

BLACKBAUD INC
Form 10-K
February 25, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the Fiscal Year ended December 31, 2014

OR

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

For the transition period from _____ to _____.

Commission file number: 000-50600

BLACKBAUD, INC.

(Exact name of registrant as specified in its charter)

Delaware

11-2617163

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

2000 Daniel Island Drive

Charleston, South Carolina 29492

(Address of principal executive offices, including zip code)

(843) 216-6200

(Registrant's telephone number, including area code)

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

Title of Each Class

Name of Each Exchange on which Registered

Common Stock, \$0.001 Par Value

The NASDAQ Stock Market LLC

(NASDAQ Global Select Market)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES 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

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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, 2014 (based on the closing sale price of \$35.74 on that date) was approximately \$1,073,739,250. 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, 2015 was 46,310,092.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2015 Annual Meeting of Stockholders currently scheduled to be held June 9, 2015 are incorporated by reference into Part III hereof. Such definitive Proxy Statement will be filed with the Securities and Exchange Commission no later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2014.

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PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

Item 1. Business

Description of Business

We are the leading global provider of software and services designed specifically for the nonprofit, charitable giving and education communities. Our customers use our cloud-based and on-premise software solutions and related services to help increase donations, reduce fundraising costs, improve communications with constituents, manage their finances and optimize operations. Since our incorporation as a New York corporation in 1981, we have focused solely on the nonprofit market and have customers from nearly every segment of this sector, including education, foundations, health and human services, faith-based, arts and cultural, public and societal benefits, environment and animal welfare, as well as international and foreign affairs. We reincorporated as a South Carolina corporation in 1991 and reincorporated as a Delaware corporation in 2004. With recent acquisitions, we have expanded our addressable market to include institutions involved with the entire spectrum of giving activities, from private foundations and other grant-making institutions to corporate social responsibility programs and individuals. At the end of 2014, we had more than 30,000 customers in over 60 countries, doing work in every part of the world.

Market Overview

The nonprofit industry is large and our addressable market is growing

There were approximately 1.6 million U.S. nonprofit organizations registered with the Internal Revenue Service in 2013, including nearly 1.1 million charitable 501(c)(3) organizations - nearly double the number of charities in 1993. We estimate there are an additional 3 million charities internationally. The nonprofit market represents the third largest workforce category in the U.S. behind retail and manufacturing. According to Giving USA 2014, donations to U.S. nonprofit organizations in 2013 were \$335.2 billion, amounting to 2.0% of U.S. GDP, a 4.4% increase from 2012 donations of \$321.0 billion. The compound annual growth rate of donations over the 10-year period from 2003 to 2013 was 3.5%, not adjusted for inflation. Nonprofit organizations also receive fees for services they provide, which are estimated at more than \$1.5 trillion annually.

We estimate that our current total addressable market is over \$5.0 billion, which includes market expansion within the education, foundation and corporate social responsibility markets gained through the recent acquisitions of WhippleHill Communications, Inc. (“WhippleHill”) and MicroEdge Holdings, LLC (“MicroEdge”).

Traditional methods of fundraising are often costly and inefficient

Many nonprofits use manual methods or stand-alone software applications not designed to manage fundraising. Such methods are often costly and inefficient because of the difficulties in effectively collecting, sharing, and using donation-related information. Furthermore, general purpose and Internet-related software applications frequently have limited functionality and do not efficiently integrate multiple databases. Based on our market research, nearly a

quarter of every dollar donated is used for fundraising expenses alone. Some nonprofit organizations have developed proprietary software, but doing so is expensive, requiring on-site technical personnel for development, implementation and maintenance.

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The nonprofit industry faces particular operational challenges
Nonprofit organizations must efficiently:

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

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

Corporations, grant making institutions and foundations also face unique challenges.

The market segments addressed by our MicroEdge acquisition, which include corporations, grant making institutions and foundations, face their own unique challenges, including the need to:

- Quantify and improve the impact of their grants;
- Cultivate better relationships with grantees;
- Achieve better internal collaboration and alignment with board members, reviewers, etc.;
- Illustrate the impact of their corporate philanthropy efforts to the communities they serve;
- Engage employees in meaningful volunteering, giving and other activities;
- Ensure that their philanthropic efforts align with their business initiatives;
- Manage all the activities of a foundation's activities, including fundraising and accounting;
- Expand the reach of their fundraising efforts; and
- Cultivate new and existing donors.

Our Strategy

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

Delight our Customers

We intend to make our customers' experience with us effective, efficient and satisfying from their initial interest in our products and services, through their decision to purchase, engage with customer support and utilize product enhancements. We continue to focus on initiatives aimed at improving the consistency and quality of user experience across the offerings we provide to our customers. We continue to evolve the manner in which we package and sell our offerings to provide high quality and value combined with flexibility to meet the different needs of our existing and prospective customers. For example, we are increasing the number of our offerings sold under a subscription pricing model, which can make it easier for customers to purchase our solutions. We will continue to focus on providing the highest level of product support while continuing to enhance our existing products and on developing new solutions and services designed to help our customers to be more effective and achieve their missions.

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Execute on our Five Growth and Operational Improvement Strategies

During 2014, we began executing on the following five growth and operational improvement strategies targeted to drive an extended period of quality enhancement, product and service innovation, and increasing operating efficiency and financial performance:

1. Accelerate Organic Revenue Growth

We will continue to focus on accelerating organic revenue growth by integrating solutions, transitioning solutions to a subscription-based model delivered in the cloud, and heightening our solution quality and innovation.

2. Accelerate our Move to the Cloud

We will continue to transition our business to predominantly serve customers through a subscription-based cloud delivery model, enabling lower cost entry, greater scalability and lower total cost of ownership to our customers.

3. Expand our Total Addressable Market

We will continue to evaluate compelling opportunities to acquire companies, technologies and/or services. We will be guided by our acquisition criteria for considering attractive assets, which expand our total addressable market, provide new and improved solutions, accelerate growth and our transition to the cloud, as well as drive profitability and returns on our investments.

4. Optimize our Back-Office Infrastructure

We will continue to focus on continuous improvement of our back-office operations, including utilizing best-in-breed automation solutions. Our support and back-office functions are focused on improving processes, streamlining structure and utilizing scalable tools and systems.

5. Implement a 3-Year Margin Improvement Plan

We are implementing a 3-year margin improvement plan designed to increase our operating effectiveness and efficiency to result in increasing margin growth for the overall business.

Attract Top talent and Actively Engage Employee Base

Our customer's passion is our purpose, and we have incredible customers whose missions make the world a better place for all of us. Driven by this purpose, our employees come to work every day knowing they can make a real difference with our customers, and thus the world. Collaboration, innovation and high standards are core to our culture and help enable the great work we do. We strive to hire the best employees and provide a workplace where their talents and potential are realized. Our employees' engagement is a focus of every leader at Blackbaud, and we continually work to understand what matters and to make our workplace better. We believe people with a passion for purpose can join our team and have a unique career experience. Our leaders are committed to our employees' personal and career development and continually work to improve the training and tools provided to their teams.

