BLACKBAUD INC
Form 10-Q
May 08, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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)

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

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

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares of the registrant s Common Stock outstanding as of April 30, 2009 was 43,819,883.

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BLACKBAUD, INC.

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PART I- FINANCIAL INFORMATION

Item 1. Financial statements

Consolidated balance sheets

(Unaudited)

(in thousands, except share amounts)	March 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 23,027	$ 16,361
Donor restricted cash	7,047	12,363
Accounts receivable, net of allowance of $2,986 and $2,777 at March 31, 2009 and December 31, 2008, respectively	47,296	52,554
Prepaid expenses and other current assets	16,946	17,281
Deferred tax asset, current portion	6,779	6,858
Total current assets	101,095	105,417
Property and equipment, net	20,426	21,384
Deferred tax asset	64,231	64,762
Goodwill	73,070	73,615
Intangible assets, net	46,402	48,171
Other assets	473	537
Total assets	$ 305,697	$ 313,886
Liabilities and stockholders equity		
Current liabilities:		
Trade accounts payable	$ 7,552	$ 7,023
Accrued expenses and other current liabilities	18,167	21,758
Donations payable	7,047	12,363
Capital lease obligations, current portion	346	384
Debt, current portion	60,079	60,049
Deferred revenue	112,110	113,802
Total current liabilities	205,301	215,379
Capital lease obligations, noncurrent	127	203
Long-term debt, net of current portion	1,007	1,288
Deferred revenue, noncurrent	4,946	5,838
Other noncurrent liabilities	681	670
Total liabilities	212,062	223,378
Commitments and contingencies (see Note 9)		
Stockholders equity:		
Preferred stock; 20,000,000 shares authorized, none outstanding	-	-
Common stock, $0.001 par value; 180,000,000 shares authorized, 51,316,535 and 51,269,081 shares issued at March 31, 2009 and December 31, 2008, respectively	51	51

Additional paid-in capital		120,116		116,846
Treasury stock, at cost; 7,511,932 and 7,494,466 shares at March 31, 2009 and December 31, 2008, respectively		(130,793)		(130,594)
Accumulated other comprehensive income		(569)		(899)
Retained earnings		104,830		105,104
Total stockholders equity		93,635		90,508
Total liabilities and stockholders equity	$	305,697	$	313,886

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

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Blackbaud, Inc.

Consolidated statements of operations

(Unaudited)

(in thousands, except share and per share amounts)	Three months ended March 31, 2009	2008
Revenue		
License fees	$ 7,405	$ 9,635
Services	21,129	23,576
Maintenance	28,011	25,430
Subscriptions	16,723	8,785
Other revenue	1,473	2,010
Total revenue	74,741	69,436
Cost of revenue		
Cost of license fees	903	842
Cost of services	16,209	15,693
Cost of maintenance	5,148	4,704
Cost of subscriptions	6,740	3,656
Cost of other revenue	1,278	1,848
Total cost of revenue	30,278	26,743
Gross profit	44,463	42,693
Operating expenses		
Sales and marketing	16,115	15,239
Research and development	11,461	8,767
General and administrative	8,939	7,266
Amortization	186	167
Total operating expenses	36,701	31,439
Income from operations	7,762	11,254
Interest income	62	165
Interest expense	(425)	(70)
Other expense, net	(161)	(89)
Income before provision for income taxes	7,238	11,260
Income tax provision	3,166	4,217
Net income	$ 4,072	$ 7,043
Earnings per share		
Basic	$ 0.10	$ 0.16

Diluted	$ 0.09	$ 0.16
Common shares and equivalents outstanding		
Basic weighted average shares	42,536,810	43,897,369
Diluted weighted average shares	43,043,777	44,662,620
Dividends per share	$ 0.10	$ 0.10

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

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Blackbaud, Inc.

