

BLACKBAUD INC  
Form 10-K/A  
October 08, 2013

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

FORM 10-K/A  
Amendment No. 2

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

For the Fiscal Year ended December 31, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 000-50600

BLACKBAUD, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

11-2617163  
(I.R.S. Employer Identification No.)

2000 Daniel Island Drive  
Charleston, South Carolina 29492  
(Address of principal executive offices, including zip code)

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

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

Title of Each Class  
Common Stock, \$0.001 Par Value

Name of Each Exchange on which Registered  
The NASDAQ Stock Market LLC

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(NASDAQ Global Select Market)

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

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2012 (based on the closing sale price of \$25.67 on that date), was approximately \$870,484,845. 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, 2013 was 45,630,704.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2013 Annual Meeting of Stockholders held on June 19, 2013 are incorporated by reference into Part III hereof.

#### Explanatory Note

This Amendment No. 2 on Form 10-K/A of Blackbaud, Inc. amends our Annual Report on Form 10-K for the year ended December 31, 2012, initially filed with the United States Securities Exchange Commission on February 27, 2013, as amended by Amendment No. 1 thereto filed on June 21, 2013 (“Amendment No. 1”). This Amendment No. 2 is being filed solely to supplement disclosure under “Item 9A. Controls and procedures” of Amendment No. 1. This filing also includes an amended “Item 15. Exhibits and financial statements schedules.” There have been no changes or updates to the financial statements included herein since the date of the original filing. The changes to Item 15 include an updated consent of our independent registered public accounting firm and updated certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Except as set forth above, our original Annual Report on Form 10-K is not being amended or updated in any other manner.

#### Item 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

In connection with the acquisition of Convio, we performed certain due diligence procedures related to Convio’s financial reporting and disclosure controls. As part of the ongoing integration, we will continue to assess the overall control environment of this business. 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, 2012, based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2012.

##### Attestation Report of Registered Public Accounting Firm

The effectiveness of our internal control over financial reporting as of December 31, 2012, has been audited by our independent registered public accounting firm, as stated in their attestation report, which is included herein.

## Item 15. Exhibits and financial statement schedules

## (a) Financial statements

The following statements were filed as part of the Annual Report on Form 10-K amended by this report and located at the pages in the Form 10-K as indicated below. The financial statements included herein have not changed from the original filing on February 27, 2013.

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

## (b) Exhibits

Exhibit Number	Description of Document	Filed In 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		8-K	1/17/2012	2.4	

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Agreement and Plan of Merger dated as of January 16, 2012 by and among Blackbaud, Inc., Caribou Acquisition Corporation and Convio, Inc.

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

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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	

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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

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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		10-K	2/29/2012	10.55	



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Employment Agreement dated November 14, 2011  
between Blackbaud, Inc. and Anthony W. Boor

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

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Exhibit Number	Description of Document	Filed In Registrant's Form	Dated	Exhibit Number	Filed Herewith
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	
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. Moyer	10-K	2/27/2013	10.65	
21.1	Subsidiaries of Blackbaud, Inc	10-K	2/27/2013	21.1	
23.1	Consent of Independent Registered Public Accounting Firm				X
31.1	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certification by the Chief Executive Officer and 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.

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/A to be signed on its behalf by the undersigned, thereunto duly authorized.

BLACKBAUD, INC

Signed: October 8, 2013

/S/ ANTHONY W. BOOR  
Interim President and Chief Executive Officer  
Senior Vice President and Chief Financial  
Officer

BLACKBAUD, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, of cash flows and of stockholders' equity present fairly, in all material respects, the financial position of Blackbaud, Inc. and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 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, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/S/ PRICEWATERHOUSECOOPERS LLP

Charlotte, North Carolina

February 27, 2013

Blackbaud, Inc.  
Consolidated balance sheets

(in thousands, except share amounts)	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,491	\$ 52,520
Donor restricted cash	68,177	40,205
Accounts receivable, net of allowance of \$8,546 and \$3,913 at December 31, 2012 and 2011, respectively	75,692	62,656
Prepaid expenses and other current assets	40,589	31,016
Deferred tax asset, current portion	15,799	1,551
Total current assets	213,748	187,948
Property and equipment, net	49,063	34,397
Deferred tax asset	—	29,376
Goodwill	265,055	90,122
Intangible assets, net	168,037	44,660
Other assets	9,844	6,087
Total assets	\$ 705,747	\$ 392,590
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	\$ 13,623	\$ 13,464
Accrued expenses and other current liabilities	45,996	32,707
Donations payable	68,177	40,205
Debt, current portion	10,000	—
Deferred revenue, current portion	173,899	153,665
Total current liabilities	311,695	240,041
Debt, net of current portion	205,500	—
Deferred tax liability	24,468	—
Deferred revenue, net of current portion	11,119	9,772
Other liabilities	5,281	2,775
Total liabilities	558,063	252,588
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, 54,859,604 and 53,959,532 shares issued at December 31, 2012 and 2011, respectively	55	54
Additional paid-in capital	203,638	175,401
Treasury stock, at cost; 9,209,371 and 9,019,824 shares at December 31, 2012 and 2011, respectively	(170,898)	(166,226)
Accumulated other comprehensive loss	(1,973)	(1,148)
Retained earnings	116,862	131,921
Total stockholders' equity	147,684	140,002
Total liabilities and stockholders' equity	\$ 705,747	\$ 392,590



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

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Blackbaud, Inc.  
Consolidated statements of comprehensive income