Build Our Reputation as an Industry Thought Leader

In the more than 30 years since our founding, we have gained significant insight into the market and industry segments in which we operate. We produce a wide range of materials, including blogs, monthly indices and white papers, which provide insights and guidance to the nonprofit and giving communities. In addition, we participate in a number of forums, including the Clinton Global Initiative, Social Innovation Summit and industry roundtables, where we exchange views and engage with industry and governmental leaders. We intend to expand these activities and further build our reputation as a thought leader within the industry.

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Our Operating Structure

The markets we serve are very diverse, with organizations that range from small, local charities to large, multinational relief organizations. The needs of our customers can vary greatly according to their size and function. To better serve our customers' unique and wide-ranging operations, we organize our operating structure into four operating units: the Enterprise Customer Business Unit (the "ECBU"), the General Markets Business Unit (the "GMBU"), the International Business Unit (the "IBU"), and Target Analytics.

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

• The ECBU is focused on marketing, sales, delivery and support to large and/or strategic prospects and customers in North America.

• The GMBU is focused on marketing, sales, delivery and support to all emerging and mid-sized prospects and customers in North America.

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

• Target Analytics is focused on marketing, sales and delivery of analytic services to all prospects and customers globally.

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

Blackbaud Solutions

We offer an integrated platform of products and services that address the constituent relationship management (CRM) needs and operational challenges facing the nonprofit, charitable giving and education communities. In most cases, the core of our solution portfolio centers around a CRM system that seamlessly integrates with other applications to help our customers conduct activities vital to advancing their missions, such as managing finances, analyzing prospects and market data, effectively communicating with current and prospective supporters, and promoting their cause online and offline. Our solutions can be combined with a range of consulting, training and professional services, maintenance and technical support as well as payment processing services.

In addition, with the acquisition of MicroEdge in late 2014, we now offer solutions that stretch across the spectrum of giving activities, including corporate social responsibility programs, grant management, employee involvement, foundation management and other philanthropic activities. These new solutions complement our traditional offerings and we plan to integrate many of them with our core CRM solutions.

During 2014, we generated revenue in four reportable segments (the ECBU, the GMBU, the IBU and Target Analytics) and in four geographic regions (United States, Canada, Europe and Australia), as described in more detail in Note 18 of our consolidated financial statements.

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We provide solutions that address many of the technological and business process needs of our customers, including:

- Constituent relationship management;
- Online fundraising;
- Financial management and reporting;
- Cost accounting information for projects and grants;
- Integration of financial data and donor information in a centralized system;
- Student information systems for schools management;
- Ticketing management;
- General admissions management;
- Event, data and information management;
- Peer-to-peer fundraising;
- Employee involvement programs;
- Grant management;
- Foundation management;
- Consulting and educational services;
- Analytics and prospect research; and
- Payment processing and related regulatory compliance.

Software solutions

Constituent Relationship Management

The Raiser's Edge

The Raiser's Edge is the leading software solution designed to manage a nonprofit organization's constituent relationship management and fundraising activity. It has won four Campbell Rinker Awards for User Satisfaction. The Raiser's Edge enables nonprofit organizations to cultivate lifelong relationships with supporters, and diversify fundraising methods. Constituent relationship management, online fundraising, payment processing and email marketing are coupled with analytics, data enrichment tools and best practices, in a single solution.

In late 2014, we unveiled Raiser's Edge NXT, which is expected to be available in the summer of 2015. Raiser's Edge NXT combines the world's leading nonprofit fundraising solution, Raiser's Edge, with new fundraising and relationship management technology innovation. This new cloud-based solution will feature a role-based user interface, prescriptive analytics, built-in payment processing, and strengthened marketing outreach.

Blackbaud CRM

Blackbaud CRM is a flexible, extensible, scalable and secure web-based CRM solution. It is our lead offering for organizations with complex fundraising needs across all verticals, specializing in supporting sophisticated major giving, membership and high volume direct marketing programs. Blackbaud CRM helps organizations build deeper and more personalized relationships with constituents, build their brand through online engagement and multi-channel communication tools, and more effectively fundraise, leveraging campaign management, business intelligence and analytics. Blackbaud CRM can be sold as an integrated solution with our enterprise online solutions to enable multi-channel marketing, online engagement and event fundraising. In 2014, we released Blackbaud CRM 4.0, which contains significant developments in the areas of usability, quality, performance and innovation.

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Luminate CRM

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

eTapestry

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

Online Solutions

Luminate Online

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

Blackbaud NetCommunity

Blackbaud NetCommunity is an Internet marketing and communications tool that enables organizations that utilize the Raiser's Edge software to build interactive websites and manage email marketing campaigns. With Blackbaud NetCommunity, organizations can, among other things, establish online communities for social networking among constituents and also provide a platform for online giving, membership purchases and event registration. Because Blackbaud NetCommunity requires the Raiser's Edge database to operate, it can only be sold with Raiser's Edge or to existing Raiser's Edge customers.

Sphere eMarketing

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

Everyday Hero

Everyday Hero is an event-driven cloud-based fundraising solution focused on meeting the peer-to-peer fundraising needs of nonprofits. It is a leading donor acquisition tool, and helps nonprofits connect with a younger, more online-focused generation of donors, a first step in helping nonprofits develop long-term relationships with their supporters. Founded in Australia, where it is a market leader, Everyday Hero is now sold throughout Europe and was launched in the U.S. in 2014.

Online Express

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

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Financial Management

The Financial Edge

The Financial Edge is an accounting solution designed to address the specific accounting, analytical and financial reporting needs of nonprofit organizations. It integrates with The Raiser's Edge to simplify gift entry processing and relates information from both systems in an informative manner to eliminate redundant tasks. The Financial Edge provides nonprofit organizations with the means to help manage fiscal and fiduciary responsibility, enabling them to be more accountable to their constituents.

In late 2014, Blackbaud unveiled Financial Edge NXT, which is expected to be available in the summer of 2015. Financial Edge NXT combines the reliable Financial Edge accounting platform with powerful reporting tools that help accounting teams drive transparency, stewardship and compliance, and will enable organizations to seamlessly manage transactions, eliminate manual processes and more—all within a highly secure cloud environment.