Consolidated statements of cash flows

(Unaudited)

(in thousands)	Three months ended March 31, 2009	2008
Cash flows from operating activities		
Net income	$ 4,072	$ 7,043
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,826	2,492
Provision for doubtful accounts and sales returns	905	1,162
Stock-based compensation expense	3,220	2,359
Excess tax benefit on exercise of stock options	(65)	(221)
Deferred taxes	1,713	1,579
Other non-cash adjustments	35	21
Changes in assets and liabilities:		
Accounts receivable	3,751	1,640
Prepaid expenses and other assets	326	(884)
Trade accounts payable	566	2
Accrued expenses and other current liabilities	(3,687)	(3,274)
Donor restricted cash	5,315	-
Donations payable	(5,315)	-
Deferred revenue	(2,237)	2,459
Net cash provided by operating activities	12,425	14,378
Cash flows from investing activities		
Purchase of property and equipment	(1,114)	(2,123)
Purchase of net assets of acquired companies	-	(2,327)
Net cash used in investing activities	(1,114)	(4,450)
Cash flows from financing activities		
Proceeds from issuance of debt	-	11,500
Proceeds from exercise of stock options	51	287
Excess tax benefit on exercise of stock options	65	221
Payments on debt	(251)	(8)
Payments on capital lease obligations	(114)	(136)
Purchase of treasury stock	-	(19,837)
Dividend payments to stockholders	(4,349)	(4,493)
Net cash used in financing activities	(4,598)	(12,466)
Effect of exchange rate on cash and cash equivalents	(47)	(95)
Net increase (decrease) in cash and cash equivalents	6,666	(2,633)
Cash and cash equivalents, beginning of period	16,361	14,775
Cash and cash equivalents, end of period	$ 23,027	$ 12,142

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

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Blackbaud, Inc.

Consolidated statements of stockholders equity and comprehensive income

(Unaudited)

(in thousands, except share amounts)	Comprehensive income	Common stock Shares	Common stock Amount	Additional paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders equity
Balance at December 31, 2007		50,450,675	$ 50	$ 105,687	$ (85,487)	$ 137	$ 92,716	$ 113,103
Net income	$ 29,878	-	-	-	-	-	29,878	29,878
Payment of dividends	-	-	-	-	-	-	(17,497)	(17,497)
Purchase of 1,956,168 treasury shares under stock repurchase program and surrender of 106,446 shares upon restricted stock vesting	-	-	-	-	(45,107)	-	-	(45,107)
Exercise of stock options	-	126,206	1	882	-	-	-	883
Tax impact of exercise of nonqualified stock options and restricted stock vesting	-	-	-	(1,126)	-	-	-	(1,126)
Stock options assumed in acquisition	-	-	-	172	-	-	-	172
Stock-based compensation	-		-	11,231	-	-	7	11,238
Restricted stock grants	-	727,237	-	-	-	-	-	-
Restricted stock cancellations	-	(35,037)	-	-	-	-	-	-
Translation adjustment, net of tax	(1,036)	-	-	-	-	(1,036)	-	(1,036)
Comprehensive income	$ 28,842							
Balance at December 31, 2008		51,269,081	$ 51	$ 116,846	$ (130,594)	$ (899)	$ 105,104	$ 90,508
Net income	$ 4,072	-	-	-	-	-	4,072	4,072
Payment of dividends	-	-	-	-	-	-	(4,349)	(4,349)
Surrender of 17,466 shares upon restricted stock vesting	-	-	-	-	(199)	-	-	(199)
Exercise of stock options	-	14,160	-	51	-	-	-	51
Tax impact of exercise of nonqualified stock options and restricted stock vesting	-	-	-	18	-	-	-	18
Stock-based compensation	-	-	-	2,752	-	-	3	2,755
Restricted stock grants	-	39,140	-	449	-	-	-	449
Restricted stock cancellations	-	(5,846)	-	-	-	-	-	-
Translation adjustment, net of tax	330	-	-	-	-	330	-	330
Comprehensive income	$ 4,402							
Balance at March 31, 2009		51,316,535	51	120,116	(130,793)	(569)	104,830	$ 93,635

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

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Blackbaud, Inc.

