 Stock Plan. Blackbaud will grant both Restricted Shares and PSUs to you in the open trading window period following your start date.

    - The number of Restricted Shares will be determined by dividing $1,500,000 by the 30-day average share price prior to the grant date as approved by the Board of Directors. The shares will vest equally over a 4 year period.

    - The number of PSUs will be determined by dividing $1,500,000 by the 30-day average share price prior to the grant date as approved by the Board of Directors. Details on the performance metrics and vesting will be provided to you under separate cover. The vesting period will be 3 years subject to the performance criteria.

- You will also be eligible for an annual LTIP grant subject to approval by the Board of Directors. The target value will be $1.5M-$2.0M. The grant will be at minimum 50% performance based. You will be eligible for an annual grant beginning in 2015.

- You will be required to relocate to Charleston, S.C. To help offset cost of your relocation as well as other transition costs, we will pay you a bonus of $870,000 subject to applicable taxes and other withholdings required by law. This payment will be made within 30-days of your start date.

  If your employment is terminated for cause or if you resign from your position before completing eighteen (18) months of continuous employment with Blackbaud, you will be required to repay Blackbaud the $870,000 bonus.

This offer is contingent upon successful completion of all background and reference checks, and execution of the attached Employment and Non-Competition Agreement. A draft of the Employment Agreement is attached. Our General Counsel, Jon Olson (843) 654-2300 is available to discuss the Employment Agreement with you or your attorney at your convenience.

Please call me (858) 449-9993 or John Mistretta (843) 654-3524 if you have any questions about these documents or any other aspect of this employment offer.

Sincerely,

/s/ Andrew Leitch

Andrew Leitch

Chairman of the Board of Directors

cc: John Mistretta
Jon Olson

Agreed and accepted

/s/ Michael P. Gianoni

11/8/13

THIS AGREEMENT CONTAINS AN ARBITRATION PROVISION PURSUANT TO THE FEDERAL ARBITRATION ACT (9 U.S.C. § 1 ET SEQ.) AND/OR THE S.C. UNIFORM ARBITRATION ACT (S.C. CODE § 15-48-10 ET SEQ.)

EMPLOYMENT AND NONCOMPETITION AGREEMENT

THIS EMPLOYMENT AND NONCOMPETITION AGREEMENT (the "Agreement") is made and entered into on November 8, 2013 (the "Signing Date") by and between Blackbaud, Inc., a Delaware corporation (the "Company"), and Michael P. Gianoni ("Executive").

RECITALS

WHEREAS, the Company desires to employ Executive as the President and Chief Executive Officer of the Company; and

WHEREAS, Executive is willing to accept employment in and assume the responsibilities of such positions with the Company in accordance with the terms of this Agreement;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants of the parties set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged, IT IS HEREBY AGREED AS FOLLOWS:

AGREEMENT

1. Employment; Term. Subject to and upon the terms and conditions herein provided, the Company hereby agrees to employ Executive and Executive hereby agrees to be employed by the Company for the term of this Agreement, which term shall begin as of January 13, 2014 (the "Effective Date") and shall continue thereafter until the third anniversary of the Effective Date (the "Initial Term"), unless Executive's employment is earlier terminated as provided in Section 4 herein. The Company's Board of Directors (or a committee thereof) may elect to renew the term of this Agreement for successive one (1) year terms (each a "Renewal Term"), upon written notice provided to Executive at least ninety (90) days in advance of the expiration of the Initial Term or Renewal Term. In the event the Company elects to renew this Agreement prior to the expiration of the Initial Term or any Renewal Term, Executive may elect not to renew this Agreement by providing no less than seventy-five (75) days advance written notice of his intention not to renew the Agreement. In the event the Company elects not to renew this Agreement prior to the expiration of the Initial Term or any Renewal Term, the Company will provide written notice to that effect to Executive at least ninety (90) days prior to the expiration of the Initial Term or Renewal Term as the case may be. For purposes of this Agreement, any time period in which Executive is employed hereunder, whether during the Initial Term or any Renewal Term, will be referred to as the "Term."

2. Executive Responsibilities. During the Term, Executive shall serve as President and Chief Executive Officer of the Company, and shall have the power and authority to conduct the business of the Company commensurate with the office of Chief Executive Officer. Executive shall report directly to the Company's Board of Directors (the "Board"). Executive shall perform duties consistent with Executive's knowledge, experience and position with the Company. In performing such duties, Executive shall be subject to and shall abide by all written policies and procedures developed by the Company for, and all the written rules and regulations applicable to, senior executives of the Company.

During the Term, and excluding any periods of vacation and sick leave to which Executive is entitled, Executive shall devote substantially all of his business time, energies, skills and attention to the affairs and activities of the Company and the discharge of his duties and responsibilities; provided, however, that Executive shall be allowed to attend to personal and family affairs and investments and he shall be allowed to serve on the board of directors of no more than three (3) for-profit or not-for-profit entities that are not affiliated with the Company and any additional boards of directors as have been or may be approved in advance by the Chairman of the Board; and provided further, however, that while carrying out such activities and while serving on such boards, Executive's ability to devote the required time, energies, skills and attention to perform his duties hereunder will not be impaired. During the Term, the Board shall nominate Executive to be a member of the Board prior to the expiration of each of his terms as a director of the Company, with his election to the Board subject to shareholder vote.

Unless otherwise determined by the Board, the place of employment of Executive shall be at the Company's principal executive offices in Charleston, South Carolina**,** although Executive acknowledges and agrees that he shall be required to travel on Company business regularly during the Term.

3. Compensation and Benefits.

3.1 Base Salary. In consideration for the services provided hereunder, during the Term of this Agreement, the Company shall pay to Executive an annual base salary of no less than $600,000, subject to applicable federal, state and local payroll taxes and other withholdings required by law or properly requested by Executive (as adjusted from time to time, the "Base Salary"). The Base Salary shall not be decreased at any time (including after any increase) without Executive's written consent. The Base Salary shall be payable in conformity with the Company's customary payroll practices. The Board (or a committee thereof) will consider increases to the Base Salary on an annual basis as part of the Company's regular executive compensation review process; provided, however, that such Base Salary shall be increased solely at the discretion of the Board (or a committee thereof).

3.2 Inducement Awards.

(a) As soon as administratively practicable following the Effective Date and during the Company's next open trading window, the Company will grant Executive restricted shares of the Company's common stock valued at $1.5 million, with the number of shares to be determined by dividing $1.5 million by the average closing sales price of the Company's common stock for the thirty trading days prior to the grant date restricted shares of the Company's common stock (the "Initial Restricted Stock Grant"). The Initial Restricted Stock Grant shall vest as follows: 1/4 of the shares will vest on each twelve-month anniversary of the grant date, provided that Executive remains employed by the Company as of the relevant vesting date. The terms and conditions of the Initial Restricted Stock Grant will be governed by and conditioned upon the execution of a separate restricted stock agreement between Executive and the Company, which agreement will include provisions consistent with the parameters for the Initial Restricted Stock Grant described above.

(b) As soon as administratively practicable following the Effective Date and during the Company's next open trading window, the Company will grant Executive performance-based restricted stock units with respect to the Company's common stock valued at $1.5 million, with the number of shares to be determined by dividing $1.5 million by the average closing sales price of the Company's common stock for the thirty trading days prior to the grant date (the "PSU Grant"). Vesting of the PSU Grant shall be subject to Company performance with respect to the achievement of pre-established performance goals established by the Board (or a committee thereof) in its discretion, including revenue growth objectives and such other criteria determined by the Board (or a committee thereof) (the "Performance Condition"). If the Performance Condition is satisfied and provided that Executive remains employed by the Company as of the applicable vesting date, then the PSU Grant shall vest as follows: (i) 1/3 of the restricted stock units covered by the PSU Grant shall vest on the later of the first anniversary of the grant date or the date the Performance Condition has been met; (ii) 1/3 of the restricted stock units covered by the PSU Grant shall vest on the later of the second anniversary of the grant date or the date the Performance Condition has been met; and (iii) if the Performance Condition has been met, the remaining 1/3 of the restricted stock units covered by the PSU Grant shall vest on the third anniversary of the grant date. If the Performance Condition is not met, then the PSU Grant shall be forfeited in its entirety on the third anniversary of the date of grant. Each restricted stock unit under the PSU Grant that becomes vested shall be settled by payment of one share of the Company's common stock as soon as administratively practicable following the vesting date. The terms and conditions of the PSU Grant will be governed by and conditioned upon the execution of a separate stock appreciation rights agreement between Executive and the Company, which agreement will include provisions consistent with the parameters for the PSU Grant described above.

3.3 Bonus. For calendar year 2014 and each subsequent calendar year during the Term of this Agreement, Executive shall be eligible to receive an annual cash performance bonus ("Bonus Compensation"), targeted at 100% of Executive's then current Base Salary, dependent upon the achievement of pre-established performance goals established by the Board (or a committee thereof) in its discretion. Bonus Compensation may be greater than the annual target amount and up to two (2) times the annual target amount for performance in excess of the pre-established performance goals. Similarly, the Bonus Compensation may be less than the annual target amount (including zero) if the Company's performance is below the pre-established goals and/or based on the Board's (or committee's) evaluation of Executive's performance. Bonus Compensation shall be paid in cash in a lump sum (less any required taxes and withholdings) at such time as the Company customarily pays annual cash performance bonuses, subject to the terms established by the Board (or committee) and the parameters of any applicable plan pursuant to which the Bonus Compensation is awarded.

3.4 Additional Compensation and Benefits. During the Term of this Agreement, Executive shall also be eligible for the following additional compensation and benefits:

(a) Executive shall be eligible to participate in all employee benefit plans and fringe benefits (including post-retirement benefit plans and programs, if any) as may be provided by the Company from time to time on the same basis as other senior executives of the Company are eligible, subject to and to the extent that Executive is eligible under such benefit plans in accordance with their respective terms. Executive acknowledges that the Company may seek to obtain key-man life (or similar) insurance in connection with Executive’s employment, and Executive agrees to cooperate with the Company’s reasonable requests to obtain such coverage, including, without limitation, submitting to reasonable physical examinations.

(b) Executive shall be entitled to reasonable periods of paid time off during the Term in accordance with the Company’s policies regarding paid time off and paid holidays for senior executives of the Company.