(in thousands, except share and per share amounts)	Year ended December 31,		
	2012	2011	2010
Revenue			
License fees	\$20,551	\$19,475	\$23,719
Subscriptions	162,102	103,544	83,912
Services	119,626	108,781	87,663
Maintenance	136,101	130,604	124,559
Other revenue	9,039	8,464	6,712
Total revenue	447,419	370,868	326,565
Cost of revenue			
Cost of license fees	2,993	3,345	3,003
Cost of subscriptions	68,773	42,536	31,155
Cost of services	97,208	79,086	66,755
Cost of maintenance	26,001	25,178	24,123
Cost of other revenue	7,485	7,049	7,103
Total cost of revenue	202,460	157,194	132,139
Gross profit	244,959	213,674	194,426
Operating expenses			
Sales and marketing	95,218	75,361	69,469
Research and development	64,692	47,672	45,499
General and administrative	63,308	36,933	32,636
Impairment of cost method investment	200	1,800	—
Amortization	2,106	980	798
Total operating expenses	225,524	162,746	148,402
Income from operations	19,435	50,928	46,024
Interest income	146	183	84
Interest expense	(5,864)	) (200)	) (74)
Other income (expense), net	(392)	) 346	) (98)
Income before provision for income taxes	13,325	51,257	45,936
Income tax provision	6,742	18,037	16,749
Net income	\$6,583	\$33,220	\$29,187
Earnings per share			
Basic	\$0.15	\$0.76	\$0.68
Diluted	\$0.15	\$0.75	\$0.67
Common shares and equivalents outstanding			
Basic weighted average shares	44,145,535	43,522,563	43,145,189
Diluted weighted average shares	44,691,845	44,149,054	43,876,155
Dividends per share	\$0.48	\$0.48	\$0.44
Other comprehensive loss			
Foreign currency translation adjustment	(34)	) (336)	) (506)
Unrealized loss on derivative instruments, net of tax	(791)	) —	) —
Total other comprehensive loss	(825)	) (336)	) (506)
Comprehensive income	\$5,758	\$32,884	\$28,681

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

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Blackbaud, Inc.

Consolidated statements of cash flows

(in thousands)	Year ended December 31,		
	2012	2011	2010
Cash flows from operating activities			
Net income	\$6,583	\$33,220	\$29,187
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	31,879	16,995	16,189
Provision for doubtful accounts and sales returns	9,591	5,646	2,773
Stock-based compensation expense	19,240	14,884	13,059
Excess tax benefits from stock-based compensation	(81)	(932)	(2,665)
Deferred taxes	7,585	13,533	11,313
Impairment of cost method investment	200	1,800	—
Gain on sale of assets	—	(549)	—
Other non-cash adjustments	747	(878)	(22)
Changes in operating assets and liabilities, net of acquisition of businesses:			
Accounts receivable	(9,397)	(8,692)	(12,778)
Prepaid expenses and other assets	(8,817)	(2,915)	(10,109)
Trade accounts payable	(1,363)	1,714	228
Accrued expenses and other liabilities	(388)	(1,056)	(4,248)
Donor restricted cash	(27,990)	(22,862)	(3,446)
Donations payable	27,990	22,862	3,446
Deferred revenue	12,912	12,757	13,121
Net cash provided by operating activities	68,691	85,527	56,048
Cash flows from investing activities			
Purchase of property and equipment	(20,557)	(18,215)	(10,760)
Purchase of net assets of acquired companies, net of cash acquired	(280,687)	(23,385)	(5,334)
Purchase of investment	—	—	(2,000)
Capitalized software development costs	(1,245)	(1,012)	(175)
Purchase of intangible assets	—	—	(130)
Proceeds from sale of assets	—	874	—
Net cash used in investing activities	(302,489)	(41,738)	(18,399)
Cash flows from financing activities			
Proceeds from issuance of debt	315,000	—	4,000
Payments on debt	(99,500)	—	(5,175)
Payments of deferred financing costs	(2,440)	(767)	—
Proceeds from exercise of stock options	3,146	2,041	8,065
Excess tax benefits from stock-based compensation	81	932	2,665
Purchase of treasury stock	—	—	(22,613)
Dividend payments to stockholders	(21,731)	(21,429)	(19,490)
Payments on capital lease obligations	—	(40)	(164)
Net cash provided by (used in) financing activities	194,556	(19,263)	(32,712)
Effect of exchange rate on cash and cash equivalents	213	(10)	298
Net increase (decrease) in cash and cash equivalents	(39,029)	24,516	5,235
Cash and cash equivalents, beginning of year	52,520	28,004	22,769
Cash and cash equivalents, end of year	\$13,491	\$52,520	\$28,004

Supplemental disclosure of cash flow information

Cash paid during the year for:

Interest	\$ (5,098	) \$2	\$87
Taxes, net of refunds	\$ (3,456	) \$ (4,601	) \$9,527
Purchase of equipment included in accounts payable	\$4,641	\$4,760	\$2,630

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

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Blackbaud, Inc.

Consolidated statements of stockholders' equity

(in thousands, except share amounts)	Common stock		Additional paid-in capital	Treasury stock	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
	Shares	Amount					
Balance at December 31, 2009	52,214,606	\$ 52	\$ 134,643	\$(134,382)	\$ (306 )	\$ 110,286	\$ 110,293
Net income	—	—	—	—	—	29,187	29,187
Payment of dividends	—	—	—	—	—	(19,490 )	(19,490 )
Purchase of 1,007,082 treasury shares under stock repurchase program	—	—	—	(22,613 )	—	—	(22,613 )
Exercise of stock options and stock appreciation rights	729,295	1	8,064	—	—	—	8,065
Surrender of 158,459 shares upon restricted stock vesting and exercise of stock appreciation rights	—	—	—	(4,191 )	—	—	(4,191 )
Tax impact of exercise of equity-based compensation	—	—	2,665	—	—	—	2,665
Stock-based compensation	—	—	13,000	—	—	59	13,059
Restricted stock grants	460,659	—	—	—	—	—	—
Restricted stock cancellations	(88,280 )	—	—	—	—	—	—
Comprehensive income	—	—	—	—	(506 )	—	(506 )
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

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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

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

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Blackbaud, Inc.