Notes to consolidated financial statements

(Unaudited)

1. Organization

Blackbaud, Inc. (the Company) a leading global provider of software and related services designed specifically for nonprofit organizations, provides products and services that enable nonprofit organizations to increase donations, reduce fundraising costs, improve communications with constituents, manage finances and optimize internal operations. As of March 31, 2009, the Company had approximately 22,000 active customers distributed across multiple verticals within the nonprofit market including education, foundations, health and human services, religion, arts and cultural, public and societal benefits, environment and animal welfare and international foreign affairs.

2. Summary of significant accounting policies

Unaudited interim financial statements

The interim consolidated financial statements as of March 31, 2009, and for the three months ended March 31, 2009 and 2008, have been prepared by the Company pursuant to the rules and regulations of the SEC for interim financial reporting. These consolidated statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to state fairly the consolidated balance sheets, consolidated statements of operations, consolidated statements of cash flows and consolidated statements of stockholders equity and comprehensive income for the periods presented in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The consolidated balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements at that date. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009 or any other future period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations for interim reporting of the SEC. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 and other forms filed with the SEC from time to time.

Basis of consolidation

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

Use of estimates

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

Revenue recognition

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

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Blackbaud, Inc.

Notes to consolidated financial statements

(Unaudited)

Software license fees

The Company recognizes revenue from the sale of perpetual software license rights when all of the following conditions are met:

- persuasive evidence of an arrangement exists;
- the product has been delivered;
- the fee is fixed or determinable; and
- collection of the resulting receivable is probable.

The Company deems acceptance of an agreement to be evidence of an arrangement. Delivery occurs when the product is shipped or transmitted, and title and risk of loss have transferred to the customers. The Company s typical license agreement does not include customer acceptance provisions; however, if acceptance provisions are provided, delivery is deemed to occur upon acceptance. The Company considers the fee to be fixed or determinable unless the fee is subject to refund or adjustment or is not payable within the Company s standard payment terms. Payment terms greater than 90 days are considered to be beyond the Company s customary payment terms. Collection is deemed probable if the Company expects that the customer will be able to pay amounts under the arrangement as they become due. If the Company determines that collection is not probable, revenue recognition is deferred until collection.

The Company sells software licenses with maintenance, varying levels of professional services and, in certain instances, with hosting services. The Company allocates revenue to delivered components, normally the license component of the arrangement, using the residual value method based on objective evidence of the fair value of the undelivered elements, which is specific to the Company. Fair value for maintenance services associated with software licenses is based upon renewal rates stated in the agreements with customers, which vary according to the level of support service provided under the maintenance program. Fair value of professional services and other products and services is based on sales of these products and services to other customers when sold on a stand-alone basis. When a software license is sold with software customization services, generally the services are to provide customer support for assistance in creating special reports and other enhancements that will assist with efforts to improve operational efficiency and/or to support business process improvements. These services are not essential to the functionality of the software. However, when software customization services are considered essential to the functionality of the software the Company recognizes revenue for both the software license and the services on a percent-complete basis.

Services

The Company s consulting, installation and implementation services are generally billed based on hourly rates plus reimbursable travel-related expenses. Revenue is recognized for these services over the period the services are performed. For service engagements of less than $10,000, the Company frequently contracts for and bills based on a fixed fee plus reimbursable travel-related expenses. The Company recognizes this revenue upon completion of the work performed.

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

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

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Blackbaud, Inc.

Notes to consolidated financial statements

(Unaudited)

Maintenance

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

Subscriptions

The Company provides hosting services to customers who have purchased perpetual rights to certain of its software products (hosting services). Revenue from hosting services, as well as data enrichment services, data management services and online training programs is recognized ratably over the service period of the contract. Any related set-up fees are also recognized ratably over the service period of the contract.