(c) The Company shall pay or reimburse Executive for all of his out-of-pocket expenses reasonably incurred in the performance of his duties hereunder on behalf of the Company, including, but not limited to, overnight delivery charges, long distance telephone and facsimile charges and travel expenses (including airfare, hotels, car rental expenses and meals), all in accordance with the Company’s expense reimbursement policies now in force or as such policies may be modified in the future. Payment shall be due after the Company’s receipt of Executive’s invoice or expense report therefor in accordance with the Company’s expense reimbursement policies. In addition, the Company and Executive agree that the Company shall reimburse Executive for Executive’s reasonable legal expenses incurred in connection with the negotiation and drafting of this Agreement; provided, however, that the Company’s obligation to reimburse such expenses shall be capped at $15,000.00.

(d) During the Term, the Company shall provide Executive with health, life and short and long-term disability insurance, in scope and coverage equivalent to that provided to other senior executives of the Company; provided, however, that the short and long-term disability insurance coverage shall be for an amount not less than 60% of Executive’s Base Salary and such coverage may be provided by the Company supplementing benefits provided under the Company’s existing group disability policy, as necessary.

(e) During the Term, commencing with the 2015 calendar year, the Company may award Executive an annual equity-based award (in a form to be determined by the Board (or a committee thereof)) with a target value of $1.5 million to $2.0 million (the "<u>Target Award</u>") and a value ranging from zero to 200% of the Target Award (each, an "<u>Annual Equity-Based Grant</u>"). The actual value of each Annual Equity-Based Grant, if any, will be determined by the Board (or a committee thereof) in its sole discretion based on a review of Executive's performance during the Company's regular executive compensation review process. The Annual Equity-Based Grant shall vest with in four equal installments with ¼ vesting on each of the first four anniversaries of the grant date (or such shorter vesting schedule as may be provided by the Board or applicable committee), provided that Executive remains employed by the Company as of the relevant vesting date, and provided further that up to 70% of the Annual Equity-Based Grant also may be subject to Company performance with respect to the achievement of pre-established performance goals established by the Board (or a committee thereof) in its discretion. To the extent an Annual Equity-Based Grant consists of shares of restricted stock or restricted stock units, the number of such shares or units will be determined by dividing the value of the Annual Equity-Based Grant (or applicable portion thereof) by the value of one share of the Company's common stock. The value of one share of the Company's common stock will be determined as if its price were the average closing sales price of the Company's common stock for the thirty (30) trading days preceding the grant date as quoted on the stock exchange on which the Company's common stock is then traded. To the extent an Annual Equity-Based Grant consists of stock appreciation rights, the number of stock appreciation rights will be determined by dividing the value of the Annual Equity-Based Grant (or applicable portion thereof) by the value of a stock appreciation right covering one share of the Company's common stock. The value of a stock appreciation right covering one share of the Company's common stock will be determined as if its exercise price were the average closing sales price of the Company's common stock for the thirty (30) trading days preceding the grant date as quoted on the stock exchange on which the Company's common stock is then traded and the value of such stock appreciation right will be determined by valuing it as if it were a stock option, using the Black-Scholes valuation methodology. The exercise price for each stock appreciation right covered by an Annual Equity-Based Grant will be the closing sales price for the Company's common stock on the grant date as quoted on the stock exchange on which the Company's common stock is then traded. The Annual Equity-Based Grant shall be governed by the terms and conditions of the applicable equity award agreement between Executive and the Company.

With respect to each of the items of benefit listed in this Section 3 and any vesting or other criteria for eligibility applicable thereto, Executive shall be credited with length of service beginning as of the initial date of his employment by the Company, except as otherwise required by law or provided by the applicable benefit plan.

3.5 <u>Compensation Clawback Provision</u>. Executive agrees to promptly return to the Company any and all bonus and incentive-based compensation, including stock options and other equity-based compensation as well as profits and gains attributable thereto, Executive received from the Company to the extent the Company is entitled or required to recover such amounts by the terms of (a) any Company clawback or recoupment policy (as adopted, amended, implemented, and interpreted by the Company from time to time) which relates to the clawback or recoupment of such bonus and incentive-based compensation which was paid to Executive on the basis of revenues, net income, cash flow or other financial parameters relating to the Company's financial performance which were subsequently determined by the Company's independent auditors to have been materially inaccurate; (b) Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (as may be amended) and any implementing rules and regulations promulgated thereunder; and/or (c) Section 304 of the Sarbanes Oxley Act of 2002 (as may be amended) and any implementing rules and regulations promulgated thereunder.

4. Termination.

4.1 For Cause by the Company. During the Term, the Company may terminate Executive's employment under this Agreement at any time for "Cause" and Executive shall thereafter be entitled to no compensation or benefits under this Agreement or otherwise, except as provided in Section 5.1 hereof. For purposes of this Agreement, "Cause" means:

(a) Executive's conviction of, or plea of no contest to, any crime (whether or not involving the Company) that constitutes a felony in the jurisdiction in which Executive is charged, other than unintentional motor vehicle felonies, routine traffic citations or a felony predicated exclusively on Executive's Vicarious Liability. "Vicarious Liability" for purposes of this Agreement shall mean any act for which Executive is constructively liable, including, but not limited to, any liability that is based on acts of the Company for which Executive is charged solely as a result of his offices with the Company and in which he was not directly involved or did not have prior knowledge of such actions or intended actions;

(b) any act of theft, fraud or embezzlement or other unlawful act, or any other misconduct or dishonesty by Executive, which is materially detrimental to the reputation, business, and/or operations of the Company or any subsidiary or which results in or is intended to result in Executive's personal gain or enrichment;

(c) Executive's willful and repeated failure or refusal to perform his reasonably-assigned duties (consistent with past practice of the Company) in accordance with Section 2 (other than due to his incapacity due to illness or injury) under this Agreement, provided that such willful and repeated failure or refusal is not corrected as promptly as practicable, and in any event within thirty (30) calendar days after Executive shall have received written notice from the Company stating the nature of such issue;

(d) Executive's violation of any of his material obligations contained in Section 7 herein or otherwise under this Agreement or in that certain Employee Nondisclosure and Developments Agreement dated as of the Signing Date and attached as Exhibit A hereto;

(e) personal conduct by Executive (including but not limited to employee harassment or discrimination) which materially discredits or damages the Company or any subsidiary;

(f) Executive's illegal use of controlled substances; and/or

(g) Executive's willful and knowing filing of a fraudulent certification under Section 302 of the Sarbanes Oxley Act.

If following Executive's termination of employment for any reason other than Cause, information is discovered that leads the Board to determine that Executive engaged in an act or omission which would have constituted Cause for termination of employment pursuant to Section 4.1(b), (d), (f) or (h) above, Executive's termination shall be deemed to have been terminated for Cause for all purposes of this Agreement and Executive shall be obligated to repay to the Company all severance and other benefits he already has received in connection with such termination of employment.

If the Company terminates Executive's employment for Cause, the provisions of Section 5.4 shall also apply.

4.2 Termination Without Cause by the Company. During the Term, the Company may terminate Executive's employment under this Agreement at any time and for any reason without Cause. If the Company terminates Executive's employment pursuant to the provisions of this Section 4.2, Executive shall receive the compensation and benefits described in Sections 5.1 and 5.2 hereof. In the event there is a Change in Control (as defined in Section 4.7 hereof) and if the Company terminates Executive's employment pursuant to the provisions of this Section 4.2 within twelve (12) months after a Change in Control, then Executive shall also receive any additional benefits described in Section 5.3 hereof.

4.3 Termination Without Good Reason by Executive. During the Term, Executive may voluntarily terminate his employment under this Agreement by giving the Company written notice no less than sixty (60) calendar days in advance of the effective date of such termination. Any such voluntary termination by Executive shall not constitute a breach of this Agreement. If Executive voluntarily terminates his employment pursuant to the provisions of this Section 4.3, Executive shall thereafter be entitled to no further compensation or benefits under this Agreement or otherwise, except as provided in Sections 5.1 and 5.5 hereof.

4.4 Termination for Good Reason by Executive. During the Term, Executive may terminate his employment under this Agreement for "Good Reason." For purposes of this Agreement, "Good Reason" means any of the occurrences described in (a) through (e) below other than as consented to in writing by Executive, provided, however, that Executive must provide detailed written notice to the Company of such occurrence and his anticipated termination within ninety (90) days after the initial existence of such occurrence and such termination shall not become effective until the occurrence goes uncorrected by the Company for thirty (30) days after receiving detailed written notice from Executive, provided further, that for the avoidance of doubt, if during the thirty (30)-day cure period, the Company and Executive are negotiating in good faith to address the circumstances, Executive's termination for Good Reason shall not occur unless and until the Company and Executive have ceased good faith negotiations and the occurrence has not been remedied, but in no event may Executive's termination occur more than one (1) year following the initial existence of the event giving rise to "Good Reason."

(a) Any materially adverse change or material diminution in the office, title, duties, powers, authority or responsibilities of Executive;

(b) A material failure of the Company to pay or provide Executive with Base Salary or Bonus Compensation that has become due and payable to Executive;

(c) A material reduction in Executive's then Base Salary;

(d) Failure of the Company to obtain the assumption in writing of its obligation to perform this Agreement by any purchaser of all or substantially all of the assets of the Company within thirty (30) calendar days after a sale or transfer of such assets;

(e) Failure of Executive to be elected as a director of the Company at or prior to the expiration of each of his terms as a director of the Company during the Term of this Agreement or his removal from such position during such Term; and/or

(f) A relocation of the Company's principal office, or Executive's own office location as assigned to him by the Company, to a location more than fifty (50) miles from Charleston, South Carolina; provided that such relocation materially increases Executive's commute to work.

In the event Executive terminates employment with the Company pursuant to the provisions of this Section 4.4, Executive shall receive the compensation and benefits described in Sections 5.1 and 5.2 hereof. In the event there is a Change in Control as defined in Section 4.7 hereof and if Executive terminates his employment with the Company pursuant to the provisions of this Section 4.4 within twelve (12) months after a Change in Control, then Executive shall also receive any additional benefits described in Section 5.3 hereof.

4.5 Termination for Disability or Death. During the Term, Executive's employment may be terminated by either party in the event Executive suffers a physical or mental disability (as defined below), as determined in the reasonable opinion of a medical doctor selected by the agreement of the Company and Executive. In the event that the parties cannot agree on a medical doctor, each party shall select a medical doctor and the two doctors shall select a third who shall be the approved medical doctor for this purpose. To the extent that the expenses associated with any such medical determination are not covered by medical insurance, the Company shall bear all such costs. Executive will be deemed to suffer a disability if Executive is unable, due to a physical or mental disability, to perform the essential functions of his job, with or without a reasonable accommodation, for a period of ninety (90) consecutive calendar days or one hundred eighty (180) nonconsecutive calendar days during any three hundred sixty five (365) calendar day period. If Executive is terminated because of a disability under this Section 4.5, he shall be entitled to such benefits as are generally available under the Company's disability insurance policies, if any, and any additional coverage required pursuant to Section 3.4(d). If Executive dies or is terminated due to a disability under this Section 4.5, Executive or his estate shall be entitled to only the compensation and benefits described in Section 5.1 and 5.6 hereof.