School Management

The Education Edge

The Education Edge is a comprehensive student information management system designed principally to organize an independent school's admissions and registrar processes, including capturing detailed student information, creating class schedules, managing attendance and performance/grades records, producing demographic, statistic, and analytical reports and printing report cards and transcripts.

onMessage

onMessage is a content management system that gives schools the flexibility to build and edit webpages, with easy access to content types including photos, videos, downloads, text, and more. It allows users to share material and contribute content across an entire school community.

onRecord

onRecord makes it easy for schools to manage schedules, transcripts and GPAs. A new Student Information System that works directly with onCampus (LMS), onRecord simplifies the process of sharing student data and academic records securely.

onCampus

onCampus is a learning management system that makes it easy to manage, connect, and share information with students, parents, and an entire school community. Developed with direct input from our customers, onCampus gives teachers the tools to meet the demands of a modern private school.

onBoard

onBoard is an enrollment management system that simplifies a school's admissions process. onBoard helps admissions teams and prospective families manage and track their progress, from inquiry and application through acceptance and enrollment.

Ticketing

The Patron Edge

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

staffing, scheduling, event and membership management and other administrative tasks.

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General Admissions Management

Altru

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

Events Management

TeamRaiser

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

Sphere Friends Asking Friends

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

Employee Involvement programs

AngelPoints

AngelPoints is an integrated corporate social responsibility (“CSR”) solution that helps corporations mobilize the collective power of their employees to make a positive impact on their people, their company, and the world. AngelPoints contains modules that help companies manage employee volunteer and giving programs.

Grant management

GIFTS

GIFTS is an on-premise customizable grant making solution built with core functions that provide comprehensive grant making capabilities. It is the precursor to both GIFTS Alta and GIFTS Online. While still fully supported, all new customers are sold either GIFTS Alta or GIFTS Online.

GIFTS Alta

GIFTS Alta is an on-premise solution and provides the same core functionality as GIFTS, but with many additional capabilities and features, such as visual dashboards. It has a more modern user interface, is user friendly, and can be highly personalized.

GIFTS Online

GIFTS Online is very similar to GIFTS Alta, but is a cloud-based solution.

Foundation management

FIMS

FIMS is an on-premise fully-integrated foundation management system that helps community foundations, faith-based organizations and education and scholarship programs manage grants, finances and donors in one centralized,

comprehensive system. It features an open, customizable framework that helps community foundations manage everything from donors, gifts and investments to grants, grantees, funds and financials.

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FIMS Host*Net

FIMS Host*Net provides the same core functionality of FIMS, but is cloud-based and fully hosted at our secure data storage facility. This provides customers the convenience of anytime access coupled with hassle-free administration.

Analytic subscriptions and services

Target Analytics provides comprehensive solutions for donor acquisition, prospect research, data enrichment, and performance management, enabling nonprofits to define effective campaign strategies and maximize fundraising results. These services integrate with our CRM and other software solutions to give our customers a comprehensive view of their supporters and the market and provide information essential to making well-informed operating decisions.

Target Analytics offers services, software, analytics and data within the following areas:

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

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

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

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

Consulting and education services

Our consultants provide conversion, implementation and customization services for each of our software products.

These services include:

- System implementation;
- Data conversion, business process analysis and application customization;
- Database merging and enrichment, and secure credit card transaction processing;
- Database production activities; and
- Website design services.

In addition, we apply our industry knowledge and experience, combined with expert knowledge of our products, to evaluate an organization's needs and consult on how to improve a business process.

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

Customer support and maintenance

Most of our customers that use our cloud-based solutions or license our software products enroll in one of our support and maintenance programs. Customers enrolled in the programs enjoy fast, reliable customer support, receive regular software updates, stay up-to-date with support newsletters and have unlimited, around-the-clock access to support resources, including our extensive knowledgebase and forums. Customers who enroll in upgraded support and maintenance plans receive enhanced benefits such as call support priority and dedicated support resources.

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Payment processing services

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

Customers

At the end of 2014, we had more than 30,000 active customers including nonprofits, K12 private and higher education institutions, healthcare organizations, foundations and other charitable giving entities, and corporations. Our largest single customer accounted for approximately 1% of our 2014 consolidated revenue.

Sales and Marketing

The majority of our solutions and related services are sold through our direct sales force. Our direct sales force is complemented by a team of account development representatives responsible for sales lead generation and qualification. These sales and marketing professionals are located throughout the United States, United Kingdom, the Netherlands, Canada, Australia and New Zealand. As of December 31, 2014, we had 338 direct sales employees. We plan to continue expanding our direct sales force in the Americas, Europe, Australia and Asia as our operations grow internationally and market demand increases.

We generally begin a customer relationship with the sale of one of our primary products or services, such as The Raiser's Edge, Blackbaud CRM or Luminate, and then offer additional products and services to the customer as the organization's needs increase. As our business model evolves, we are increasingly beginning customer relationships with the sale of an integrated suite of cloud-based solutions.

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

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

Corporate Philanthropy and Volunteerism

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

Competition

The market for software and related services in the nonprofit sector is highly competitive and fragmented. For certain areas of the market, entry barriers are low. However, we believe our experience and full spectrum of solutions makes us a strong competitor. We expect to continue to see new competitors as the market matures and as nonprofit organizations become more aware of the advantages and efficiencies attainable through the use of specialized software. A number of diversified software enterprises have made acquisitions or developed products for the market, including Ellucian, Abila (formerly Sage Nonprofit Solutions), FrontStream Payments, Bloomerang and Campus Management. Other companies that compete with us, such as Microsoft, Salesforce.com and Oracle, have greater marketing resources, revenue and market recognition than we do. They offer some products that are designed

specifically for nonprofits, in addition to some of their general products, which have a degree of functionality for nonprofits that could be considered competitive. These larger companies could decide to focus more on the nonprofit sector with new, directly competitive products or through acquisitions of our current competitors.

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We mainly face competition from four sources:

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

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

We also compete with providers of traditional, less automated fundraising services, including parties providing services in support of traditional direct mail campaigns, special events fundraising, peer to peer, telemarketing and personal solicitations. Although there are numerous general software developers marketing products that have some application in the nonprofit market, these competitors have generally neglected to focus specifically on this market and typically lack the domain expertise to cost effectively build or implement integrated solutions for the market's needs. We believe we compete successfully against these traditional fundraising services, primarily because our products and services are more automated, more robust, more tailored to the needs of nonprofits and more efficient. In the independent and family foundation market, we encounter competition primarily from smaller companies with products that range from simple grantmaking solutions to custom developed platforms. Competitors in the family foundation market include Fluxx and Foundant. The competition we face in the corporate giving/grantmaking and employee volunteering market comes primarily from three sources: providers of end-to-end solutions that combine grant making and CSR functionality such as CyberGrants and JK Group; providers of standalone CSR software including VolunteerMatch; and providers of grants management software. Lastly, in the community foundations segment, our competitors include Stellar and Salesforce.com.

Research and Development

We have made substantial investments in research and development and expect to continue to do so as a part of our strategy to introduce additional products and services. As of December 31, 2014, we had 576 employees working on research and development. Our research and development expenses for 2014, 2013 and 2012 were \$77.2 million, \$65.6 million and \$64.7 million, respectively.