Additionally, the Company makes available certain of its software products for use in hosted application arrangements without licensing perpetual rights to the software (hosted applications). Revenue from hosted applications is recognized over the subscription agreement, which is generally one year. For contractual arrangements covering the use of hosted applications, such as Kintera Sphere, eTapestry and TeamApproach, the stand alone value of the delivered items or the fair value of undelivered items in the arrangement have not been established. Such items include upfront activation, implementation and hosting of the solution. For these arrangements the Company treats the transaction as a single element and the revenue is deferred until the hosted application is deployed and in use, at which time revenue is recognized over the remaining term of the arrangement. Direct and incremental costs relating to activation and implementation are capitalized until the hosted application is deployed and in use, and then expensed over the remaining term of the arrangement.

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

Deferred revenue

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

Amortization expense

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

(in thousands)	**Three months ended March 31, 2009**	**2008**
Included in cost of revenue:		
Cost of license fees	$ 81	$ 43
Cost of services	334	334
Cost of maintenance	325	98
Cost of subscriptions	819	409
Cost of other revenue	19	19

Total included in cost of revenue	1,578	903
Included in operating expenses	186	167
Total	$ 1,764	$ 1,070

Blackbaud, Inc.

Notes to consolidated financial statements

(Unaudited)

Recently adopted accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The Company adopted SFAS No. 157 with no material impact effective January 1, 2008 for financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. On February 12, 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), which delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. Further, in October 2008, the FASB issued FSP FAS 157-3, which provides clarifying guidance on valuing securities in markets that are not active. Effective January 1, 2009, the Company adopted SFAS No. 157 for the remaining non-financial assets and liabilities which primarily included goodwill and long-lived assets subject to impairment tests. The adoption of SFAS No. 157 on January 1, 2009 did not have a material impact on the Company s consolidated financial statements.

Effective January 1, 2009, the Company adopted SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. At the time of adoption, SFAS No. 141R did not have a material impact on the Company s consolidated financial statements. The Company expects the adoption of SFAS No. 141R will have an impact on the accounting for future business combinations. The extent of the impact of SFAS No. 141R on future acquisitions is dependent upon the size and nature of the acquisitions.

Effective January 1, 2009, the Company adopted FSP FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3). The adoption of FSP FAS 142-3 did not have a material impact on the Company s consolidated financial statements. FSP FAS 142-3 removes the requirement of SFAS No. 142 for an entity to consider, when determining the useful life of an acquired intangible asset, whether the intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions associated with the intangible asset. FSP FAS 142-3 replaces the previous useful-life assessment criteria with a requirement that an entity consider its own experience in renewing similar arrangements. If the entity has no relevant experience, it would consider market participant assumptions regarding renewal.

Effective January 1, 2009, the Company adopted FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). The adoption of FSP EITF 03-6-1 did not have a material impact on the Company s consolidated financial statements. FSP EITF 03-6-1 clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) participating securities and should be included in the calculation of basic earnings per share pursuant to the two-class method.

In April 2009, the FASB issued FSP FAS 141R-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies which provides additional guidance regarding the initial recognition and measurement model under SFAS 141R for assets and liabilities arising from contingencies. The FSP establishes a model for preacquisition contingencies that is similar to the model used under SFAS 141. Under the FSP, an acquirer is required to recognize, at fair value, an asset acquired or liability assumed in a business combination that arises from a contingency if the acquisition-date fair value can be determined during the measurement period. If the acquisition-date fair value cannot be determined, the acquirer applies the recognition criteria of SFAS 5 to determine when the contingency should be recognized. This FSP applies to business combinations for which the acquisition date is on or after January 1, 2009. This FSP did not have a material impact at the time of adoption on the Company s consolidated financial statements.

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Notes to consolidated financial statements

(Unaudited)

3. Business combinations

Kintera

On July 8, 2008, the Company acquired Kintera, a publicly-traded company based in San Diego, California. Kintera is a leader in providing web-based, software-as-a-service solutions to the nonprofit market. The acquisition of Kintera added experience in on-demand solutions and expanded the Company s online offerings. The Company acquired all of the outstanding capital stock of Kintera through a tender offer and subsequent short-form merger, paying $1.12 per share for a total of $45,660,000. The Company financed this acquisition with cash on hand and borrowings under the Company s revolving credit facility. The total purchase price of $50.2 million includes $2.4 million in payments to Kintera management under change of control provisions, $1.9 million of direct acquisition-related costs and $0.2 million related to Kintera employee stock options assumed. The results of operations of Kintera are included in the consolidated financial statements of the Company from the date of acquisition.