4.6 Termination due to Non-Renewal. During both the Initial Term and any Renewal Term, either party may allow this Agreement and Executive's employment hereunder to terminate by notifying the other party of an intention not to renew the Initial Term or a Renewal Term, as applicable, in accordance with the provisions of Section 1 hereof. If Executive notifies the Company of his intention not to renew the Term in accordance with Section 1 and Executive's employment hereunder thereafter terminates upon the expiration of the Term, then Executive shall be entitled to only the compensation and benefits described in Sections 5.1 and 5.5 hereof. If the Company notifies Executive of its intention not to renew the Term in accordance with Section 1 and Executive's employment hereunder thereafter terminates upon the expiration of the Term, then Executive shall be entitled to only the compensation and benefits described in Sections 5.1 and 5.7 hereof.

4.7 Definition of Change in Control. For purposes of this Agreement only, a "Change in Control" shall mean the consummation of (a) a merger or consolidation in which the shareholders of the Company immediately prior to the merger or consolidation cease to own at least 50% of the combined entity immediately following the merger or consolidation; (b) a sale of all or substantially all of the assets of the Company; (c) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities and Exchange Act of 1934, as amended) of beneficial ownership of any capital stock of the Company, if, after such acquisition, such individual, entity or group owns more than 50% of either (i) the then-outstanding common stock of the Company or (ii) the combined voting power of the then-outstanding securities of the Company entitled to vote in the election of directors; or (iv) the liquidation or dissolution of the Company.

4.8 Board Seat. Upon termination of Executive's employment by either party for any reason, Executive will resign his position on the Board and any other positions he may hold with or for the benefit of the Company and/or its affiliates, including, but not limited to, as an officer and/or director of any Company subsidiaries.

5. Payment Obligations Upon Termination.

5.1 Accrued Compensation and Benefits. Upon termination of Executive's employment hereunder by either party for any reason, Executive (or his heirs, legal representatives or estate, as the case may be) will receive from the Company: (a) payment for any accrued, unpaid Base Salary through the termination date; (b) payment for any Bonus Compensation which has been awarded but not paid for calendar years prior to the year in which termination of Executive's employment occurs (except in the case of Executive's termination for Cause or resignation without Good Reason, unless other required by applicable law), (c) reimbursement for any unreimbursed expenses in accordance with the Company's policies; and (d) payment of other amounts, entitlements and/or benefits, if any, to which Executive is entitled in accordance with applicable law and applicable plans, programs, arrangements and/or other agreements of the Company and any affiliate (collectively, the "Accrued Compensation").

5.2 Termination by the Company Without Cause or by Executive for Good Reason. In addition to payment of the Accrued Compensation due to Executive pursuant to Section 5.1 hereof, if the Company terminates Executive's employment hereunder without Cause during the Term (other than due to Executive's death or disability) or if Executive terminates his employment hereunder for Good Reason, then the Company will provide the following severance payments, benefits and entitlements to Executive (provided, however, that the Company will not have any obligation to pay any amounts under Sections 5.2 (a) and (b) or to provide the benefits and entitlements described in Sections 5.2 (c) and (d) unless and until after Executive has executed a release of claims favoring the Company in substantially the form attached as Exhibit B hereto, as may be modified by the Company for purposes of compliance with specific legal requirements, within sixty (60) days of his termination date and until after the expiration of any revocation periods required by applicable law):

(a) The Company will make a lump-sum payment equal to a pro rated portion of the average Bonus Compensation received by Executive for the two calendar years (or such lesser number of years for which he was employed by the Company) prior to the calendar year in which termination occurs (based upon the number of days in the year of termination through his termination date relative to 365) less any required taxes and withholdings, payable on the sixty-eighth (68^{th}) day following the termination date; provided, however, that if the Company terminates Executive's employment without Cause prior to December 31, 2014, in lieu of the foregoing, the Company will make a lump-sum payment to Executive of $250,000 less any required taxes and withholdings, payable on the sixty-eighth (68^{th}) day following the termination date;

(b) The Company will continue paying Executive his annual Base Salary at the rate in effect on the termination date, less any required taxes and withholdings, for a period of twenty-four (24) months after the termination date, except that the first payment shall be made on the sixty-eighth (68^{th}) day following the termination date and such first payment shall include all payments that would otherwise have been made between the date of termination and the first payment date; and

(c) (i) With respect to any stock options, stock appreciation rights, restricted stock units and shares of restricted stock granted to Executive pursuant to this Agreement or pursuant to any other written agreement between Executive and the Company that remain subject only to time-based vesting requirements, Executive will be entitled to twelve (12) months accelerated vesting such that all of such options, stock appreciation rights, restricted stock and restricted stock units will be vested as if Executive's termination date were twelve (12) months later and as if Executive's time-based stock options, stock appreciation rights, restricted stock and restricted stock units vested on a monthly basis (rather than on an annual basis) from the date of grant. Except as provided in Section 5.2(d)(ii) below, all of Executive's stock options, stock appreciation rights, restricted stock units and restricted stock (whether subject to time-based and/or performance-based vesting) which remain unvested after giving effect to the acceleration provided for in the preceding sentence will be forfeited as of the termination date. Pursuant to Executive's equity award agreements, Executive will have such period as provided in the applicable equity award agreement to exercise any such time-based vested stock options or stock appreciation rights that remain outstanding, but in no event shall Executive be able to exercise any equity awards later than the specified expiration dates of such awards.

(ii) Executive will be entitled to vesting of any then-unvested performance-based restricted stock units and shares of restricted stock which are included in any performance-based equity awards granted to Executive pursuant to this Agreement or any other written agreement between Executive and the Company, but only if the performance period for such equity awards ends within twelve (12) months of Executive's termination date, based upon achievement of the performance objectives within such performance period, and only if and to the extent that such unvested awards would have vested if Executive had continued employment with the Company through the end of the performance period. All such additional vesting of performance-based equity awards under this Section 5.2(d)(ii) shall be subject to and effective upon the determination by the Board (or applicable committee) of the requisite level of achievement.

5.3 Termination Within 12 Months After a Change in Control. In addition to payment of any Accrued Compensation due to Executive pursuant to Section 5.1 hereof, if a Change in Control (as defined in Section 4.7 hereof) occurs, and, within twelve (12) months after a Change in Control, the Company terminates Executive's employment hereunder without Cause (and not due to Executive's death or disability) or if Executive terminates his employment hereunder for Good Reason, then the Company will provide the following severance payments, benefits and entitlements to Executive (provided, however, that the Company will not have any obligation to pay any amounts under this Section 5.3 or to provide the benefits and entitlements described in this Section 5.3 unless and until after Executive has executed a release of claims favoring the Company in substantially the form attached as Exhibit B hereto, as may be modified by the Company for purposes of compliance with specific legal requirements and as appropriately modified to provide for the payments, benefits and other entitlements to which Executive is entitled pursuant to this Section 5.3, within sixty (60) days of his termination date and until after the expiration of any revocation periods required by applicable law):

(a) The Company will provide Executive with the severance payments, benefits and entitlements described in Sections 5.2(a)-(b). In addition to those payments and benefits, any then-unvested stock options, restricted stock units, restricted stock and/or stock appreciation rights granted to Executive pursuant to this Agreement or pursuant to any other written agreement between the Company and Executive to the extent that they are not performance-based equity awards will immediately be vested. For any performance-based equity awards, Executive will be entitled to twelve months accelerated vesting of such performance-based equity based on the achievement of the applicable performance goals as of such date of termination, or if such calculation of the achievement of the applicable performance goals is not possible, then based on an assumed achievement of the performance goals at target.

(b) Notwithstanding anything to the contrary in this Agreement, in any other agreement between Executive and the Company or in any plan maintained by the Company or any affiliate, if there is a 280G Change in Control (as defined in Section 5.3(b)(vii) below), the following rules shall apply:

(i) Except as otherwise provided in Section 5.3(b)(ii) below, if it is determined in accordance with Section 5.3(b)(iv) below that any portion of the Payments (as defined in Section 5.3(b)(vii) below) that otherwise would be paid or provided to Executive or for his benefit in connection with the 280G Change in Control would be subject to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") ("Excise Tax"), then such Payments shall be reduced by the smallest total amount necessary in order for the aggregate present value of all such Payments after such reduction, as determined in accordance with the applicable provisions of Section 280G of the Code and the regulations issued thereunder, not to exceed the Excise Tax Threshold Amount (as defined in Section 5.3(b)(vii) below).

(ii) No reduction in any of Executive's Payments shall be made pursuant to Section 5.3(b)(i) above if it is determined in accordance with Section 5.3(b)(iv) below that the After-Tax Amount of the Payments payable to Executive without such reduction would exceed the After-Tax Amount of the reduced Payments payable to him in accordance with Section 5.3(b)(i) above. For purposes of the foregoing, the "After-Tax Amount" of the Payments, as computed with, and as computed without, the reduction provided for under Section 5.3(b)(i) above, shall mean the amount of the Payments, as so computed, that Executive would retain after payment of all taxes (including without limitation any federal, state or local income taxes, the Excise Tax or any other excise taxes, any Medicare or other employment taxes, and any other taxes) imposed on such Payments in the year or years in which payable.

(iii) Any reduction in Executive's Payments required to be made pursuant to Section 5.3(b)(i) above (the "Required Reduction") shall be made as follows: first, any Payments that became fully vested prior to the 280G Change in Control and that pursuant to paragraph (b) of Treas. Reg. §1.280G-1, Q/A 24 are treated as Payments solely by reason of the acceleration of their originally scheduled dates of payment shall be reduced, by cancellation of the acceleration of their dates of payment to the extent that would not result in Executive being subject to a tax under Section 409A of the Code; second, any severance payments or benefits, performance-based cash or performance-based equity incentive awards, or other Payments, in all cases the full amounts of which are treated as contingent on the 280G Change in Control pursuant to paragraph (a) of Treas. Reg. §1.280G-1, Q/A 24, shall be reduced; and third, any cash or equity incentive awards, or nonqualified deferred compensation amounts, that vest solely based on Executive's continued service with the Company, and that pursuant to paragraph (c) of Treas. Reg. §1.280G-1, Q/A 24 are treated as contingent on the 280G Change in Control because they become vested as a result of the 280G Change in Control, shall be reduced, first by cancellation of any acceleration of their originally scheduled dates of payment (if payment with respect to such items is not treated as automatically occurring upon the vesting of such items for purposes of Section 280G of the Code and to the extent that cancellation of acceleration of dates of payment would not result in Executive incurring a tax under Section 409A of the Code) and then, if necessary, by canceling the acceleration of their vesting. In each case, the amounts of the Payments shall be reduced in the inverse order of their originally scheduled dates of payment or vesting, as applicable, and shall be so reduced only to the extent necessary to achieve the Required Reduction.