Technology and Architecture

We have products, such as Blackbaud CRM, that are built on the Microsoft.Net framework platform. These products are web-delivered applications utilizing a Service Oriented Architecture built on Internet standards and protocols such as HTTP, XML and SOAP. This architecture is designed to support flexible deployment scenarios including on-premise, hosted and cloud-based applications. The applications expose web service application programming interfaces so that functionality and business logic can be accessed programmatically from outside the context of an interactive user application.

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

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

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

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

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

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

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

Intellectual Property and Other Proprietary Rights

To protect our intellectual property, we rely on a combination of patent, trademark, copyright, and trade secret laws in various jurisdictions, as well as employee and third-party nondisclosure agreements and confidentiality procedures.

We have a number of registered trademarks, including “Blackbaud,” “The Raiser's Edge” and “Luminate.” We have applied for additional trademarks. We currently have two active patents on our technology, and have a total of three pending patent applications.

Employees

As of December 31, 2014, we had 3,033 employees, none of which are represented by unions or are covered by collective bargaining agreements. We are not involved in any material disputes with any of our employees, and we believe that relations with our employees are satisfactory.

Seasonality

For a discussion of seasonal variations in our business, see “Management’s discussion and analysis of financial conditions and results of operations — Seasonality” in Item 7 in this report.

Financial Information about Geographic Areas

For information about revenues by geographic region and long-lived assets by geographic region, please see Note 18 to our consolidated financial statements. For a description of risks attendant to our non-U.S. operations, please see “Risk factors - If we do not successfully address the risks inherent in the expansion of our international operations, our business could suffer” in Item 1A in this report.

Working Capital

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

Available Information

Our website address is www.blackbaud.com. We make available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as is reasonably practicable after such material is electronically filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC, but other information on our website is not incorporated into this report. The SEC maintains an Internet site that contains these reports at www.sec.gov. The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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Executive Officers

The following table sets forth information concerning our executive officers as of February 15, 2015:

| Name | Age | Title |
|----------------------------------|-----|--|
| Michael P. Gianoni | 54 | President and Chief Executive Officer |
| Anthony W. Boor | 52 | Executive Vice President and Chief Financial Officer |
| Charles T. Cumbaa ⁽¹⁾ | 62 | Executive Vice President, Corporate and Product Strategy Interim President, Enterprise Customer Business Unit |
| Kevin Mooney | 56 | President, General Markets Business Unit |
| Bradley J. Holman | 53 | President, International Business Unit |
| John J. Mistretta | 59 | Executive Vice President of Human Resources |

In January 2015, Joseph W. Moye tendered his resignation from his position as President, Enterprise Customer Business Unit effective as of January 30, 2015. Mr. Moye will continue as an employee of the Company until ⁽¹⁾March 15, 2015 in a transitional capacity. Mr. Cumbaa, was appointed as interim head of the Enterprise Customer Business Unit while we search for Mr. Moye's replacement.

Michael P. Gianoni joined us as President and Chief Executive Officer in January 2014. Prior to joining us, he served as Executive Vice President and Group President, Financial Institutions at Fiserv, Inc., a global technology provider serving the financial services industry, from January 2010 to December 2013. He joined Fiserv as President of its Investment Services division in December 2007. Mr. Gianoni was Executive Vice President and General Manager of CheckFree Investment Services, which provided investment management solutions to financial services organizations, from June 2006 until December 2007 when CheckFree was acquired by Fiserv. From May 1994 to November 2005, he served as Senior Vice President of DST Systems Inc., a global provider of technology-based service solutions. Mr. Gianoni is a member of the Board of Directors of Teradata Corporation, a publicly traded global big data analytics and marketing applications company. He holds an AS in electrical engineering from Waterbury State Technical College, a BS with a business concentration from Charter Oak State College, and an MBA and an honorary Doctorate, from the University of New Haven.

Anthony W. Boor joined us as Senior Vice President and Chief Financial Officer in November 2011 and served as our interim President and Chief Executive Officer from August 2013 to January 2014. In January 2015, Mr. Boor's title was changed to Executive Vice President and Chief Financial Officer. Prior to joining us, he served as an executive with Brightpoint, Inc., a global provider of device lifecycle services to the wireless industry, beginning in 1999, most recently as its Executive Vice President, Chief Financial Officer and Treasurer. He also served as the interim President of Europe, Middle East and Africa during Brightpoint's significant restructuring of that region. Mr. Boor served as Director of Business Operations for Brightpoint North America from August 1998 to July 1999. Prior to joining Brightpoint, Mr. Boor was employed in various financial positions with Macmillan Computer Publishing, Inc., a Viacom owned book publishing company specializing in computer hardware and software related topics, Day Dream Publishing, Inc., a publishing company specializing in calendars, posters and time management materials, Ernst & Young LLP, an accounting firm, Expo New Mexico, a state owned fair and expo grounds and live pari-mutual horse racing venue, KPMG LLP, an accounting firm, and Ernst & Whinney LLP, an accounting firm. He holds a BS in Accounting from New Mexico State University.

Charles T. Cumbaa has served as our Senior Vice President of Corporate and Product Strategy since May 2012 and now serves as our Executive Vice President of Corporate and Product Strategy, and our Interim President, Enterprise Customer Business Unit since January 2015. He joined us in May 2001 and served as Senior Vice President of Products and Services until December 2009. He also served as our President, Enterprise Customer Business Unit from January 2010 to April 2012. Prior to joining us, Mr. Cumbaa was Executive Vice President with Intertech Information

Management, a provider of document management solutions, from December 1998 until October 2000. From 1992 until 1998, he was President and Chief Executive Officer of Cognitech, Inc., a software company he founded. From 1984 to 1992 he was Executive Vice President of Sales and Services at Sales Technologies, a sales force automation company. Prior to that, he was employed by McKinsey & Company, a consulting firm. Mr. Cumbaa holds a BA from Mississippi State University and an MBA from Harvard Business School.

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Kevin W. Mooney has served as our President, General Markets Business Unit since January 2010. He joined us in July 2008 as our Chief Commercial Officer. Before joining Blackbaud, Mr. Mooney was a senior executive at Travelport GDS from August 2007 to May 2008. As Chief Commercial Officer of Travelport GDS, one of the world's largest providers of information services and transaction processing to the travel industry, Mr. Mooney was responsible for global sales, marketing, training, service and support activities. Prior to that he was Chief Financial Officer for Worldspan from March 2005 until it was acquired by Travelport in August 2007. Mr. Mooney has also held key executive positions in the telecommunications industry and he is a member of the Board of Directors of Level 3 Communications, Inc., a publicly traded global managed network services company. Mr. Mooney graduated from Seton Hall University and holds an MBA in Finance from Georgia State University.