At the time of the purchase price allocation, the Company provided a full valuation allowance for all of Kintera s state net operating loss carryforwards of $2.7 million, net of tax. Upon completion of further analysis, the Company determined approximately $0.8 million of the deferred tax assets related to the state net operating loss carryforwards will be realizable in the future. Accordingly, it reversed the associated valuation allowance and recorded a corresponding adjustment to goodwill in first quarter of 2009. Using the same evaluation model, the Company also determined certain deferred tax assets related to temporary differences are not more-likely-than-not to be realized in the future and therefore provided a valuation allowance of $0.3 million with a corresponding adjustment to goodwill in first quarter of 2009.

The purchase price allocation the Company has recorded related to the acquisition of Kintera has not been finalized. The Company is currently in the process of evaluating potential state sales and use tax liabilities at Kintera that existed at the time of the acquisition.

Pro forma information

The following unaudited pro forma information presents the consolidated results of operations of the Company as if the acquisition of Kintera had taken place at the beginning of 2008. The pro forma information includes the historical operating results of Kintera and adjustments for the business combination effect of the amortization charges from acquired intangible assets, interest expense, interest income and related tax effects. The pro forma information does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations.

(in thousands, except per share amounts)	**Three months ended March 31, 2008**
Revenue	$78,347
Net income	$ 4,108
Earnings per share, basic	$ 0.09
Earnings per share, diluted	$ 0.09

eTapestry

In connection with the acquisition of eTapestry, the Company entered into stock-based incentive arrangements with certain eTapestry employees. Under these arrangements, an additional amount of up to $1.0 million remains contingently payable based upon performance of the acquired business for the twelve-month period ending September 30, 2009. Based on actual and expected performance, the Company has accrued, as of March 31, 2009, a liability of $0.5 million.

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Blackbaud, Inc.

Notes to consolidated financial statements

(Unaudited)

4. Earnings per share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares and dilutive potential common shares then outstanding. Diluted earnings per share reflect the assumed conversion of all dilutive securities, using the treasury stock method. Dilutive potential common shares consist of shares issuable upon the exercise of stock options, shares of non-vested restricted stock and settlement of stock appreciation rights. Additionally, dilutive potential common shares includes shares issuable for certain contingent liabilities that will be paid in shares of common stock based on the number of shares that would be issuable if March 31, 2009 was the end of the contingency period.

Diluted earnings per share for the three months ended March 31, 2009 does not include the effect of 1,645,649 potential common share equivalents as they are anti-dilutive. There were no anti-dilutive potential common shares outstanding for the three months ended March 31, 2008.

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

(in thousands, except share and per share amounts)	Three months ended March 31, 2009	2008
Numerator:		
Net income, as reported	$ 4,072	$ 7,043
Denominator:		
Weighted average common shares	42,536,810	43,897,369
Add effect of dilutive securities:		
Employee stock options and restricted stock	392,411	765,251
Liabilities to be paid in shares of common stock	114,556	-
Weighted average common shares assuming dilution	43,043,777	44,662,620
Earnings per share:		
Basic	$ 0.10	$ 0.16
Diluted	$ 0.09	$ 0.16

5. Comprehensive Income

Total comprehensive income for the three months ended March 31, 2009 and 2008 is as follows:

(in thousands)	Three months ended March 31, 2009	2008
Net income	$ 4,072	$ 7,043
Foreign currency translation adjustment, net of tax	330	8
Comprehensive income	$ 4,402	$ 7,051

The amount of tax allocated to the translation adjustment recorded in accumulated other comprehensive income was a benefit of $0.6 million, and expense of $6,000 for the three months ended March 31, 2009 and 2008, respectively.

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Blackbaud, Inc.