(iv) A determination as to whether any Excise Tax is payable with respect to Executive's Payments and if so, as to the amount thereof, and a determination as to whether any reduction in Executive's Payments is required pursuant to the provisions of Sections 5.3(b)(i) and (ii) above, and if so, as to the amount of the reduction so required, shall be made by no later than fifteen (15) days prior to the closing of the transaction or the occurrence of the event that constitutes the 280G Change in Control, or as soon thereafter as administratively practicable. Such determinations, and the assumptions to be utilized in arriving at such determinations, shall be made by an accountant or tax professional (the "Tax Advisor") selected by the Company. The Tax Advisor may be an employee, attorney or consultant of the Company, and all fees and expenses of the Tax Advisor shall be borne and directly paid solely by the Company. The Tax Advisor shall provide a written report of its determinations, including detailed supporting calculations, both to Executive and to the Company. Except as otherwise provided below in this Section 5.3(b)(iv) or Sections 5.3(b)(v) or (vi), the determinations made by the Tax Advisor pursuant to this Section 5.3(b)(iv) shall be binding upon Executive and the Company. If Executive questions or disputes any of the determinations made by the Tax Advisor and Executive and the Company are unable to resolve Executive's questions or disputes to Executive's satisfaction within fifteen (15) days after Executive gives notice to the Company of his questions or disputes, Executive and the Company shall jointly appoint an independent accountant (the "Accountant"), whose fees and expenses shall be equally borne and directly paid by the Company and Executive, to review the determinations made by the Tax Advisor, to modify those determinations as necessary, and to deliver a written report of any modifications, including detailed supporting calculations. If Executive and the Company cannot agree on the individual accountant or firm to serve as Accountant, then Executive and the Company shall each select one individual accountant or accounting firm and those two shall jointly select the individual or accounting firm to serve as the Accountant. Except as otherwise provided in Section 5.3(b)(v) or (vi) below, the determinations made by the Accountant pursuant to this Section 5.3(b)(iv) shall be binding upon Executive and the Company.

(v) If, notwithstanding (1) any determination made pursuant to Section 5.3(b)(iv) above that a reduction in Executive's Payments is not required pursuant to Section 5.3(b)(i) above or (2) any reduction in Executive's Payments made pursuant to Section 5.3(b)(i) above, the Internal Revenue Service ("IRS") subsequently asserts that Executive is liable for Excise Tax with respect to such Payments, the Payments then remaining to be paid or provided to Executive shall be reduced as provided in Sections 5.3(b)(i) and (ii) above or shall be further reduced as provided in Section 5.3(b)(i) above, and (if still necessary after such reduction or further reduction) any Payments already made to Executive shall be repaid to the Company, to the extent necessary to eliminate the Excise Tax asserted by the IRS to be payable by Executive. Any such reduction or further reduction or repayment (A) shall be made only if the IRS agrees that such reduction or further reduction or repayment will be effective to avoid the imposition of any Excise Tax with respect to Executive's Payments as so reduced or repaid and agrees not to impose such Excise Tax against Executive if such reduction or further reduction or repayment is made, and (B) shall be made in the manner described in Section 5.3(b)(iii) above.

(vi) Notwithstanding anything to the contrary in the foregoing provisions of this Section 5.3(b), if (1) Executive's Payments have been reduced pursuant to Section 5.3(b)(i) above and the IRS nevertheless subsequently determines that Excise Tax is payable with respect to Executive's Payments, and (2) if the After-Tax Amount of the Payments payable to Executive, determined without any further reduction or repayment as provided in Section 5.3(b)(v) above, and without any initial reduction as provided in Section 5.3(b)(i) above, would exceed the After-Tax Amount of the Payments payable to him as reduced in accordance with Section 5.3(b)(i), then (A) no such further reduction or repayment shall be made with respect to Executive's Payments pursuant to Section 5.3(b)(v) above, and (B) the Company shall pay to Executive an amount equal to the reduction in Executive's Payments that was initially made pursuant to Section 5.3(b)(i). Such amount shall be paid to Executive in a cash lump sum by no later than (I) the 15th day of the third month following the close of the calendar year in which the IRS makes its final determination that Excise Tax is due with respect to Executive's Payments, provided that by such day Executive has paid the Excise Tax so determined to be due, or (II) if later, the day that such amount would have been paid without regard to Section 5.3(b)(i) above.

(vii) For purposes of the foregoing, the following terms shall have the following respective meanings:

(A) "280G Change in Control" shall mean a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company, as determined in accordance with Section 280G(b)(2) of the Code and the regulations issued thereunder.

(B) "Payment" shall mean any payment or benefit in the nature of compensation that is to be paid or provided to Executive or for his benefit in connection with a 280G Change in Control, to the extent that such payment or benefit is "contingent" on the 280G Change in Control within the meaning of Section 280G(b)(2)(A)(i) of the Code and the regulations issued thereunder.

(C) "Excise Tax Threshold Amount" shall mean an amount equal to (x) three times Executive's "base amount" within the meaning of Section 280G(b)(3) of the Code and the regulations issued thereunder, less (y) $1,000.

5.4 Termination by the Company for Cause. If the Company terminates Executive's employment hereunder for Cause at any time during the Term, Executive will be entitled only to the compensation, benefits and entitlements described in Section 5.1 hereof and no further compensation, benefits or entitlements. In addition, all unexercised stock options and stock appreciation rights, whether vested or unvested, will immediately terminate upon Executive's termination for Cause and all unvested restricted stock and restricted stock units held by Executive will be forfeited immediately upon such termination.

5.5 Termination by Executive Without Good Reason or by Executive for Nonrenewal. If Executive terminates employment with the Company without Good Reason during the Term, or if Executive delivers notice of an intention not to renew the Term in accordance with Section 1 and Executive's employment hereunder thereafter terminates upon the expiration of the Term, Executive will be entitled only to the compensation, benefits and entitlements described in Section 5.1 hereof. In addition, all of Executive's then-unvested stock options and stock appreciation rights will immediately terminate upon such termination of Executive and all of Executive's unvested restricted stock and restricted stock units will be forfeited immediately upon such termination. After termination of employment with the Company, Executive will have such period as provided in the applicable equity award agreements (but in no event later than any specified expiration date of such stock options or stock appreciation rights) to exercise any and all vested stock options and stock appreciation rights; thereafter, any unexercised options and stock appreciation rights will terminate.

5.6 Termination Due to Death or Disability. If Executive's employment hereunder is terminated due to death or disability during the Term, Executive will be entitled to the compensation and benefits described in Sections 5.1 and 5.2(a) hereof. In addition, all of Executive's then-unvested stock options and stock appreciation rights will immediately terminate upon such termination of Executive and any unvested restricted stock and restricted stock units will be forfeited immediately upon such termination. After termination of employment with the Company, Executive will have such period as provided in the applicable equity award agreements (but in no event later than any specified expiration date of such stock options or stock appreciation rights) to exercise any and all vested stock options and stock appreciation rights; thereafter, any unexercised stock options and stock appreciation rights will terminate.

5.7 Termination by the Company due to Non-Renewal.

(a) In addition to the compensation and benefits described in Section 5.1 hereof, if the Company notifies Executive of its intention not to renew the Term in accordance with Section 1, other than in the circumstances described in Section 5.7(b), and Executive's employment hereunder is therefore terminated without Cause upon the expiration of the Term, then the Company will provide the following severance payments, benefits and entitlements to Executive (provided, however, that the Company will not have any obligation to pay any amounts or provide any benefits under this Section 5.7 unless and until after Executive has executed a release of claims favoring the Company in substantially the form attached as Exhibit B hereto, as may be modified by the Company for purposes of compliance with specific legal requirements and as appropriately modified to comply with the Company's obligations pursuant to this Section 5.7, within sixty (60) days of his termination date and until after the expiration of any revocation periods required by applicable law):

(i) The Company will continue paying Executive his annual Base Salary at the rate in effect on the termination date, less any required taxes and withholdings, for a period of twelve (12) months after the termination date, except that the first payment shall be made on the sixty-eighth (68th) day following the termination date and such first payment shall include all payments that would otherwise have been made between the date of termination and the first payment date; and

(ii) Executive will be deemed fully vested in the Initial Restricted Stock Grant as of his date of termination of employment. All of Executive's then-unvested stock options and stock appreciation rights will immediately terminate upon such termination of Executive and all of Executive's unvested restricted stock and restricted stock units will be forfeited immediately upon such termination. After termination of employment with the Company, Executive will have such period as provided in the applicable equity award agreements (but in no event later than any specified expiration date of such stock options or stock appreciation rights) to exercise any and all vested stock options and stock appreciation rights; thereafter, any unexercised options and stock appreciation rights will terminate.

(b) In the event that, during discussions which lead to a Change in Control or within twelve (12) months after a Change in Control, the Company delivers notice of its intention not to renew the Term in accordance with Section 1 and Executive's employment hereunder thereafter terminates upon the expiration of the Term, such termination shall be treated for all purposes of this Agreement as a termination by the Company of Executive's employment under this Agreement without Cause within twelve (12) months after a Change in Control and accordingly, in such event, Executive shall be entitled to receive the payments, benefits and entitlements provided for in Sections 5.1 and 5.3 on the terms and conditions set forth in Section 5.3.

5.8 No Mitigation or Offset. In the event of any termination of employment under Section 4, Executive shall be under no obligation to seek other employment and there shall be no offset against amounts due Executive under this Agreement on account of any remuneration attributable to any subsequent employment that he may obtain or other service that he may provide.

5.9 Severance Compensation. In the event that the Company reasonably determines that Executive has breached the Employee Nondisclosure and Developments Agreement between Executive and the Company (a copy of which is attached hereto as Exhibit A), the provisions of Section 6 or Section 7 below, or the terms of any other secrecy, confidentiality, noncompetition, no-solicit, no-hire or other restrictive covenants or clauses contained in any agreement with the Company and/or one or more subsidiaries (even if such covenants, clauses or agreements are held invalid or unenforceable), Execute shall forfeit all severance pay and benefits under Sections 5.2 through 5.7 above along with all outstanding equity-based awards, and Executive shall be obligated to promptly repay the Company an amount equal to all severance pay and benefits already received, including equity-based compensation and all gains and profits arising therefrom. Notwithstanding the foregoing, nothing under this Section shall limit the Company's remedies hereunder, under the Employee Nondisclosure and Developments Agreement or under any other agreements containing secrecy, confidentiality, noncompetition, no-solicit and/or no-hire covenants or clauses or otherwise against Executive for violations thereof.