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

John J. Mistretta joined us as our Senior Vice President of Human Resources in August 2005. In January 2015, Mr. Mistretta's title was changed to Executive Vice President of Human Resources. Prior to joining us, Mr. Mistretta was an Executive Vice President of Human Resources and Alternative Businesses at National Commerce Financial Corporation, a financial services company, from 1998 to 2005. Earlier in his career, Mr. Mistretta held various senior Human Resources positions over a thirteen year period at the banking firm Citicorp. Mr. Mistretta holds a MS in Counseling and a BA in Psychology from the State University of New York at Oswego.

Item 1A. Risk factors

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

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

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

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

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

charge our customers and making the adoption and renewal of our solutions more difficult.

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Our competitors might also establish or strengthen cooperative relationships with resellers and third-party consulting firms or other parties with whom we have had relationships, thereby limiting our ability to promote our products.

These competitive pressures could cause our revenue and market share to decline.

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

We derive a substantial portion of our revenue from the sale of The Raiser's Edge, Luminare Online, Blackbaud CRM and The Financial Edge, and other products that help customers manage constituent relationships and related services, and we expect revenue from these products and related services to continue to account for a substantial portion of our total revenue for the foreseeable future. For example, revenue from the sale of The Raiser's Edge and related services represented approximately 24%, 28% and 30% of our total revenue in 2014, 2013 and 2012, respectively. Because we often sell licenses to our products on a perpetual basis and deliver new versions and enhancements to customers who purchase annual maintenance and support, our future license, services and maintenance revenue are substantially dependent on sales to new customers. On the other hand, for our subscription products, we sell our software on an annual or multiyear basis and for annualized fees substantially lower than we would charge for a perpetual license for the same product, so that we depend on customer renewals for future revenues. If renewal rates for the products are lower than expected for any reason, our operating results would be materially and adversely affected. In addition, we frequently sell these or similar products to new customers and then attempt to generate incremental revenue from the sale of additional products and services. If demand for The Raiser's Edge, Luminare Online, Blackbaud CRM, The Financial Edge or similar products declines significantly, our business would suffer.

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

Potential customers, particularly our larger enterprise clients, generally commit significant resources to an evaluation of available software and require us to expend substantial time, effort and money educating them as to the value of our software and services. Sales of our software products to these larger customers often require an extensive education and marketing effort. We could expend significant funds and management resources during the sales cycle and ultimately fail to close the sale. Historically, our software product sales cycle averages approximately two months for sales to existing customers and from six to nine months for sales to new customers. Our sales cycle for all of our products and services is subject to significant risks and delays over which we have little or no control, including:

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

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

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

The implementation of our products and services, particularly in our large CRM engagements, frequently involves complex configuration, business process reengineering and system interfaces and can extend for a year or more. Our enterprise CRM product offerings are complex and we may experience unanticipated implementation challenges or complexities in these engagements. Further, these projects typically are heavily dependent on customer participation, communication and timely responsiveness throughout the implementation cycle. As the complexity of these engagements increases, our revenues and profitability could suffer from delays in project completion and having to perform unplanned incremental services at rates substantially below our normal hourly rates or make investments in the form of non-billable service hours or other concessions. In certain arrangements, our ability to recognize revenue may be delayed until acceptance of the implemented product by the customer. If we are unsuccessful in implementing our products or if we experience delays, it could have a material adverse effect on our profitability and the timing and predictability of our revenue.

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

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

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

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

The offering of our products on a subscription basis is evolving and demand by our customers for these offerings is increasing. Our failure to manage this evolution and demand could lead to lower than expected revenues and profits. In recent years, much of our revenue growth was derived from increased subscription offerings, including SaaS. This business model depends heavily on achieving economies of scale because the initial upfront investment is costly and the associated revenue is recognized on a ratable basis, such as our recently announced Raiser's Edge NXT and Financial Edge NXT products. If we fail to achieve appropriate economies of scale or if we fail to manage or anticipate the evolution and demand for the subscription software pricing models, then our business and operating results could be adversely affected. The additional investments required to meet customer demand will increase our cost base, which will make it more difficult for us to offset any future revenue shortfalls by reducing expenses in the short term.

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

We currently utilize data center hosting facilities to provide cloud-based and hosting services to our customers. Any damage to, or failure of, our data center systems generally could result in interruptions in service to our customers,

notwithstanding any disaster recovery arrangements that may currently be in place at these facilities. Because our cloud-based and hosting service offerings are complex, and we have incorporated a variety of new computer hardware and software systems at our data centers, our services might have errors or defects that users identify after they begin using our services. This could result in unanticipated downtime for our customers and harm to our reputation and our business. Internet-based services frequently contain undetected errors when first introduced or when new versions or enhancements are released. We have from time to time found defects in our Internet-based services and new errors might again be detected in the future. In addition, our customers might use our Internet-based offerings in unanticipated ways that cause a disruption in service for other customers attempting to access their data.

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Because our customers use these services for important aspects of their businesses, any defects, delays or disruptions in service or other performance problems with our services could hurt our reputation and damage our customers' businesses. If that occurs, customers could elect to cancel their service, delay or withhold payment to us, not purchase from us in the future or make claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation. Any of these could harm our business and our reputation.

The market for software and services for nonprofit, charitable giving and educational organizations might not grow and these organizations might not continue to adopt our products and services.

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

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

Advances in computer capabilities, computer hacker attacks, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the technology we use to protect sensitive transaction data. If any such compromise of our security, or the security of our customers, were to occur, it could result in misappropriation of proprietary information or interruptions in operations and have an adverse impact on our reputation or the reputation of our customers. All of our products are currently certified as Payment Application Data Security Standard compliant. Currently some of our products are not fully compliant with Payment Card Industry Data Security Standard, or PCI DSS. Under the PCI DSS, we are required to adopt and implement internal controls over the use, storage and security of card data to help prevent credit card fraud. Failure to comply may subject us to fines, penalties, damages and civil liability. If we are not fully compliant and our customers believe we are unable to detect and prevent unauthorized use of credit cards or confidential donor data, our business may be harmed. Conforming our products and services to PCI DSS or other payment services related regulations is also expensive and time-consuming. Additionally, if we do not comply with PCI DSS, issuing banks may believe that the transactions of our customers are compromised and may refuse to process those transactions. Any such refusal could harm the reputation of our products and our business.

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

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As a result of the evolution of our business model to meet customer demand, nearly 70% of our revenue is now from subscriptions and services, which produces substantially lower gross margins than our traditional license and maintenance revenue. Continuation of this trend will dilute our overall gross margins.