Notes to consolidated financial statements

## 1. Organization

We provide on-premise and cloud-based 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, 2012, we had more than 27,000 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 (U.S. GAAP).

### Basis of consolidation

The consolidated financial statements include the accounts of the 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 U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Areas of the financial statements where estimates may have the most significant effect include revenue recognition, the allowance for sales returns and doubtful accounts, deferred sales commissions and professional services costs, valuation of derivative instruments, long-lived and intangible assets and goodwill, stock-based compensation and the provision for income taxes. 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 from the sale of perpetual software license rights when all of the following conditions are met:

- Persuasive evidence of an arrangement exists;
- The product or service has 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 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.



Blackbaud, Inc.

Notes to consolidated financial statements (continued)

### 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.

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 if neither VSOE nor TPE is available. In general, we use VSOE to allocate the selling price to subscription and service deliverables.

Revenue from transaction processing fees is recognized when the service is provided and the amounts are determinable. Credit card fees directly associated with processing donations for customers are included in subscriptions revenue, net of related transaction costs.

### 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 vary according to the level of support service provided under the maintenance program. Fair value of professional services and other products and services is based on sales of these products and services to other customers when sold on a stand-alone basis. 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 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 this contract period.

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

#### 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.

#### 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.

#### 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.

#### 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.

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

#### 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, 2012, 2011 and 2010, 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, 2012 and 2011.

#### 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. 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. The 2012 annual impairment test indicated the estimated fair value of the reporting units significantly exceeded the carrying value. There was no impairment of goodwill during 2012, 2011 or 2010.

Blackbaud, Inc.

Notes to consolidated financial statements (continued)

#### 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 potential for impairment of finite and indefinite-lived intangible assets periodically and take into account events or circumstances that indicate revised estimates of useful lives 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 2012, 2011 or 2010.

#### Cost method investments

Cost method investments included in other assets 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. The aggregate carrying amount of our cost method investment at December 31, 2011 was \$0.2 million. There were no remaining cost method investments at December 31, 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

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

#### Income taxes

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

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

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 the year ended December 31, 2012, we recorded net foreign currency loss of \$0.4 million. For the years ended December 31, 2011 and 2010, we recorded net foreign currency gain of \$0.3 million and \$0.1 million, respectively.

Research and development

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

Software development costs

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 are recorded as part of computer software costs. Internal use software is amortized on a straight line basis over its estimated useful life, generally three years.

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 of generally three years, on a straight-line basis.

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, 2012, 2011 or 2010. At December 31, 2012 and 2011, software development costs, net of accumulated amortization, were \$2.0 million and \$1.1 million, respectively, and are included in other assets on the consolidated balance sheet. Amortization expense related to software development costs was \$0.4 million, \$0.1 million, \$0.1 million for the years ended December 31, 2012, 2011 and 2010, respectively, and is included in both cost of license fees and cost of subscriptions.

Sales returns and allowance for doubtful accounts

We provide customers a 30-day right of return and under certain circumstances provide service related credits to our customers. 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. Provisions for sales returns and credits are charged against the related revenue items.

In addition, we record an allowance for doubtful accounts that reflects estimates of probable credit losses. This assessment is based on several factors including aging of customer accounts, known customer specific risks, historical experience and





Blackbaud, Inc.

Notes to consolidated financial statements (continued)

existing economic conditions. Accounts are charged against the allowance after all means of collection are exhausted and recovery is considered remote. Provisions for doubtful accounts are recorded in general and administrative expense.

Below is a summary of the changes in 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
2012	\$ 261	\$976	\$(421 )	\$816
2011	424	27	(190 )	261
2010	760	(227 )	(109 )	424

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
2012	\$ 3,652	\$8,914	\$(4,836 )	\$7,730
2011	2,263	5,619	(4,230 )	3,652
2010	2,799	3,000	(3,536 )	2,263

#### 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
2012	\$ 16,452	\$19,693	\$(18,003 )	\$18,142
2011	11,548	18,415	(13,511 )	16,452
2010	5,108	12,985	(6,545 )	11,548

#### Advertising costs

We expense advertising costs as incurred, which was \$1.2 million for the year ended December 31, 2012, and \$1.1 million for both the years ended December 31, 2011 and 2010.

#### 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.

Restructuring costs are not directly identified with a particular segment and as a result, management does not consider these charges in the evaluation of the operating income from segments.

Blackbaud, Inc.

Notes to consolidated financial statements (continued)

#### 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. 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 2012, 2011 or 2010.

#### 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 conversion of all dilutive securities using the treasury stock method. Dilutive potential common shares consist of shares issuable upon the exercise of stock options, settlement of stock appreciation rights and vesting of restricted stock awards and units.

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

(in thousands, except share and per share amounts)	Year ended December 31,		
	2012	2011	2010
Numerator:			
Net income	\$6,583	\$33,220	\$29,187
Denominator:			
Weighted average common shares	44,145,535	43,522,563	43,145,189
Add effect of dilutive securities:			
Employee stock-based compensation	546,310	626,491	730,966
Weighted average common shares assuming dilution	44,691,845	44,149,054	43,876,155
Earnings per share:			
Basic	\$0.15	\$0.76	\$0.68
Diluted	\$0.15	\$0.75	\$0.67

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,		
	2012	2011	2010
Shares excluded from calculations of diluted EPS	434,050	422,418	221,742

#### Recently adopted accounting pronouncements

Effective January 1, 2012, we adopted ASU 2011-05, Presentation of Comprehensive Income, which (i) eliminates the option to present components of other comprehensive income, or OCI, as part of the statement of changes in stockholders' equity and (ii) requires the presentation of each component of net income and each component of OCI either in a single continuous statement or in two separate but consecutive statements. The adoption of ASU 2011-05 did not have a material impact on our consolidated financial statements. We have presented each component of net income and OCI in a single continuous statement.