6. Nondisclosure; Developments; Return of Materials. As a condition of employment with the Company, Executive agrees to execute the Company's Employee Nondisclosure and Developments Agreement, a copy of which is attached hereto as Exhibit A, the terms and conditions of which are incorporated herein by reference as if fully set out herein. Executive further agrees that upon termination of this Agreement, or upon request by the Company, Executive shall turn over to the Company all documents, files, office supplies and any other material or work product in his possession or control which were created pursuant to or derived from Executive's services to the Company. Notwithstanding any other provision hereof, Executive will be entitled to retain (a) papers and other materials of a personal nature, including without limitation personal photographs, personal correspondence, personal diaries, personal calendars and personal rolodexes, personal phone books and files relating to his personal affairs, (b) information showing Executive's compensation or relating to his reimbursement of business related expenses, (c) information Executive reasonably believes may be needed for the planning and preparation of his personal tax returns and (d) copies of plans, programs, arrangements and other agreements with the Company or an affiliate relating to Executive's employment with or separation from the Company.

7. Noncompetition and Other Restrictive Covenants. In exchange for the consideration offered hereunder, the receipt and sufficiency of which is hereby acknowledged by Executive, Executive agrees as follows.

7.1 Noncompetition Provisions. Executive recognizes and agrees that the Company has many substantial, legitimate business interests that can be protected only by Executive agreeing not to compete with the Company or its subsidiaries under certain circumstances. These interests include, without limitation, the Company's contacts and relationships with its customers, the Company's reputation and goodwill in the industry, the financial and other support afforded by the Company, and the Company's rights in its confidential information. Executive therefore agrees that during his employment with the Company and for the twelve (12) month period of time following the termination of such employment by either party for any reason, he will not, without the prior written consent of the Company, engage in any of the following activities in the United States (the "Protected Zones"), relating to the Protected Businesses (as defined below):

(a) engage in, manage, operate, control or supervise, or participate in the management, operation, control or supervision of, any business or entity which provides products or services directly competitive with those being actively developed, manufactured, marketed, sold or otherwise provided by the Company or its subsidiaries as of the date of termination with the Company (the "Protected Businesses") in the Protected Zones;

(b) have any ownership or financial interest, directly or indirectly, in any entity in the Protected Zones engaged in the Protected Businesses, including, without limitation, as an individual, partner, shareholder (other than as an owner of an entity in which Executive owns less than 5% of the economic interests), officer, director, executive, principal, agent or consultant;

(c) directly or indirectly (for himself or in conjunction with any other person or business entity or organization) solicit, acquire or conduct any Protected Business from or with any customers of the Company or its subsidiaries (as defined below) in the Protected Zones;

(d) directly or indirectly solicit or attempt to solicit, employ or retain (or have or cause any other person or business entity or organization to solicit, employ or retain) any of the employees or independent contractors of the Company or its subsidiaries (or any individual who was an employee or independent contractor of the Company or its subsidiaries within the twelve (12)-month period prior to Executive's termination of employment with the Company) or induce (or have or cause any other person or business entity or organization to induce) any such persons to terminate their employment or contractual relationships with any such entities; and/or

(e) serve as an officer or director of any entity engaged in any of the Protected Businesses in the Protected Zones.

For purposes of this Section 7, customers of the Company or its subsidiaries shall include those customers to whom the Company or any subsidiaries provided products or services at the time of or within twelve (12) months prior to the termination of Executive's employment, or prospective customers from whom the Company or any subsidiary had proposals outstanding for the provision of services at the time of or within twelve (12) months prior to Executive's termination of employment or from whom the Company or any subsidiary had a reasonable expectation of receiving business in the twelve (12) month period following Executive's termination of employment.

7.2 Separate Covenants. The parties understand and agree that the noncompetition agreement set forth in this Section 7 shall be construed as a series of separate covenants not to compete: one covenant for each country, state and province within the Protected Zone, one for each separate line of business of the Company, and one for each month of the noncompetition period. If any restriction set forth in this Section 7 is held by a court of competent jurisdiction to be unenforceable with respect to one or more geographic areas, lines of business and/or months of duration, then Executive agrees, and hereby submits, to the reduction and limitation of such restriction to the minimal extent necessary so that the provisions of this Section 7 shall be enforceable.

7.3 Limitations. Nothing contained in this Agreement or in Exhibit A attached hereto shall prohibit Executive from utilizing his skill, acumen or experience after the termination of his employment with the Company, provided that such activities do not otherwise violate this Section 7. In addition, nothing in Section 7 shall prohibit Executive from becoming an employee of, or from otherwise providing services to, a separate division or operating unit of a multi-divisional business or enterprise (a "Division") if: (i) the Division in which Executive is employed, or to which Executive provides services, does not engage in the Protected Businesses (as defined in Section 7.1(a) hereof); (ii) Executive does not provide services, directly or indirectly, to any other division or operating unit of such multi-divisional business or enterprise that engages in the Protected Businesses (individually, a "Competitive Division" and collectively, the "Competitive Divisions"); and (iii) any Competitive Divisions of the third party with whom Executive is employed or engaged to provide services, in the aggregate, accounted for less than one-third of the multi-divisional business or enterprises' consolidated revenues for the fiscal year, and each subsequent quarterly period, prior to Executive's commencement of employment or engagement with such Division. For the avoidance of doubt, Executive shall remain bound by the Employee Nondisclosure and Developments Agreement attached hereto as Exhibit A.

7.4 Acknowledgement. EXECUTIVE ACKNOWLEDGES THAT HE HAS CAREFULLY READ THIS SECTION 7 AND HAS HAD THE OPPORTUNITY TO REVIEW ITS PROVISIONS WITH ANY ADVISORS AS HE CONSIDERED NECESSARY AND THAT EXECUTIVE UNDERSTANDS THE PROVISIONS OF THIS AGREEMENT AND SIGNIFIES SUCH UNDERSTANDING AND AGREEMENT BY SIGNING BELOW.

8. Indemnification.

8.1 General Indemnification Provisions. The Company agrees that if Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of the Company or is or was serving at the request of the Company as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, Executive shall be indemnified and held harmless by the Company to the fullest extent legally permitted or authorized by the Company's certificate of incorporation or bylaws or resolutions of the Board, or if greater, by the laws of the State of Delaware, against all costs, expenses, liabilities and losses (including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by Executive in connection therewith, and such indemnification shall continue as to Executive even if he has ceased to be a director, officer, member, employee or agent of the Company or other entity and shall inure to the benefit of Executive's heirs, successors, personal representatives, assigns, executors and administrators. The Company shall advance to Executive all reasonable costs and expenses incurred by him in connection with a Proceeding within twenty (20) calendar days after receipt by the Company of a written request for such advance. Such request shall include an undertaking by Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses.

8.2 Insurance Coverage. The Company agrees to continue and maintain a directors and officers' liability insurance policy covering Executive to the extent the Company provides such coverage for its other executive officers and directors.

9. Savings Provision. The Company and Executive agree and stipulate that the agreements set out in Section 7 of this Agreement and in the Employee Nondisclosure and Developments Agreement attached hereto as Exhibit A are fair and reasonably necessary for the protection of the business, goodwill, confidential information, and other protectable interests of the Company in light of all of the facts and circumstances of the relationship between Executive and the Company. In the event a court of competent jurisdiction should decline to enforce those provisions, such provisions shall be deemed to be modified to restrict Executive to the maximum extent which the court shall find enforceable; provided, however, in no event shall the above provisions be deemed to be more restrictive to Executive than those contained herein.

10. Injunctive Relief. Executive acknowledges that the breach or threatened breach of any of the nondisclosure or noncompetition covenants contained herein or in Exhibit A hereto would give rise to irreparable injury to the Company, which injury would be inadequately compensable in money damages. Accordingly, notwithstanding the provisions of Section 20 hereof, the Company may seek and obtain a restraining order and/or injunction from a court of competent jurisdiction, prohibiting the breach or threatened breach of any of the nondisclosure or noncompetition covenants contained herein or in Exhibit A hereto, in addition to and not in limitation of any other legal remedies which may be available. Executive further acknowledges and agrees that the acknowledgements and covenants set out above are necessary for the protection of the Company's legitimate goodwill and business interests and are reasonable in scope and content. Similarly, the Company acknowledges and agrees, notwithstanding the provisions of Section 20 hereof, that Executive may seek equitable relief in a court of competent jurisdiction with respect to any obligations related to the nondisclosure or noncompetition covenants contained herein or in Exhibit A hereto.

11. Enforcement. The provisions of this Agreement shall be enforceable, and payments and provision of benefits and other entitlements to Executive required to be made pursuant hereto shall be made in accordance herewith, notwithstanding the existence of any claim or cause of action against the Company by Executive or against Executive by the Company, whether predicated on this Agreement or otherwise.

12. Governing Law. This Agreement, the employment relationship contemplated herein and any claim arising from such relationship, whether or not arising under this Agreement, shall be governed by and construed in accordance with the internal laws of the State of South Carolina, without regard to conflict of law principles.

13. Waiver of Breach. The waiver of any breach of any provision of this Agreement or failure to enforce any provision hereof shall not operate or be construed as a waiver of any subsequent breach by any party.

14. Notices. Any notice given to a party shall be in writing and shall be deemed to have been given when delivered personally or sent by certified or registered mail, postage

prepaid, return receipt requested, duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently give such notice of:

If to the Company: Blackbaud, Inc.
2000 Daniel Island Drive
Charleston, South Carolina 29492
Attention: Vice President and General Counsel

With a copy to: Blackbaud, Inc.
2000 Daniel Island Drive
Charleston, South Carolina 29492
Attention: Senior Vice President of Human Resources

If to Executive: Michael P. Gianoni
149 Essex Street, Apt. 6W
Jersey City, New Jersey 07302

15. Modification. This Agreement may be modified, and the rights, remedies and obligations contained in any provision hereof may be waived, only in accordance with this Section. No waiver by either party of any breach by the other of any provision hereof shall be deemed to be a waiver of any later or other breach thereof or as a waiver of any other provision of this Agreement. This Agreement shall be binding upon the parties and may not be modified in any manner, except by an instrument in writing of concurrent or subsequent date signed by duly authorized representatives of the parties hereto. No modification or waiver by the Company shall be effective without the consent of at least a majority of the Board members then in office at the time of such modification or waiver, excluding Executive's vote as a director on such matters.