Over the past several years we have evolved our business model toward subscription and service based delivery and away from the traditional software model of perpetual licenses with term-based maintenance. For example, in 2014 our subscriptions and services revenue together comprised nearly 70% of our total revenue. These changes in our model have been driven by customer demand, and we believe have the long-term benefit of producing more predictable and recurring long-term revenue streams. However our subscription and services revenue generate substantially lower gross margins than our product license revenue. For example, in 2014, our subscriptions and services gross margins were 49% and 17%, respectively, whereas for the same period our license and maintenance revenue gross margins were 89% and 83%, respectively. We expect that over time the shift toward subscription and services revenue will continue. If we are unable to achieve economies of scale in our subscription business or increase efficiency in our services business, our overall margins will be adversely affected. Additionally, if our customers and prospects, desire to adopt our subscription offerings much more rapidly than we currently anticipate and we are unable to respond in a timely fashion, we could encounter significant adverse effects to our business, including substantial capital expenditures, reduction in profitability, decrease in revenue growth and/or we could become potentially less competitive, resulting in a loss of market share.

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

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

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

If we fail to respond to technological changes and successfully introduce new and improved products, our competitive position may be harmed and our business may suffer.

The software industry is characterized by technological change, evolving industry standards in hardware and software technology, changes in customer requirements and frequent new product introductions and enhancements. The introduction of products encompassing new technologies, such as our recently announced Raiser's Edge NXT and Financial Edge NXT products, can render existing products obsolete and unmarketable. As a result, our future success will depend, in part, upon our ability to continue to enhance existing products and develop and introduce in a timely manner or acquire new products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance. There is no assurance that we will successfully identify new product opportunities and develop and bring new products to market in a timely and cost-effective manner. Further, there can be no assurance that the products, capabilities or technologies developed by others will not render our products or technologies obsolete or noncompetitive. In addition, because our service is designed to operate on a variety of network hardware and software platforms using a standard browser, we will need to continuously modify and enhance our service to keep pace with changes in Internet-related hardware, software, communication, browser

and database technologies. We have made and continue to make significant investments to develop new technologies, and these investments may not bear fruit. Occasionally, we have been required to write down investments in product development after determining that we would no longer pursue the related product opportunity in accordance with evolving industry and customer requirements. If we are unable to develop or acquire on a timely and cost-effective basis new software products or enhancements to existing products or if such new products or enhancements do not achieve market acceptance, our business, results of operations and financial condition may be materially adversely affected.

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

To meet our objectives successfully, we must attract and retain highly qualified personnel with specialized skill sets. If we are unable to attract suitably qualified management, there could be a material adverse impact on our business. In addition, to execute our continuing growth plans, we need to increase the size and maintain the quality of our sales force, software development staff and our professional services organization. Competition for qualified personnel can be intense, and we might not be successful in attracting and retaining them. The pool of qualified personnel with experience working with or selling to nonprofit, charitable giving and educational organizations is limited overall and specifically in Charleston, South Carolina, where our principal office is located. Our ability to maintain and expand our sales, product development and professional services teams will depend on our ability to recruit, train and retain top quality people with advanced skills who understand sales to, and the specific needs of, nonprofit, charitable giving and educational organizations. For these reasons, we have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications for our business. In addition, it takes time for our new sales and services personnel to become productive, particularly with respect to obtaining and supporting major customer accounts. We might also engage additional third-party consultants as contractors, which could have a negative impact on our earnings. If we are unable to hire or retain qualified personnel, or if newly hired personnel fail to develop the necessary skills or reach productivity slower than anticipated, it would be more difficult for us to sell our products and services, we could experience a shortfall in revenue or earnings and not achieve our planned growth.

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

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

We currently have non-U.S. operations in Canada, United Kingdom, the Netherlands, Ireland, Australia and New Zealand, and we intend to expand further into international markets. We have limited experience in international operations and might not be able to compete effectively in international markets. Our international offices generated revenues of approximately \$72.7 million, \$63.9 million and \$61.0 million for the years ended December 31, 2014, 2013 and 2012, respectively. Accordingly, international revenue increased 13.8% and 4.8% in 2014 and 2013, respectively. Expansion of our international operations will require a significant amount of attention from our management and substantial financial resources and might require us to add qualified management in these markets. Our direct sales model requires us to attract, retain and manage qualified sales personnel capable of selling into markets outside the United States. In some cases, our costs of sales might increase if our customers require us to sell through local distributors.

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

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

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

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

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

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

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After the release of our software, defects or errors may also be identified from time to time by our internal team and by our customers. The costs incurred in correcting any material defects or errors in our software may be substantial and could harm our operating results. Furthermore, our customers may use our software together with products from other companies. As a result, when problems occur, it might be difficult to identify the source of the problem. Even when our software does not cause these problems, the existence of these errors might cause us to incur significant costs, divert the attention of our technical personnel from our product development efforts, impact our reputation and cause significant customer relations problems.

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

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

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

As part of our business strategy, we have made acquisitions in the past, and, we might acquire additional companies, services and technologies that we feel could complement or expand our business, augment our market coverage, enhance our technical capabilities, provide us with important customer contacts or otherwise offer growth opportunities. The successful integration of acquired companies will require, among other things, coordination of various departments, including product development, engineering, sales and marketing and finance, as well as integration in our system of internal controls. Acquisitions and investments involve numerous risks, including:

• Difficulties or delays in integrating operations, technologies, services, accounting and personnel;

• Difficulties in supporting and transitioning customers of our acquired companies;

• Diversion of financial and management resources from existing operations;

• Risks of entering new sectors of the nonprofit, charitable giving and educational industries;

• Potential loss of key employees; and

• Inability to generate sufficient return on investment.

If we are unable to successfully integrate the operations and personnel of our recently acquired companies, or if there is any significant delay in achieving integration, we will not realize the revenue growth, synergies and other anticipated benefits we expected and our business and results of operations could be adversely affected.

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

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

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

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

We recognize our maintenance and subscriptions revenue monthly over the term of the customer agreement. Most of our maintenance agreements are for a one year term. Our subscription arrangements are typically either for a one year term or a three year term. As a result, much of the revenue we report in each quarter is attributable to agreements entered into during previous quarters. Consequently, a decline in sales to new customers, renewals by existing customers or market acceptance of our products in any one quarter will not necessarily be fully reflected in the revenues in that quarter and will negatively affect our revenues and profitability in future quarters.

We significantly increased our leverage in connection with acquisitions.

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

- Requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions, dividends and other general corporate purposes;
 - Limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
 - Restricting us from making additional strategic acquisitions or exploiting business opportunities;
 - Placing us at a competitive disadvantage compared to our competitors that have less debt;
 - Limiting our ability to borrow additional funds; and
 - Decreasing our ability to compete effectively or operate successfully under adverse economic and industry conditions.
- If we incur additional debt, these risks will intensify. Our ability to meet our debt service obligations will depend upon our future performance, which will be subject to the financial, business and other factors affecting our operations, many of which are beyond our control.