Effective January 1, 2012, we adopted ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards, which amends ASC 820, Fair Value Measurement. ASU 2011-04 provides common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS) and improves the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. ASU 2011-04 is effective for entities prospectively for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on our consolidated financial statements.



Blackbaud, Inc.

Notes to consolidated financial statements (continued)

#### Recently issued accounting pronouncements

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is 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 U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. We do not anticipate any material impact from the adoption of ASU 2013-02.

In July 2012, the FASB issued 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. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, provided that the entity has not yet issued its financial statements. We do not anticipate any material impact from the adoption of ASU 2012-02.

#### 3. Business combinations

##### 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. Since the date of acquisition through December 31, 2012, total revenue from Convio was \$50.7 million. Because we have integrated a substantial amount of the Convio operations, it is impracticable to determine the 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 amended 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.

Blackbaud, Inc.

Notes to consolidated financial statements (continued)

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	\$54,912	
Property and equipment	6,591	
Other long term assets	75	
Deferred revenue	(7,917	)
Deferred tax liability	(31,648	)
Intangible assets and liabilities	139,650	
Goodwill	174,011	
	\$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, or ECBU, and the General Markets Business Unit, or GMBU, reporting segments was \$125.3 million, and \$48.7 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 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.

Blackbaud, Inc.

Notes to consolidated financial statements (continued)

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.

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

#### 2010 Acquisitions

During the year ended December 31, 2010, we acquired two entities for total consideration of \$5.3 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 2010 is deductible for income tax purposes.

#### 4. Property and equipment

Property and equipment as of December 31, 2012 and 2011 consisted of the following:

(in thousands)	Estimated useful life (years)	December 31,	
		2012	2011
Equipment	3 - 5	\$2,430	\$2,809
Computer hardware	3 - 5	56,969	39,665
Computer software	3 - 5	17,540	9,660
Construction in progress	—	1,854	3,836
Furniture and fixtures	5 - 7	5,486	5,028
Leasehold improvements	term of lease	5,104	3,394
Total property and equipment		89,383	64,392
Less: accumulated depreciation		(40,320 )	(29,995 )
Property and equipment, net of depreciation		\$49,063	\$34,397

Depreciation expense was \$14.5 million, \$9.4 million and \$9.1 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Property and equipment, net of depreciation, under capital leases at December 31, 2012 and 2011 was not material.



Blackbaud, Inc.

Notes to consolidated financial statements (continued)

## 5. Goodwill and other intangible assets

The change in goodwill for each reportable segment during the year ended December 31, 2012, consisted of the following:

(in thousands)	ECBU	GMBU	IBU	Target Analytics	Other	Total
Balance at December 31, 2011	\$23,023	\$26,437	\$5,389	\$33,177	\$2,096	\$90,122
Additions related to business combinations	125,299	48,712	—	—	—	174,011
Additions related to prior year business combinations	—	—	793	—	—	793
Effect of foreign currency translation	—	—	129	—	—	129
Balance at December 31, 2012	\$148,322	\$75,149	\$6,311	\$33,177	\$2,096	\$265,055

We have no accumulated impairment losses as of December 31, 2012 and 2011. Additions to goodwill during the year ended December 31, 2012, related primarily to the acquisitions as described in Note 3 of these consolidated financial statements. The remaining additions were the result of an adjustment to the allocation of the purchase price for one the entities we acquired during the year ended December 31, 2011.

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, 2012 and 2011.

(in thousands)	December 31,	
	2012	2011
Finite-lived gross carrying amount		
Customer relationships	\$101,878	\$48,725
Marketing assets	10,296	2,502
Acquired software and technology	94,378	16,087
Non-compete agreements	3,979	2,539
Database	4,275	4,275
Total finite-lived gross carrying amount	214,806	74,128
Accumulated amortization		
Customer relationships	(24,994 )	(18,891 )
Marketing assets	(2,852 )	(1,627 )
Acquired software and technology	(14,787 )	(6,171 )
Non-compete agreements	(2,727 )	(1,856 )
Database	(2,798 )	(2,263 )
Total accumulated amortization	(48,158 )	(30,808 )
Indefinite-lived gross carrying amount		
Marketing assets	1,389	1,340
Total intangible assets, net	\$168,037	\$44,660

Additions to intangible assets during 2012 are related to the acquisitions described in Note 3 of these consolidated financial statements.



Blackbaud, Inc.

Notes to consolidated financial statements (continued)

## 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 and the nature of the intangible asset. The following table summarizes amortization expense for the years ended December 31, 2012, 2011 and 2010.

(in thousands)	Year ended December 31,		
	2012	2011	2010
Included in cost of revenue:			
Cost of license fees	\$485	\$635	\$588
Cost of subscriptions	11,969	3,341	3,058
Cost of services	1,992	1,572	1,390
Cost of maintenance	722	975	1,223
Cost of other revenue	75	75	75
Total included in cost of revenue	15,243	6,598	6,334
Included in operating expenses	2,106	980	798
Total	\$17,349	\$7,578	\$7,132

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, 2012:

Years ending December 31,	Amortization expense (in thousands)
2013	\$24,373
2014	22,569
2015	22,186
2016	21,765
2017	19,439
Total	\$110,332

## 6. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following as of December 31, 2012 and 2011:

(in thousands)	December 31, 2012	December 31, 2011
Deferred sales commissions	\$18,142	\$16,452
Prepaid software maintenance	5,530	4,676
Taxes, prepaid and receivable	7,398	343
Deferred professional services costs	3,233	3,098
Prepaid royalties	2,813	2,331
Other	3,473	4,116
Total prepaid expenses and other current assets	\$40,589	\$31,016