16. Entirety. This Agreement, including the exhibits hereto, as it may be amended pursuant to the terms hereof, represents the complete and final agreement of the parties and shall control over any other statement, representation or agreement by the Company related to the subject matter hereof (e.g., as may appear in employment or policy manuals). This Agreement supersedes in its entirety any prior negotiations, discussions or agreements, either written or oral, between the parties with regard or relating to the employment of Executive by the Company.

17. Survival. The provisions of this Agreement and in Exhibits A and B hereto relating to post-termination compensation, benefits and other entitlements (including, without limitation, severance benefits and related rights), confidentiality and noncompetition shall survive the expiration or termination of this Agreement.

18. Severability. Without in any way limiting the provisions of Sections 7.2 and 9, in case any one or more of the provisions contained in this Agreement for any reason shall be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed and reformed to the maximum extent permitted by law.

19. Binding Effect; Successors. This Agreement shall inure to the benefit of Executive and his heirs, successors, and personal representatives. Executive acknowledges that the services to be rendered by him thereunder are unique and personal in nature. Accordingly, Executive may not assign or delegate any of his duties or obligations under this Agreement. The Company shall have the right to assign or transfer this Agreement to any successor of all of its business or assets which assumes and agrees to perform this Agreement. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise.

20. Arbitration. Other than with respect to any disputes concerning Executive's obligations under Section 7 of this Agreement or Exhibit A hereto, in the event of any dispute or claim arising out of or in connection with this Agreement or the enforcement of rights hereunder, such dispute or claim shall be submitted to binding arbitration in accordance with S.C. Code Ann. § 15-48-10 et seq., as amended, and the then-current rules and procedures of the American Arbitration Association's (the "AAA's") National Rules for the Resolution of Employment Disputes. Any arbitration initiated under this Agreement shall be conducted solely between the parties to this Agreement, and under no circumstances shall this Agreement allow or authorize arbitration of any claims as parties to a class or collective action or class or collective arbitration. The arbitrator shall be selected by an agreement of the parties to the dispute or claim from the panel of arbitrators selected by the AAA, or, if the parties cannot agree on an arbitrator within thirty (30) calendar days after the notice of a party's desire to have a dispute settled by arbitration, then the arbitrator shall be selected by the AAA in Charleston, South Carolina. The arbitrator shall apply the laws of the State of South Carolina, without reference to rules of conflict of law or statutory rules of arbitration, to the merits of any dispute or claim. Under established legal standards pertaining to the claim(s) made, the arbitrator shall have the power to grant summary judgment upon the request of either party, prior to commencement of the arbitration hearing. The determinations reached by the arbitrator shall be final and binding on all parties hereto without any right of appeal or further dispute. Execution of the determination by such arbitration may be sought in any court of competent jurisdiction.

In the event of any arbitration as provided under this Agreement, or the enforcement of rights hereunder, the arbitrator shall have the authority to, but shall not be required to, award the prevailing party his or its costs and reasonable attorneys' fees, to the extent permitted by applicable law.

21. Withholding. All compensation hereunder shall be subject to any required withholding of Federal, state and local taxes pursuant to any applicable law or regulation.

22. Representation. Executive represents and warrants to the Company, and Executive acknowledges that the Company has relied on such representations and warranties in employing Executive, that neither Executive's duties as an employee and director of the Company nor his performance of this Agreement will breach any other agreement to which Executive is a party, including without limitation, any agreement limiting the use or disclosure of any information acquired by Executive prior to his employment by the Company. In addition,

Executive represents and warrants to the Company, and Executive acknowledges that the Company has relied on such representations and warranties in employing Executive, that he has not entered into, and will not enter into, any agreement, either oral or written, in conflict herewith. If it is determined that Executive is in breach or has breached any of the representations set forth herein, the Company shall have the right to terminate Executive's employment for Cause.

23. Section 409A.

(a) It is intended that this Agreement and the payments hereunder will, to the fullest extent possible, be exempt from Section 409A of the Code and the regulations and guidance promulgated thereunder (collectively, "Section 409A"), and the Agreement shall be interpreted to that end to the fullest extent possible. In this regard, it is intended that the severance pay in Section 5.2(a) be exempt from Section 409A as a short-term deferral under Treas. Reg. §1.409A-1(b)(4) and the maximum amount of severance pay possible in Sections 5.2(b) and 5.7(a)(1) be exempt from Section 409A as separation pay upon involuntary separation from service under Treas. Reg. §1.409A-1(b)(9)(iii). However, to the extent that any payment or benefit (or portion thereof) provided pursuant to this Agreement is determined to be subject to Section 409A, this Agreement shall be interpreted in a manner that complies with Section 409A to the fullest extent possible. In furtherance thereof, if payment or provision of any amount or benefit hereunder at the time specified in this Agreement would subject such amount or benefit to any tax under Section 409A, the payment or provision of such amount or benefit shall be postponed to the earliest commencement date on which the payment or the provision of such amount or benefit could be made without incurring such tax (including paying any severance that is delayed in a lump sum upon the earliest possible payment date which is consistent with Section 409A). In addition, to the extent that any regulations or guidance issued under Section 409A (after application of the previous provision of this paragraph) would result in Executive being subject to the payment of interest or any additional tax under Section 409A, the Company and Executive agree, to the extent reasonably possible, to amend this Agreement in order to avoid the imposition of any such interest or additional tax under Section 409A, which amendment shall have the least possible economic effect on Executive as reasonably determined in good faith by the Company and Executive. Notwithstanding any other provisions of this Agreement, the Company does not guarantee that any nonqualified deferred compensation under this Agreement complies with or is exempt from Section 409A, and shall not have any liability to or indemnify Executive or any other person with respect to any tax consequences that arise from any failure to comply with or meet an exemption under Section 409A.

(b) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits that are considered separation pay upon involuntary separation from service under Treas. Reg. §1.409A-1(b)(9)(iii) or nonqualified deferred compensation under Section 409A upon or following a termination of employment, unless such termination is also a "separation from service" within the meaning of Section 409A and the payment thereof prior to a “separation from service” would violate Section 409A. For purposes of any such provision of this Agreement relating to any such payments or benefits, references to a “termination,” “termination of employment” or like terms shall mean “separation from service.”

(c) Notwithstanding anything in this Agreement to the contrary, the right to receive installment payments hereunder shall be treated as a right to receive a series of separate payments in accordance with Section 409A and Treasury Reg. §1.409A-2(b)(2)(iii).

(d) Notwithstanding anything to the contrary in this Agreement, if at the time of Executive’s separation from service from the Company: (a) the Company has stock which is publicly-traded on an established securities market and (b) Executive is a “specified employee” within the meaning of Section 409A and the Treasury Regulations thereunder using the identification methodology selected by the Company from time to time, or if none, the default methodology under Section 409A and the Treasury Regulations, then no payment, compensation, benefit or entitlement payable or provided to Executive in connection with his separation from service that is determined by the Company, in whole or in part, to constitute a payment of nonqualified deferred compensation within the meaning of Section 409A shall be paid or provided to Executive before the earlier of (i) Executive’s death or (ii) the first business day that is six (6) months after the date of his separation from service date (the “New Payment Date”). The aggregate of any payments, compensation, benefits and entitlements that otherwise would have been paid to Executive during the period between the date of his separation from service date and the New Payment Date shall be paid to Executive in a lump sum on such New Payment Date. Thereafter, any payments, compensation, benefits and entitlements that remain outstanding as of the day immediately following the New Payment Date shall be paid without delay over the time period originally scheduled, in accordance with the terms of this Agreement.

(e) In no event may Executive, directly or indirectly, designate the calendar year of any payment to be made under this Agreement or otherwise which constitutes a deferral of compensation within the meaning of Section 409A.

(f) With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits that are not excluded from Executive’s taxable income and are nonqualified deferred compensation subject to Section 409A, then except as permitted by Section 409A (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year; and (iii) such payments shall be made on or before the last day of Executive’s taxable year following the taxable year in which the expense was incurred.

[**THE NEXT PAGE IS THE SIGNATURE PAGE]**

IN WITNESS WHEREOF, the undersigned have executed this Employment and Noncompetition Agreement on the Signing Date set forth above.

COMPANY:

BLACKBAUD, INC.

By: /s/ Andrew Leitch

Name: Andrew Leitch

Title: Chairman of the Board

EXECUTIVE:

/s/ Michael P. Gianoni

Michael P. Gianoni

EXHIBIT A

See Attached.

EMPLOYEE NONDISCLOSURE AND DEVELOPMENTS AGREEMENT

THIS EMPLOYEE NONDISCLOSURE AND DEVELOPMENTS AGREEMENT is made and entered into on November 8, 2013 by and between Blackbaud, Inc., a Delaware corporation (the "Company") and Michael P. Gianoni ("Employee").

WHEREAS, the Company desires to employ Employee subject to the terms and conditions set forth herein; and

Employee desires to be employed by the Company and is willing to agree to the terms and conditions set forth herein; and

Employee understands that, in its business, the Company has developed and uses commercially valuable technical and nontechnical information and that, to guard the legitimate interests of the Company, it is necessary for the Company to keep such information confidential and to protect such information as trade secrets or by patent or copyright; and

Employee recognizes that the computer programs, system documentation, manuals and other materials developed by the Company are the proprietary information of the Company, that the Company regards this information as valuable trade secrets and that its use and disclosure must be carefully controlled; and

Employee further recognizes that, although some of the Company's customers and suppliers are well known, other customers, suppliers and prospective customers and suppliers are not so known, and the Company views the names and identities of these customers, suppliers and prospective customers and suppliers, as well as the content of any sales proposals, as being the Company's trade secrets; and

Employee further recognizes that any ideas, software or Company processes that presently are not being sold, and that therefore are not public knowledge, are considered trade secrets of the Company; and

Employee understands that special hardware and/or software developed by the Company is subject to the Company's proprietary rights and that the Company may treat those developments, whether hardware or software, as either trade secrets, copyrighted material or patentable material, as applicable; and

Employee understands that all such information is vital to the success of the Company's business and that Employee, through Employee's employment, has or may become acquainted with such information and may contribute to that information through inventions, discoveries, improvements, software development, or in some other manner;

NOW, THEREFORE, in consideration of the foregoing premises and Employee's employment and/or continuation of employment, the parties agree as follows:

1. Employee will not at any time, whether during or after the termination of his employment, reveal to any person or entity any of the trade secrets or confidential information concerning the organization, business or finances of the Company or of any third party that the Company is under an obligation to keep confidential (including, but not limited to, trade secrets

or confidential information respecting inventions, research, products, designs, methods, knowhow, formulae, techniques, systems, processes, software programs, works of authorship, customer lists, projects, plans and proposals), except (i) as may be required in the ordinary course of performing his duties as an employee of the Company or (ii) when required to do so by a court of law, by any governmental agency having supervisory authority over the business of the Company or by any administrative or legislative body (including a committee thereof) with apparent jurisdiction to order him to divulge, disclose or make accessible such information, and Employee shall keep secret all matters entrusted to him and shall not use or attempt to use any such information in any manner that may injure or cause loss to the Company.