Our balance sheet includes significant amounts of goodwill and intangible assets. The impairment of a significant portion of these assets could negatively affect our operating results.

As of December 31, 2014, we had \$349.0 million and \$229.3 million of goodwill and intangible assets, respectively.

On at least an annual basis, we assess whether there have been impairments in the carrying value of goodwill and intangible assets. If the carrying value of an asset is determined to be impaired, then it is written down to fair value by a non-cash charge to operating earnings. We cannot accurately predict the amount and timing of any impairment of goodwill or other intangible assets. An impairment of a significant portion of goodwill or intangible assets could materially negatively affect our results of operations and financial condition.

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

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

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

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

• The size and timing of sales of our software, including the relatively long sales cycles associated with many of our larger software sales;

• Budget and spending decisions by our customers;

• The degree of judgment required to estimate large consulting service engagements;

• Scheduling considerations by our customers as they impact the delivery of purchased services;

• Varying accounting treatments based upon the facts and circumstances of each arrangement;

• Utilization of our professional services personnel;

• Market acceptance of new products we release or acquire;

• Changes in general economic conditions and conditions in the markets we serve;

• Costs related to acquisitions of technologies or businesses;

- The growth rates of certain market segments in which we compete;

• The amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;

• Changes in our pricing policies and terms of contracts, whether initiated by us or as a result of competition;

• The rate of expansion and productivity of our sales force and the impact of reorganizations of our sales force;

• Technical difficulties or interruptions in our service;

• Changes in foreign currency exchange rates;

• Changes in the effective tax rates due to changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses, changes in the valuation of deferred tax assets and liabilities and our ability to utilize them, changes in federal, state or international tax laws and accounting principles, changes in judgment from the evaluation of new information that results in a recognition, derecognition or change in measurement of a tax position taken in a prior period, results of tax examinations by local and foreign taxing authorities;

• Expenses related to significant, unusual or discrete events which are recorded in the period in which the events occur;

• Regulatory compliance costs; and

• Extraordinary expenses such as litigation or other dispute-related settlement payments.

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

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

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

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

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

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

Our customers and we are subject to a wide variety of tax laws and regulations in jurisdictions around the world. New or revised income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time. Further, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to our customers or us. Any changes to these existing tax laws could adversely affect our domestic and international business operations, and our business and financial performance. Additionally, these events could require us or our customers to pay additional tax amounts on a prospective or retroactive basis, as well as require our customers or us to pay fines and/or penalties and interest for past amounts deemed to be due. Additionally, new, changed, modified or newly interpreted or applied tax laws could increase our customers' and our compliance, operating and other costs, as well as the costs of our products. Any or all of these events could adversely impact our business and financial performance.

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

As of December 31, 2014, we had deferred tax assets of \$56.8 million. Realization of our deferred tax assets is dependent upon our generating sufficient taxable income in future years to realize the tax benefit from those assets. Deferred tax assets are reviewed at least annually for realizability. A charge against our earnings would result if, based on the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. This could be caused by, among other things, deterioration in performance, loss of key contracts, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the products sold by our business and a variety of other factors. If a deferred tax asset was determined to be not realizable in a future period, the charge to earnings would be recognized as an expense in our results of operations in the period the determination is made. Additionally, if we are unable to utilize our deferred tax assets, our cash flow available to fund operations could be adversely affected.

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

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

Included in our deferred tax asset balance is \$11.2 million related to federal net operating loss carryforwards at December 31, 2014. Our federal net operating loss carryforwards are subject to limitations on how much may be utilized on an annual basis. The use of the net operating loss carryforwards may have additional limitations resulting from certain future ownership changes or other factors set forth in the Internal Revenue Code. If our net operating loss carryforwards are further limited, and we have taxable income that exceeds the available net operating loss carryforwards for that period, we would incur an income tax liability even though net operating loss carryforwards

may be available in future years prior to their expiration, which would have an adverse effect on our future cash flow, financial condition and results of operations.

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

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

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

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

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

Our success and ability to compete depends to a significant degree upon the protection of our software and other proprietary technology rights. We might not be successful in protecting our proprietary technology and our proprietary rights might not provide us with a meaningful competitive advantage. To protect our core proprietary technology, we rely on a combination of patent, trademark, copyright and trade secret laws, as well as nondisclosure agreements, each

of which affords only limited protection. We have no patent protection for The Raiser's Edge, which is one of our core products and responsible for a significant portion of our revenue. Any inability to protect our intellectual property rights could seriously harm our business, operating results and financial condition. It is possible that:

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

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

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

Fundamental to the use of our products is the secure collection, storage and transmission of confidential donor and end user information, including in our payment processing business. The network and application security, internal control measures, and physical security procedures we employ to safeguard our systems may not be sufficient to prevent a security breach, intrusion, loss or theft of personal information, which may harm our business, reputation and future financial results. Any such breach may require significant resources to address, including notification under data privacy regulations.

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

A compromise of our data security that results in customer or donor personal or credit card information being obtained by unauthorized persons could adversely affect our reputation with our customers and others, as well as our operations, results of operations, financial condition and liquidity and could result in litigation against us or the imposition of penalties. In addition, a security breach could require that we expend significant additional resources related to our information security systems and could result in a disruption of our operations, particularly our online sales operations. The existence of vulnerabilities, even if they do not result in a security breach, may harm customer confidence and require substantial resources to address, and we may not be able to discover or remedy such security vulnerabilities before they are exploited. Also, computers, including those that use our software, are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays or loss of data. We might be required to expend significant capital and other resources to protect further against security breaches or to rectify problems caused by any security breach. Even though we carry cyber-technology insurance policies that may provide insurance coverage under certain circumstances, we might suffer losses as a result of a security breach that exceed the coverage available under our insurance policies or for which we do not have coverage. Privacy and security concerns, including evolving government regulation in the area of consumer data privacy, could adversely affect our business and operating results.

The effectiveness of our software products relies on our customers' storage and use of data concerning their customers, including financial, personally identifying and other sensitive data. Our customers' collection and use of this data for donor profiling might raise privacy and security concerns and negatively impact the demand for our products and services. For example, our custom modeling and analytical services, including ProspectPoint, WealthPoint and donorCentrics, rely heavily on securing and making use of data we gather from various sources and privacy laws could jeopardize our ability to market and profit from those services.

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

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

Increasing government regulation could affect our business.