## 7. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following as of December 31, 2012 and 2011:

(in thousands)	December 31, 2012	December 31, 2011
Taxes payable	\$7,607	\$3,355
Accrued commissions and salaries	5,905	6,475
Accrued bonuses	11,966	9,832
Customer credit balances	4,577	3,762
Accrued software and maintenance	3,831	174
Accrued royalties	1,750	1,418
Other	10,360	7,691
Total accrued expenses and other current liabilities	\$45,996	\$32,707

## 8. Deferred revenue

Deferred revenue consisted of the following as of December 31, 2012 and 2011:

(in thousands)	December 31, 2012	December 31, 2011
Maintenance	\$81,741	\$81,913
Subscriptions	65,850	50,849
Services	36,904	29,675
License fees and other	523	1,000
Total deferred revenue	185,018	163,437
Less: Deferred revenue, net of current portion	(11,119	) (9,772
Deferred revenue, current portion	\$173,899	\$153,665

## 9. Debt

## Credit facility

In February 2012, we amended and restated our credit facility to a \$325.0 million five-year credit facility. The credit facility 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 credit facility is secured by the stock and limited liability company interests of certain subsidiaries that were pledged as part of the closing. Amounts outstanding under the credit facility will be guaranteed by our material domestic subsidiaries, if any. In connection with closing the Convio acquisition, we designated Convio as a material domestic subsidiary under the credit facility. As a material domestic subsidiary, Convio guarantees amounts outstanding under the credit facility and pledges certain stock of its 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) 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% (Base Rate), in addition to a margin of 0.25% to 1.25% (Base Rate Loans), or (b) the LIBOR rate plus a margin of 1.25% to 2.25% (LIBOR Loans). 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 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, 2012, the commitment fee was 0.35%.

Blackbaud, Inc.

Notes to consolidated financial statements (continued)

Under the credit facility, we have the ability to choose either Base Rate Loans or LIBOR Loans. Base Rate borrowings mature in February 2017. LIBOR Loans can be one, two, three or six month maturities (or, if agreed to by the applicable lenders, nine or twelve months), and rollover automatically, if we take no other action, into Base Rate Loans. 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 consolidated interest coverage ratio, as well as restrictions on the maximum amount of annual capital expenditures, our ability to declare and pay dividends and our ability to repurchase shares of our common stock. At December 31, 2012, we were in compliance with all debt covenants under the credit facility.

The following table summarizes our debt as of December 31, 2012. We had no borrowings outstanding as of December 31, 2011. The effective interest rate includes our interest cost incurred and the effect of interest rate swap agreements.

(in thousands, except percentages)	Debt balance at December 31, 2012	Effective interest rate at December 31, 2012	
Credit facility:			
Revolving credit loans	\$ 123,000	2.68	%
Term loans	92,500	3.14	%
Total debt	215,500	2.88	%
Less: Debt, current portion	10,000	3.14	%
Debt, net of current portion	\$ 205,500	2.86	%

We believe the carrying amount of our credit facility approximates its fair value at December 31, 2012, due to the variable rate nature of the debt. As LIBOR rates are observable at commonly quoted intervals, it is classified within Level 2 of the fair value hierarchy.

As of December 31, 2012, the required annual maturities related to our credit facility were as follows:

Year ending December 31, (in thousands)	Annual maturities
2013	\$ 10,000
2014	13,750
2015	15,000
2016	15,000
2017	161,750
Thereafter	—
Total required maturities	\$ 215,500
Deferred financing costs	

In connection with our credit facility entered into in February 2012, we paid \$2.4 million of financing costs, which is being amortized over the term of the new facility. As of December 31, 2012 and December 31, 2011, deferred financing costs totaling \$2.5 million and \$0.8 million, respectively, are included in other assets on the consolidated balance sheet.

#### 10. Derivative instruments

We use derivative instruments to manage interest rate risk. In May 2012, we entered into 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.



Blackbaud, Inc.

Notes to consolidated financial statements (continued)

The fair values of our derivative instruments as of December 31, 2012, were as follows:

(in thousands)	December 31, 2012	
	Liabilities Balance Sheet Location	Fair Value
Derivative instruments designated as hedging instruments:		
Interest rate swaps	Other liabilities	\$1,296
Total derivative instruments designated as hedging instruments		\$1,296

We did not have derivative instruments as of December 31, 2011. 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.

The effects of derivative instruments in cash flow hedging relationships for the year ended December 31, 2012, were as follows:

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

The tax benefit allocated to the loss recognized in accumulated other comprehensive loss was \$0.5 million for the year ended December 31, 2012. There was no ineffective portion of our interest swaps during 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 \$3.9 million payable in equal monthly installments. The base rent escalates annually at a rate equal to the change in the consumer price index, as defined in the agreement, but not to exceed 5.5% in any year. In addition, under the terms of the lease, the lessor will reimburse us an aggregate amount of \$4.0 million for leasehold improvements, which will be recorded as a reduction to rent expense ratably over the term of the lease. During each of the years ended December 31, 2012, 2011, and 2010, rent expense was reduced by \$0.3 million related to this lease provision. The \$4.0 million leasehold improvement allowance has been included in the table of operating lease commitments below as a reduction in our lease commitments ratably over the then remaining life of the lease from October 2008. The timing of the reimbursements for the actual leasehold improvements may vary from the amount reflected in the table below.

In 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 \$2.1 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. In addition, we are entitled to an allowance of approximately \$3.3 million from the lessor for leasehold improvements, allocated among the existing and new expansion premises. We have a standby letter of credit for a security deposit for this lease of \$2.0 million.

Additionally, we have subleased a portion of our facilities under various agreements extending through 2014. Under these agreements, rent expense was reduced by \$0.3 million in the year ended December 31, 2012 and by \$0.4 million

in each the years ended December 31, 2011 and 2010, respectively. We have also received, and expect to receive through 2023, 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 \$2.2 million, \$2.3 million and \$2.0 million for the years

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

ended December 31, 2012, 2011 and 2010, respectively. Total rent expense was \$7.6 million, \$4.7 million and \$5.4 million for the years ended December 31, 2012, 2011 and 2010, 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.