2. If at any time or times during Employee's employment, Employee shall (either alone or with others) make, conceive, discover or reduce to practice any invention, modification, discovery, design, development, improvement, process, software program, work of authorship, documentation, formula, data, technique, know-how, secret or intellectual property right whatsoever or any interest therein (whether or not patentable or registrable under copyright or similar statutes or subject to analogous protection) that relates to the business of the Company or any of the products or services being developed, manufactured or sold by the Company or that may be used in relation therewith (herein called the "Developments"), such Developments and the benefits thereof shall immediately become the sole and absolute property of the Company and its assigns, and Employee shall promptly disclose to the Company each such Development and hereby assigns any rights Employee may have or acquire in the Developments and benefits and/or rights resulting therefrom to the Company and its assigns without further compensation and shall communicate, without cost or delay, and without publishing the same, all available information relating thereto to the Company. Upon the request of the Company and without further remuneration by the Company, but at the expense of the Company, Employee will execute and deliver all documents and do other acts which are or may be necessary to document such transfer or to enable the Company to file and prosecute applications for and to acquire, maintain, extend and enforce any and all patents, trademark registrations or copyrights under United States or foreign law with respect to any such Developments.

3. Employee understands that this Agreement does not create an obligation on the Company or any other person or entity to continue Employee's employment.

4. Employee represents that the Developments, if any, identified on Exhibit 1 attached hereto comprise all the unpatented and uncopyrighted Developments that Employee has made or conceived prior to or otherwise not in connection with Employee's employment by the Company, which Developments are excluded from this Agreement. Employee understands that it is necessary only to list the title and purpose of such Developments but not the details thereof.

Employee further represents that Employee's performance of all the terms of this Agreement and as an employee of the Company does not and will not breach any agreement to keep in confidence proprietary information acquired by Employee in confidence or in trust prior to Employee's employment by the Company. Employee has not entered into, and Employee agrees he will not enter into, any agreement either written or oral in conflict herewith.

5. Any waiver by the Company of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of such provision or any other provision hereof.

6. Employee hereby agrees that each provision herein shall be treated as a separate and independent clause, and the unenforceability of any one clause shall in no way impair the enforceability of any of the other clauses herein. Moreover, if one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to scope, activity or subject so as to be unenforceable at law, such provision or provisions shall be construed by the appropriate judicial body by limiting and reducing it or them, so as to be enforceable to the maximum extent compatible with the applicable law as it shall then exist.

7. Employee's obligations under this Agreement shall survive the termination of Employee's employment regardless of the manner of such termination and shall be binding upon Employee's heirs, executors, administrators and legal representatives.

8. As used in this Agreement, the term "Company" shall include Blackbaud, Inc. and any of its subsidiaries, subdivisions or affiliates. The Company shall have the right to assign this Agreement to its successors and assigns, and all covenants and agreements hereunder shall inure to the benefit of and be enforceable by said successors or assigns. This Agreement may be amended only in a writing signed by each of the parties hereto.

9. This Agreement shall be governed by and construed in accordance with the laws of the State of South Carolina, without regard to conflict of laws principles. This Agreement may be executed in counterparts, but all such counterparts shall together constitute one and the same instrument.

[THE NEXT PAGE IS THE SIGNATURE PAGE]

IN WITNESS WHEREOF, the undersigned have executed this Employee Nondisclosure and Developments Agreement as a sealed instrument as of the date first above written.

EMPLOYEE:

/s/ Michael P. Gianoni

Michael P. Gianoni

COMPANY:

BLACKBAUD, INC.

By: /s/ Andrew Leitch

Name: Andrew Leitch

Title: Chairman of the Board

<u>EXHIBIT B</u>
General Release

_____________ _____, 200__

VIA HAND DELIVERY

[Name]
[Address]

Re: Separation Agreement and General Release of all Claims

Dear [●]:

As discussed, your employment with Blackbaud, Inc. ("<u>Blackbaud</u>") will end on ______________ ____, ______ (the "<u>Separation Date</u>"). As soon as possible and no later than the Separation Date, please return all Blackbaud property, including, but not limited to, any equipment, keys or passes, software, files, samples, training materials, programs and documents (including any copies) to Blackbaud's Senior Vice President of Human Resources or his/her designee, except as otherwise specifically provided in Section 7 of the enclosed Separation Agreement and General Release of all Claims (the "<u>Agreement</u>").

The Agreement contains the severance benefits you are entitled to pursuant to Section 5.2, 5.3 or 5.7 (as applicable) of the Employment and Noncompetition Agreement, in exchange for your complete release of claims against Blackbaud. Therefore, Blackbaud encourages you to read the enclosed Agreement carefully and to consult with an attorney before signing it.

If you agree with the terms of the enclosed Agreement and wish to receive the severance benefits described in this Agreement, you must sign and date the enclosed Agreement and return the signed and dated copy to Blackbaud's Senior Vice President of Human Resources by hand delivery or by depositing it in the U.S. mail in the enclosed self-addressed, stamped envelope by the close of business on the sixtieth (60^{th}) day after the date of termination of employment. Once you sign this Agreement, you will have seven (7) days to revoke your acceptance by giving written notice of such revocation to Blackbaud's Senior Vice President of Human Resources. To be effective, the notice of revocation must actually be received by Blackbaud's Senior Vice President of Human Resources within the seven (7) day revocation period.

By dating and signing below in the space provided below, you are acknowledging only that you received this letter and the enclosed Agreement on the date indicated.

BLACKBAUD, INC.

By:_____________
Print Name:
Its:

****

I hereby acknowledge that I have received a copy of this letter and the Separation Agreement and General Release of all Claims on this date.

________________________________ ______________________
[●] Date

THIS AGREEMENT CONTAINS AN ARBITRATION PROVISION PURSUANT TO THE FEDERAL ARBITRATION ACT (9 U.S.C. § 1 ET SEQ.) AND/OR THE S.C. UNIFORM ARBITRATION ACT (S.C. CODE § 15-48-10 ET SEQ.)

SEPARATION AGREEMENT AND GENERAL RELEASE OF ALL CLAIMS

THIS SEPARATION AGREEMENT AND GENERAL RELEASE OF ALL CLAIMS (the "Agreement") is entered into by and between [●] ("Employee"), residing at [●], and BLACKBAUD, INC. ("Blackbaud"), having its principal office at 2000 Daniel Island Drive, Charleston, SC 29492.

WHEREAS, Employee and Blackbaud are parties to that certain Employment and Noncompetition Agreement, effective as of [●] (the "Employment Agreement");

WHEREAS, Employee and Blackbaud are terminating the employment relationship between them pursuant to Section [___] of the Employment Agreement, and wish to resolve any and all claims or disputes that may exist between them by executing this Agreement; and

WHEREAS, unless otherwise defined herein, capitalized terms not specifically defined in this Agreement will have the same definition as provided in the Employment Agreement.

NOW, THEREFORE, in consideration of the covenants and mutual promises contained herein, as well as the payment of certain benefits to Employee as hereinafter recited, the receipt and sufficiency of which are hereby acknowledged by Employee, it is agreed as follows:

1. Separation of Employment; Accrued Compensation. Employee's last date of employment with Blackbaud will be ___________________________ (the "Separation Date"). Regardless of whether Employee signs this Agreement, in accordance with Section 5.1 of the Employment Agreement, Blackbaud will make payment to Employee for: (a) any accrued, unpaid Base Salary through the Separation Date; (b) payment for any Bonus Compensation which has been awarded but not paid for calendar years prior to the year in which termination of Employee's employment occurs (except in the case of Employee's termination for Cause or resignation without Good Reason, unless other required by applicable law); (c) reimbursement for any unreimbursed expenses in accordance with the Company's policies; and (d) payment of other amounts, entitlements and/or benefits, if any, to which Employee is entitled in accordance with applicable law and applicable plans, programs, arrangements and/or other agreements of the Company and any affiliate.

2. Severance Benefits. If Employee executes this Agreement in accordance with [Section 5.2, 5.3 or 5.7 (as applicable)] of the Employment Agreement and does not revoke it as permitted by Section 14 hereof, Employee will receive the following severance benefits:

[To be completed based on applicable triggering event]

Employee further acknowledges and agrees that except as specifically provided in this Agreement, he is not eligible for, and will not receive, any additional payments, compensation, benefits or entitlements from Blackbaud.

3. Consideration to Employee. In consideration of Employee's execution of this Agreement, Blackbaud will provide Employee with the payments and benefits described in Section 2 herein.

4. Blackbaud Benefits. Employee understands and agrees that except as specifically provided in Section 1 and Section 2 of this Agreement, his entitlement to all Blackbaud-provided benefits will cease as of the Separation Date.

5. Post-Termination Obligations. Employee acknowledges, agrees, and hereby affirms that while employed by Blackbaud, he was subject to valid and enforceable non-solicitation, non-disclosure and non-competition obligations (as provided in Section 7 of the Employment Agreement and in Exhibit A thereto, both of which are incorporated herein by reference as if fully set out herein) that placed certain restrictions on Employee during his employment and continue to apply, by their terms, following his separation from employment with Blackbaud for any reason. Employee acknowledges and agrees that these non-solicitation, non-disclosure and non-competition obligations are and at all times have been fully enforceable against him. Employee acknowledges and agrees that such provisions of the Employment Agreement and related Employee Nondisclosure and Developments Agreement will continue to apply following the Separation Date and are fully enforceable. Employee acknowledges and agrees that he has read and understands these non-solicitation and non-competition obligations and the obligations under the Employee Nondisclosure and Developments Agreement and has had the opportunity to consult with counsel regarding these obligations.

6. COBRA Election. Upon loss of health care coverage, Employee will be entitled to elect continuation of his health care coverage under the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA"). Blackbaud will provide Employee with information explaining his right to continue his medical and dental coverage under COBRA after the Separation Date.