We are subject to regulations applicable to businesses generally as well as laws and regulations directly applicable to electronic commerce and other regulations. State, federal and foreign governments may adopt new laws and regulations applicable to our business. Any such legislation or regulation could dampen the growth and decrease the acceptance of the Internet and online commerce. If such a decline occurs, companies may decide in the future not to use our products and services. Any new laws or regulations in the following areas, among others, could negatively affect our business:

• User privacy;

• Payment processing;

• The pricing and taxation of goods and services offered over the Internet;

• Taxation of foreign earnings;

• The content of websites;

• Copyrights;

•

Consumer protection, including the potential application of “do not call” registry requirements on our customers and consumer backlash in general to direct marketing efforts of our customers;

- The online distribution of specific material or content over the Internet; and
- The characteristics and quality of products and services offered over the Internet.

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Pending and enacted legislation at the state and federal levels, including those related to fundraising activities, may also restrict further our information gathering and disclosure practices, for example, by requiring us to comply with extensive and costly registration, reporting or disclosure requirements. Any substantial increase in government regulation affecting our business, or any failure to comply with existing regulations, could require substantial investments to achieve compliance, which could adversely affect our operating results and financial condition. General economic factors, both domestically and internationally, might adversely affect our financial performance. General economic conditions, globally or in one or more of the markets we serve, might adversely affect our financial performance. Weakness in the financial and housing markets, inflation, higher levels of unemployment, unavailability of consumer credit, higher consumer debt levels, volatility in credit, equity and foreign exchange markets, higher tax rates and other changes in tax laws, overall economic slowdowns and other economic factors could adversely affect donations to nonprofits, reducing their revenue and, therefore, possibly their demand for the products and services we sell and lengthen our sales and payment cycles. In addition, these adverse economic conditions could reduce charitable transactions executed through our payments platform, which would adversely affect our revenue and net income. Higher interest rates, inflation, higher costs of labor, insurance and healthcare, higher tax rates and other changes in tax laws, changes in other laws and regulations and other economic factors in the United States could increase our cost of sales and operating, selling, general and administrative expenses and otherwise adversely affect our operations and operating results. These factors affect not only our operations, but also the operations of suppliers from whom we purchase or license products and services, a factor that could result in an increase in the cost to us of our products and services, reducing our margins. These factors also affect our customers who may reduce their purchasing of our solutions due to adverse effects of certain economic factors.

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

We depend on our principal executive offices and other facilities for the continued operation of our business.

Although we have contingency plans in effect for natural disasters or other catastrophic events, these events, including terrorist attacks, computer hacker attacks and natural disasters such as hurricanes and earthquakes, could disrupt one or more of these facilities and adversely affect our operations. Our principal executive offices are located in a coastal region that has experienced hurricanes in the past. Even though we carry business interruption insurance policies and typically have provisions in our commercial contracts that protect us in certain events, we might suffer losses as a result of business interruptions that exceed the coverage available under our insurance policies or for which we do not have coverage. Any natural disaster or catastrophic event affecting us could have a significant negative impact on our operations.

Item 1B. Unresolved staff comments

None.

Item 2. Properties

We lease our headquarters in Charleston, South Carolina which consists of approximately 220,000 square feet. The lease on our Charleston headquarters expires in October 2024, and we have the option for two 5-year renewal periods. We also lease additional office space in Charleston, South Carolina; Austin, Texas; Indianapolis, Indiana; Cambridge, Massachusetts; Washington D.C.; San Diego and Emeryville, California; Overland Park, Kansas; Lincoln, Nebraska; Miami, Florida; Bedford, New Hampshire; Edina, Minnesota; New York, New York; Almere, the Netherlands; Glasgow, Scotland; Dublin, Ireland; London, England; East Brisbane, Australia; and Sydney, Australia. We believe that our properties are in good operating condition and adequately serve our current business operations for all of our business segments. We also anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

Item 3. Legal proceedings

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

Item 4. Mine safety disclosures
Not applicable.

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PART II

Item 5. Market for registration's common equity, related stockholder matters and issuer purchases of equity securities
Our common stock is trading on the NASDAQ Stock Market LLC ("NASDAQ") under the symbol "BLKB." The following table sets forth, for the quarterly reporting periods indicated, the high and low market prices for shares of our common stock, as reported by NASDAQ, and dividend per share information.

| | Common Stock Market Prices | | Dividends Declared |
|-------------------------------------|-------------------------------|---------|-----------------------|
| | High | Low | |
| Fiscal year ended December 31, 2014 | | | |
| Fourth quarter | \$45.86 | \$37.38 | \$0.12 |
| Third quarter | 40.99 | 33.62 | 0.12 |
| Second quarter | 36.33 | 29.42 | 0.12 |
| First quarter | 38.84 | 29.99 | 0.12 |
| Fiscal year ended December 31, 2013 | | | |
| Fourth quarter | \$42.23 | \$33.88 | \$0.12 |
| Third quarter | 40.00 | 32.54 | 0.12 |
| Second quarter | 34.44 | 27.68 | 0.12 |
| First quarter | 30.84 | 22.85 | 0.12 |

As of February 12, 2015, there were approximately 147 stockholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, this number is not representative of the total number of stockholders represented by these stockholders of record. On February 12, 2015, the closing price of our common stock was \$43.95.

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Stock performance graph

The following performance graph shall not be deemed to be “soliciting material” or “filed” or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act except as shall be expressly set forth by specific reference in such filing. The performance graph compares the performance of our common stock to the NASDAQ Composite Index and the NASDAQ Computer and Data Processing Index. The graph covers the most recent five-year period ending December 31, 2014. The graph assumes that the value of the investment in our common stock and each index was \$100.00 at December 31, 2009, and that all dividends are reinvested.

| December 31, | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|----------|----------|----------|----------|----------|----------|
| Blackbaud, Inc. | \$100.00 | \$111.71 | \$121.73 | \$102.22 | \$171.14 | \$199.28 |
| NASDAQ Composite Index | 100.00 | 117.61 | 118.70 | 139.00 | 196.83 | 223.74 |
| NASDAQ Computer & Data Processing Index | 100.00 | 106.82 | 107.70 | 115.65 | 176.58 | 202.04 |

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Common stock acquisitions and repurchases

The following table provides information about shares of common stock acquired or repurchased during the three months ended December 31, 2014. All of these acquisitions were of common stock withheld by us to satisfy minimum tax obligations of employees due upon exercise of stock appreciation rights and vesting of restricted stock awards and units. The level of acquisition activity varies from period to period based upon the timing of grants and vesting as well as employee exercise decisions.

| Period | Total number of shares acquired or purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs ⁽¹⁾ | Approximate dollar value of shares that may yet be purchased under the plan or programs (in thousands) |
|--|--|------------------------------|---|--|
| Beginning balance, October 1, 2014 | | | | \$50,000 |
| October 1, 2014 through October 31, 2014 | — | \$— | — | 50,000 |
| November 1, 2014 through November 30, 2014 | 134,030 | 44.85 | — | 50,000 |
| December 1, 2014 through December 31, 2014 | 2,875 | 44.98 | — | 50,000 |
| Total | | | | |