As of December 31, 2012, 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
2013	\$10,278
2014	9,518
2015	8,339
2016	7,322
2017	7,336
Thereafter	40,925
Total minimum lease payments	\$83,718
Other commitments	

We utilize third-party relationships 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. As of December 31, 2012, the remaining aggregate minimum purchase commitment under these arrangements is approximately \$4.5 million through 2015. We incurred expense under these arrangements of \$1.3 million, \$3.2 million and \$1.7 million for the years ended December 31, 2012, 2011 and 2010, respectively.

#### 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, 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, 2012.

#### 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 and the Netherlands. We are generally subject to U.S. federal income tax examination for calendar tax years 2009 through 2011 as well as state and foreign income tax examinations for various years depending on statutes of limitations of those jurisdictions.

Blackbaud, Inc.

Notes to consolidated financial statements (continued)

The following summarizes the components of income tax expense:

(in thousands)	Year ended December 31,			
	2012	2011	2010	
Current taxes:				
U.S. Federal	\$(1,764	) \$3,434	\$4,130	
U.S. State and local	410	1,030	1,228	
International	511	40	78	
Total current taxes	(843	) 4,504	5,436	
Deferred taxes:				
U.S. Federal	8,943	11,943	10,077	
U.S. State and local	(796	) 1,536	1,262	
International	(562	) 54	(26	)
Total deferred taxes	7,585	13,533	11,313	
Total income tax provision	\$6,742	\$18,037	\$16,749	

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

(in thousands)	Year ended December 31,		
	2012	2011	2010
U.S.	\$16,793	\$50,946	\$45,700
International	(3,468	) 311	236
Income before provision for income taxes	\$13,325	\$51,257	\$45,936

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,				
	2012	2011	2010		
Federal statutory rate	35.0	% 35.0	% 35.0		%
Effect of:					
State income taxes, net of federal benefit	8.3	4.2	4.3		
Change in state income tax rate applied to deferred tax asset	(2.2	) 0.6	—		
Fixed assets	(7.6	) —	—		
Unrecognized tax benefit	2.9	(0.3	) 0.4		
State credits, net of federal benefit	(1.7	) (2.2	) (2.4	)	
Change in valuation reserve	4.1	0.7	2.4		
Federal credits generated	—	(2.7	) (3.2	)	
Foreign tax rate	2.3	—	—		
Acquisition costs	10.8	0.6	1.0		
Foreign tax credits	(3.0	) —	—		
Other	1.7	(0.7	) (1.0	)	
Income tax provision effective rate	50.6	% 35.2	% 36.5		%



Blackbaud, Inc.

Notes to consolidated financial statements (continued)

We recorded net excess tax benefits attributable to stock option and stock appreciation right exercises and restricted stock vesting of \$0.1 million, \$0.2 million and \$2.7 million in stockholders' equity during the years ended December 31, 2012, 2011 and 2010, respectively. We were unable to recognize additional excess tax benefits of stock-based compensation deductions generated during 2012 because the deductions did not reduce income tax payable after considering our net operating loss carryforwards. Although not recognized for financial reporting purposes, this unrecognized tax benefit is available to reduce future taxable income.

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

(in thousands)	December 31,	
	2012	2011
Deferred tax assets relating to:		
Federal and state net operating loss carryforwards	\$30,839	\$16,842
State and foreign tax credits	15,438	11,148
Intangible assets	13,706	20,969
Effect of expensing nonqualified stock options and restricted stock	7,634	8,142
Accrued bonuses	4,361	3,084
Deferred revenue	4,342	3,343
Allowance for doubtful accounts	3,161	1,456
Other	8,321	2,511
Total deferred tax assets	87,802	67,495
Deferred tax liabilities relating to:		
Intangible assets	(65,882)	(8,407)
Fixed assets	(12,643)	(9,132)
Other	(7,318)	(8,950)
Total deferred tax liabilities	(85,843)	(26,489)
Valuation allowance	(10,651)	(10,079)
Net deferred tax asset (liabilities)	\$(8,692)	\$30,927

As of December 31, 2012, our federal, foreign and state net operating loss carryforwards for income tax purposes were approximately \$77.3 million, \$3.6 million and \$57.1 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 2033 and the state net operating loss carryforwards will expire over various periods beginning in 2017. 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 and state tax credit carryforwards for income tax purposes were approximately \$3.6 million and \$11.6 million, net of federal tax, respectively. If not utilized, the federal tax credit carryforwards will begin to expire in 2033 and the state tax credit carryforwards will begin to expire in 2013. The state tax credits had a valuation reserve of approximately \$8.5 million, net of federal tax, as of December 31, 2012.

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

(in thousands)	Balance at beginning of year	Acquisition related change	Charges to expense	Balance at end of year
Years ended December 31,				
2012	\$10,079	\$286	\$286	\$10,651
2011	9,614	—	465	10,079
2010	7,994	75	1,545	9,614

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

The following table sets forth the change to our unrecognized tax benefit for the year ended December 31, 2012, 2011 and 2010:

(in thousands)	December 31,			
	2012	2011	2010	
Balance at beginning of year	\$1,777	\$1,414	\$1,231	
Increases from prior period positions	2,766	87	126	
Decreases in prior year position	(93	) (9	) —	
Increases from current period positions	—	285	297	
Lapse of statute of limitations	(604	) —	(240	)
Balance at end of year	\$3,846	\$1,777	\$1,414	

The total amount of unrecognized tax benefit that, if recognized, would favorably affect the effective tax rate was \$3.8 million at December 31, 2012. 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 sheet as of December 31, 2012 and 2011 was \$0.7 million and \$0.2 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 and 2010 was \$0.3 million and \$0.2 million, respectively. The total amount of interest and penalties included in the consolidated statements of comprehensive income as an increase in income tax expense for 2011 was \$0.1 million.