7. Return of Blackbaud Property. Employee relinquishes all right, title and interest to, and will return to Blackbaud all property belonging to Blackbaud, including, but not limited to, equipment, identification cards, keys, corporate credit card(s), customer lists, information, confidential information, trade secrets, developments, forms, formulae, plans, documents, systems, designs, methodologies, product features, technology, and other written and computer materials, and copies of the same, belonging to Blackbaud, its affiliates, or any of their customers, within Employee's possession or control and he will not at any time copy or reproduce the same. Notwithstanding any other provision hereof, Employee will be entitled to retain (a) papers and other materials of a personal nature, including without limitation personal photographs, personal correspondence, personal diaries, personal calendars and personal rolodexes, personal phone books and files

relating to his personal affairs, (b) information showing Employee's compensation or relating to his reimbursement of business related expenses, (c) information Employee reasonably believes may be needed for the planning and preparation of his personal tax returns and (d) copies of plans, programs, arrangements and other agreements with Blackbaud or an affiliate relating to Employee's employment with or separation from Blackbaud.

8. Release of Claims. In consideration of the payments and benefits granted hereunder, Employee, on behalf of himself and his heirs and assigns, hereby irrevocably and unconditionally releases and forever discharges, except as to obligations arising under this Agreement, Blackbaud, its officers, directors, affiliates, agents and employees, and their successors and assigns, from any and all claims, causes of action, liability, damages, expenses and/or losses of whatever kind or nature (including related attorneys' fees and costs), in law or equity, known or unknown, suspected or unsuspected, that Employee may now have or has ever had arising directly or indirectly out of the Employment Agreement (including any and all attachments thereto), his employment, or his separation from employment, with Blackbaud, by reason of any act, omission, transaction, or event occurring up to and including the date of the signing of this Agreement.

This waiver, release and discharge includes, without limitation, any and all claims related to any wrongful or unlawful discharge, discipline or retaliation, any contract of employment, whether express or implied, compensation including commissions, Blackbaud's benefit plans and the management thereof, defamation, slander, libel, invasion of privacy, intentional or negligent infliction of emotional distress, breach of any covenant of good faith and fair dealing, and any other claims relating to the Employee's employment, or separation from employment, with Blackbaud. This waiver, release and discharge further applies, but is not limited, to any or all claims arising under any state or federal employment discrimination law, including, but not limited to, **Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Rehabilitation Act of 1973, the Older Workers Benefit Protection Act, the Americans with Disability Act, Executive Order 11246; the federal Family and Medical Leave Act; the South Carolina Payment of Wages Act (S.C. Code Ann. § 41-10-10 *et seq.*); the Employee Retirement Income Security Act of 1974**; and any other applicable federal, state or local statute, regulation or common law regarding employment, employee benefits, discrimination in employment, or the termination of employment.

Employee expressly waives all claims against Blackbaud, including those which he does not know or suspect to exist in his favor as of the date of this Agreement. All such claims are forever barred by this Agreement whether they arise in contract or tort or under a statute or any other law. The final release of all claims by Employee against Blackbaud (to the extent provided herein) constitutes a material part of the consideration flowing from Employee to Blackbaud under this Agreement; provided, however, that nothing in this Agreement prohibits Employee from filing, cooperating with or participating in any proceeding before the Equal Employment Opportunity Commission or a state fair employment practices agency (except that Employee acknowledges that he may not be able to recover any monetary benefits in connection with any such claim, charge or proceeding). Notwithstanding the foregoing or any other provision contained herein, Employee does not release any of the following:

(i) Employee's rights under Section 17 of the Employment Agreement;

(ii) claims that Employee may have against Blackbaud under this Agreement;

(iii) claims that arise after the date of this Agreement;

(iv) claims with respect to any accrued or vested rights or entitlements that Employee has under any applicable written plan, program, arrangement of, or other written agreement, including this Agreement, with, Blackbaud or an affiliate;

(v) Employee's right to be indemnified and to have his expenses reimbursed by Blackbaud pursuant to the Employment Agreement, the Certificate of Incorporation and Bylaws of Blackbaud and under applicable law and pursuant to Blackbaud's directors' and officers' liability insurance policies with respect to any liability and/or expenses he incurs or incurred as an employee, officer and/or director of Blackbaud or an affiliate; and

(vi) any right or entitlement Employee may have to obtain contribution as permitted by law in the event of entry of judgment against him as a result of any act or failure to act for which he, Blackbaud and/or an affiliate and/or employee of Blackbaud and/or an affiliate are jointly liable.

9. Entire Agreement. This Agreement constitutes the entire agreement and understanding between Employee and Blackbaud with respect to all matters pertaining to Employee's employment and termination, except that nothing herein will be deemed to modify or release any of Employee's continuing obligations to Blackbaud under the Employment Agreement, or any other confidentiality, trade secret and invention assignment agreement signed by Employee.

10. Governing Law. This Agreement will be construed under the laws of South Carolina, without regard to conflict of law principles.

11. Arbitration. In the event of any dispute or claim arising out of or in connection with this Agreement or the enforcement of rights hereunder, such dispute or claim shall be submitted to binding arbitration in accordance with S.C. Code Ann. § 15-48-10 et seq., as amended, and the then-current rules and procedures of the American Arbitration Association's (the "AAA's") National Rules for the

Resolution of Employment Disputes. Any arbitration initiated under this Agreement shall be conducted solely between the parties to this Agreement, and under no circumstances shall this Agreement allow or authorize arbitration of any claims as parties to a class or collective action or class or collective arbitration. The arbitrator shall be selected by an agreement of the parties to the dispute or claim from the panel of arbitrators selected by the AAA, or, if the parties cannot agree on an arbitrator within thirty (30) calendar days after the notice of a party's desire to have a dispute settled by arbitration, then the arbitrator shall be selected by the AAA in Charleston, South Carolina. The arbitrator shall apply the laws of the State of South Carolina, without reference to rules of conflict of law or statutory rules of arbitration, to the merits of any dispute or claim. Under established legal standards pertaining to the claim(s) made, the arbitrator shall have the power to grant summary judgment upon the request of either party, prior to commencement of the arbitration hearing. The determinations reached by the arbitrator shall be final and binding on all parties hereto without any right of appeal or further dispute. Execution of the determination by such arbitration may be sought in any court of competent jurisdiction. Notwithstanding the foregoing, Blackbaud or Employee may bring a suit in any court of competent jurisdiction regarding any dispute concerning Employee's obligations under Section 7 of the Employment Agreement or Exhibit A thereto.

In the event of any arbitration as provided under this Agreement, or the enforcement of rights hereunder, the arbitrator shall have the authority to, but shall not be required to, award the prevailing party his or its costs and reasonable attorneys' fees, to the extent permitted by applicable law.

12. No Admissions. The promises and payments described herein are not to be construed as an admission of any liability by either party with respect to any federal, state or local statute or regulation or other common law claims. The promises and payments made herein are in consideration of Employee's release of claims against Blackbaud.

13. Voluntary Execution. Employee understands and acknowledges that he was advised and is hereby advised in writing to consult with an attorney before executing this Agreement, and further acknowledges that he has been given a reasonable opportunity to do so. By signing below, Employee acknowledges that he has been afforded at least twenty-one (21) days from the date of his receipt of this Agreement to review and consider the Agreement's terms.

Employee further acknowledges that he understands the contents of this Agreement, that this Agreement is entered into freely and voluntarily, and that it is not predicated or influenced by any representations of Blackbaud or any of its employees or agents other than those stated in this Agreement. Employee has carefully read, understands, and is voluntarily entering into this Agreement, and hereby attests that he fully understands the extent and importance of its provisions. Employee further acknowledges that he is fully competent to execute this Agreement and that he does so voluntarily and without any coercion, undue influence, threat or intimidation of any kind or type.

14. Right to Revoke. Employee understands, agrees, and acknowledges that he has seven (7) days following his execution of this Agreement to revoke the Agreement and has been, and hereby is, advised that this Agreement will not become effective or enforceable, and all payments or obligations recited herein will not be paid, until the revocation period has expired. Revocation must be in writing and received by Blackbaud’s Senior Vice President of Human Resources before the end of business on the seventh (7th) day after Employee’s execution of this Agreement.

15. Binding Effect. This Agreement is binding upon and shall inure to the benefit of the parties and their respective agents, assigns, heirs, executors, successors and administrators.

16. Section 409A. The provisions of Section 23 of the Employment Agreement are incorporated herein by reference and will continue to apply in accordance with their terms, including without limitation, to any payments under this Agreement.

Signed and accepted by Employee on _______________ ____, 20__:

EMPLOYEE

____

BLACKBAUD, INC.

By: _____________
Title: _____________
Date: _____________

EXHIBIT 21.1

SUBSIDIARIES OF BLACKBAUD, INC.
As of February 26, 2014

Blackbaud, LLC (South Carolina)

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

NOZA, Inc. (Delaware)

Public Interest Data, LLC (Virginia)

Blackbaud Global Ltd. (England and Wales)

- **Blackbaud Europe Ltd. (Scotland)**
- **Blackbaud Pacific Pty. (Australia)**
  - **Everyday Hero Pty. Ltd. (Australia)**
    - **Everyday Hero Ltd. (England and Wales)**
- **RLC Customer Centric B.V. (Holland)**
- **Blackbaud Asia Limited (Hong Kong)**

Convio, LLC (Delaware)

- **GetActive Software, Inc. (Delaware)**
- **StrategicOne, Inc. (Delaware)**

MyCharity, Ltd. (Ireland)

* **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.; Everyday Hero Pty. Ltd., which is 100% owned by Blackbaud Pacific Pty.; Everyday Hero Ltd., which is 100% owned by Everyday Hero Pty. Ltd; and GetActive Software, Inc. and StrategicOne, Inc., which are 100% owned by Convio, LLC.**

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. 333-120690, No. 333-138448, No. 333-152749, No. 333-160423, No. 333-181210, and 333-182407) of Blackbaud, Inc., of our report dated February 26, 2014, relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/S/ PRICEWATERHOUSECOOPERS LLP

Charlotte, North Carolina
February 26, 2014

EXHIBIT 31.1

Blackbaud, Inc.

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

I, Michael P. Gianoni, 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:	February 26, 2014	By:	/s/ Michael P. Gianoni
			Michael P. Gianoni
			President and Chief Executive Officer
			(Principal Executive Officer)

EXHIBIT 31.2

Blackbaud, Inc.

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

I, Anthony W. Boor, 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: February 26, 2014

By: /s/ Anthony W. Boor

Anthony W. Boor

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

EXHIBIT 32.1

Blackbaud, Inc.

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, 2013 as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Michael P. Gianoni, 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: February 26, 2014

By: /s/ Michael P. Gianoni

Michael P. Gianoni
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

Blackbaud, Inc.

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, 2013 as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Anthony W. Boor, 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:	February 26, 2014	By:	/s/ Anthony W. Boor
			Anthony W. Boor
			Senior Vice President and Chief Financial Officer
			(Principal Financial and Accounting Officer)