We have taken federal 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 \$1.0 million at December 31, 2012.

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, 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 and the 2001 Stock Option Plan, under which no additional grants may be made, and the 2009 Equity Compensation Plan for Employees from Acquired Companies, under which 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. 2000 Stock Option Plan, as amended (Kintera 2000 Plan) and 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 5,993,220 as of December 31, 2012. We issue common stock from our pool of authorized stock upon exercise of stock options, settlement of stock

appreciation rights and performance-based restricted stock units or upon granting of restricted stock.

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

Historically, we have issued four types of awards under these plans: stock options, restricted stock awards, performance-based restricted stock units and stock appreciation rights. The following table sets forth the number of awards outstanding for each award type as of December 31, 2012 and 2011.

Award type	Outstanding at December 31,	
	2012	2011
Stock options	60,775	216,848
Restricted stock awards	1,203,186	1,079,930
Restricted stock units	389,913	159,462
Stock appreciation rights	2,786,828	2,305,049

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

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 for the years ended December 31, 2012, 2011 and 2010.

(in thousands)	Year ended December 31,		
	2012	2011	2010
Included in cost of revenue:			
Cost of subscriptions	\$860	\$571	\$392
Cost of services	2,786	1,966	1,742
Cost of maintenance	538	741	814
Total included in cost of revenue	4,184	3,278	2,948
Included in operating expenses:			
Sales and marketing	2,527	1,325	1,366
Research and development	3,556	3,039	2,844
General and administrative	8,973	7,242	5,901
Total included in operating expenses	15,056	11,606	10,111
Total	\$19,240	\$14,884	\$13,059

The total amount of compensation cost related to non-vested awards not recognized was \$43.0 million at December 31, 2012. This amount will be recognized over a weighted average period of 1.9 years .

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

## Stock options

The following table summarizes the options outstanding under each of our stock-based compensation plans as of December 31, 2012.

Plan	Date of adoption	Options outstanding	Range of exercise prices
2004 Stock Plan	March 23, 2004	21,383	\$8.60-\$13.05
Kintera 2003 Plan	July 8, 2008	(1) 6,086	\$10.59-\$19.26
Convio 1999 Plan	May 5, 2012	(1) 28,977	\$9.10-\$15.54
Convio 2009 Plan	May 5, 2012	(1) 4,329	\$15.62-\$18.20
Total		60,775	

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

A summary of outstanding stock options as of December 31, 2012, and changes during the year then ended, is as follows:

Options	Share options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2012	216,848	\$15.16		
Assumed <sup>(1)</sup>	63,439	13.24		
Exercised	(200,082)	15.73		
Forfeited	(19,205)	15.79		
Expired	(225)	10.92		
Outstanding at December 31, 2012	60,775	\$11.09	4.7	\$713
Unvested and expected to vest at December 31, 2012	9,996	\$12.54	6.6	\$103
Vested and exercisable at December 31, 2012	49,986	\$10.78	4.3	\$602

(1) Stock options assumed in connection with the acquisition of Convio.

There have been no new stock option awards granted since 2005. The total intrinsic value of options exercised during the years ended December 31, 2012, 2011 and 2010 was \$3.2 million, \$3.1 million and \$9.1 million, respectively. The total fair value of options that vested during the year ended December 31, 2012, was \$0.6 million. The total fair value of options that vested during 2011 and 2010 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. Significant assumptions used in the Black-Scholes option pricing model for options assumed from Convio in May 2012 were as follows:

Volatility	May 2012 32% to 39%
Dividend yield	1.8%
Risk-free interest rate	0.0% to 0.4%
Expected option life in years	0.04 to 3.26
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

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

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.

A summary of unvested restricted stock awards as of December 31, 2012, and changes during the year then ended, is as follows:

Unvested restricted stock awards	Restricted stock awards	Weighted average grant-date fair value
Unvested at January 1, 2012	1,079,930	\$25.22
Granted	687,652	22.77
Vested	(421,636)	) 22.82
Forfeited	(142,760)	) 26.00
Unvested at December 31, 2012	1,203,186	\$24.58

As of December 31, 2012, the number and intrinsic value of restricted stock awards expected to vest was 1,144,693 and \$26.1 million, respectively. The total fair value of restricted stock awards that vested during the years ended December 31, 2012, 2011 and 2010 was \$9.6 million, \$9.9 million and \$9.0 million, respectively. The weighted average grant-date fair value of restricted stock awards granted during the years ended December 31, 2011 and 2010 was \$27.98 and \$26.61, 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.

A summary of unvested restricted stock units as of December 31, 2012 is as follows:

Unvested restricted stock units	Restricted stock units	Weighted average grant-date fair value
Unvested at January 1, 2012	159,462	\$25.60
Granted	30,738	21.41
Assumed <sup>(1)</sup>	331,196	28.84
Forfeited	(53,976)	) 27.84
Vested	(77,507)	) 27.59
Unvested at December 31, 2012	389,913	\$27.55

(1) Restricted stock units assumed in connection with the acquisition of Convio.

As of December 31, 2012, the number and intrinsic value of restricted stock units expected to vest was 376,306 and \$8.6 million, respectively. The weighted average grant date fair value of restricted stock units granted for the years ended December 31, 2011 and 2010 was \$26.68 and \$22.79, 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

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Blackbaud, Inc.

Notes to consolidated financial statements (continued)

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.

A summary of SARs as of December 31, 2012, and changes during the year then ended, is as follows:

Stock appreciation rights	Stock appreciation rights	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2012	2,305,049	\$24.47		
Granted	990,007	22.66		
Exercised	(246,383 )	21.42		
Forfeited	(213,100 )	26.91		
Expired	(48,745 )	\$27.00		
Outstanding at December 31, 2012	2,786,828	\$23.87	5.2	\$ 2,160
Unvested and expected to vest at December 31, 2012	1,545,181	\$24.21	6.2	\$ 565
Vested and exercisable at December 31, 2012	1,194,294	\$23.39	3.8	\$ 1,581

The total intrinsic value of SARs exercised during the year ended December 31, 2012, 2011 and 2010 was \$2.4 million, \$2.2 million and \$1.4 million, respectively. The total fair value of SARs that vested during the year ended December 31, 2012, 2011 and 2010 was \$3.9 million, \$3.6 million and \$3.6 million, respectively. The weighted average grant date fair value of SARs granted for the years ended December 31, 2012, 2011 and 2010 was \$6.36, \$8.10 and \$7.17, 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 2012, 2011 and 2010 were as follows:

	Years ended December 31,		
	2012	2011	2010
Volatility	35% to 41%	41% to 42%	40% to 42%
Dividend yield	1.7%	1.7% to 1.8%	1.6% to 1.8%
Risk-free interest rate	0.5% to 0.6%	0.6% to 1.9%	0.9% to 1.9%
Expected SAR life in years	4	4	4

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

#### 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, 2012.

Declaration Date	Dividend per Share	Record Date	Payable Date
February 2012	\$0.12	March 5	March 15
May 2012	\$0.12	May 25	June 15
August 2012	\$0.12	August 28	September 14
October 2012	\$0.12	November 28	December 14

In February 2013, our Board of Directors declared a first quarter dividend of \$0.12 per share payable on March 15, 2013 to stockholders of record on February 28, 2013.

#### 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, 2012.

#### 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 2012, 2011 and 2010, 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, 2012, 2011 and 2010 were \$4.6 million, \$4.0 million and \$3.5 million, respectively. There was no discretionary contribution by us to the 401K Plan in 2012, 2011 and 2010.

#### 16. Segment information

As of December 31, 2012, our reportable segments were as follows: the ECBU, 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;

- 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.

Blackbaud, Inc.

Notes to consolidated financial statements (continued)

We have recast our segment disclosures for 2011 and 2010 to present the reportable segments on a consistent basis with the current year. Summarized reportable segment financial results for the years ended December 31, 2012, 2011 and 2010 were as follows:

(in thousands)	Year ended December 31,		
	2012	2011	2010
Revenue by segment:			
ECBU	\$165,161	\$127,945	\$104,764
GMBU	203,177	171,999	159,336
IBU	40,068	33,841	27,322
Target Analytics	37,453	35,769	33,313
Other <sup>(1)</sup>	1,560	1,314	1,830
Total revenue	\$447,419	\$370,868	\$326,565
Segment operating income <sup>(2)</sup> :			
ECBU	\$74,134	\$53,141	\$48,825
GMBU	121,120	101,572	91,827
IBU	5,755	6,922	7,883
Target Analytics	17,451	16,882	16,472
Other <sup>(1)</sup>	600	1,203	794
	219,060	179,720	165,801
Less:			
Corporate unallocated costs <sup>(3)</sup>	163,036	106,330	99,586
Stock-based compensation costs	19,240	14,884	13,059
Amortization expense	17,349	7,578	7,132
Interest expense (income), net	5,718	17	(10
Other expense (income), net	392	(346	) 98
Income before provision for income taxes	\$13,325	\$51,257	\$45,936

(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.

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

We also 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	Pacific	Total Foreign	Total
Revenue from external customers:						
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
2010	282,450	17,862	19,251	7,002	44,115	326,565
Property and equipment:						
December 31, 2012	\$47,826	\$188	\$810	\$239	\$1,237	\$49,063
December 31, 2011	33,255	106	772	264	1,142	34,397



Blackbaud, Inc.

Notes to consolidated financial statements (continued)

It is impractical for us to identify our revenues by product category and total assets by segment.

## 17. Quarterly results (unaudited)

(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 from operations	9,875	6,185	(1,877)	) 5,252
Income before provision for income taxes	7,342	4,629	(3,446)	) 4,800
Net income	3,270	2,825	(2,271)	) 2,759
Earnings per share				
Basic	\$0.07	\$0.06	\$(0.05)	) \$0.06
Diluted	\$0.07	\$0.06	\$(0.05)	) \$0.06

(in thousands, except per share data)	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Total revenue	\$95,045	\$95,413	\$93,782	\$86,628
Gross profit	52,971	55,722	54,494	50,487
Income from operations	10,599	16,034	14,487	9,808
Income before provision for income taxes	10,760	15,923	14,688	9,886
Net income	6,351	10,214	9,362	7,293
Earnings per share				
Basic	\$0.15	\$0.23	\$0.22	\$0.17
Diluted	\$0.14	\$0.23	\$0.21	\$0.17

Earnings per common share are computed independently for each of the periods presented and, therefore, may not add up to the total for the year. The results of operations of acquired companies are included in the consolidated results of operations from the date of their respective acquisition as described in Note 3.

## 18. Restructuring

During 2012, in an effort to consolidate our operating locations we decided not to renew our current lease for office space in San Diego, CA, which matures 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. We expect to incur a total of \$1.3 million in before-tax restructuring costs through June 2013. Restructuring costs incurred consist primarily of costs to separate and relocate employees. For the year ended December 31, 2012, we incurred restructuring costs of \$0.2 million, which were recorded in general and administrative expense.

The following table summarizes our restructuring costs as of December 31, 2012:

(in thousands)	Total amount expected to be incurred	Included in accrued expenses and other current liabilities at December 31, 2012
Employee severance costs	\$546	\$137
Employee relocation costs	589	—
Employee retention costs	152	38
	\$1,287	\$175





Blackbaud, Inc.

Notes to consolidated financial statements (continued)

19. Subsequent events

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 130 positions. We expect to record a charge of approximately \$2.5 million in 2013 relating to this reduction in workforce, consisting primarily of one-time severance and termination benefits.

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