Notes to consolidated financial statements

(Unaudited)

6. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following as of March 31, 2009 and December 31, 2008:

(in thousands)	March 31, 2009	December 31, 2008
Taxes, prepaid and receivable	$ 5,441	$ 6,385
Prepaid software maintenance and royalties	4,407	3,904
Deferred sales commissions	3,582	3,047
Other	3,516	3,945
Total prepaid expenses and other current assets	$ 16,946	$ 17,281

7. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following as of March 31, 2009 and December 31, 2008:

(in thousands)	March 31, 2009	December 31, 2008
Accrued bonuses	$ 4,675	$ 6,905
Accrued commissions and salaries	3,009	3,703
Customer credit balances	2,932	3,028
Taxes payable	1,796	2,033
Accrued health care costs	1,222	758
Accrued accounting and legal fees	929	1,283
Other	3,604	4,048
Total accrued expenses and other current liabilities	$ 18,167	$ 21,758

8. Debt

The Company has a five-year $75.0 million revolving credit facility, which expires July 2012. Under the terms of the credit agreement, the Company may elect not more than twice over the term of the agreement to increase the amount available under the facility for an aggregate amount of up to $50.0 million, subject to certain terms and conditions. In June 2008, the Company exercised one of its options and increased the credit facility by $15.0 million to an aggregate available amount of $90.0 million. The revolving credit facility is guaranteed by the material domestic subsidiaries and is collateralized with the stock of all of the Company s subsidiaries.

Amounts borrowed under the revolving credit facility bear interest, at the Company s option, at a variable rate based (a) on the higher of the prime rate plus a margin of up to 0.5% or federal funds rate plus a margin of 0.5% to 1.0% (Base Rate Loans) or (b) LIBOR plus a margin of 1.0% to 1.5% (LIBOR Loans). The exact amount of any margin depends on the nature of the loan and the leverage ratio at the time of the borrowing. At March 31, 2009, the weighted average interest rate on the credit facility was 1.54%. The Company also pays a quarterly commitment fee on the unused portion of the revolving credit facility equal to 0.2%, 0.25% or 0.3% per annum, depending on the Company s leverage ratio.

Under the credit facility the Company has the ability to choose either Base Rate Loans or LIBOR Loans. Base rate borrowings mature in July 2012. LIBOR Loans can have one, two, three or six month maturities, and the Company has the ability to extend the maturity of these loans by rolling them at their maturity into new loans with the same or longer maturities. The Company evaluates the classification of its debt based on the maturity of individual borrowings and any roll-over of borrowings subsequent to the balance sheet date, but prior to issuance of the financial statements. At March 31, 2009, outstanding borrowings under the credit facility were $59.0 million, all of which were in the form of short-term LIBOR Loans, and accordingly classified as current liabilities.

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(Unaudited)

Note payable

As a result of the acquisition of Kintera, the Company assumed a note payable that Kintera had executed on December 1, 2007 in the amount of $3.2 million for the purchase of computer equipment. The note is collateralized by the underlying computer equipment, bears interest at a rate of 11.34% and has a maturity date of November 30, 2010. The Company recorded the note at its fair value as of the acquisition date, which resulted in an increase of $0.1 million in the carrying value. As of March 31, 2009, the note payable balance was $2.1 million, of which $1.1 million is classified as current.

Using a discounted cash flow technique which incorporates a market interest rate with adjustments for duration and risk profile, the Company has determined the fair value of this note payable to be $2.2 million at March 31, 2009.

9. Commitments and contingencies

Leases

The Company leases its headquarters facility from Duck Pond Creek, LLC, which is partially owned by certain current executive officers of the Company. The lease agreement has a term of fifteen years with two five-year renewal options by the Company. The annual base rent of the lease is $3,644,064 payable in equal monthly installments. The base rent escalates annually at a rate equal to the change in the consumer price index, as defined in the agreement, but not to exceed 5.5% in any year. In addition, under the terms of the lease, the lessor will reimburse the Company an aggregate amount of $4.0 million for leasehold improvements, which will be recorded as a reduction to rent expense ratably over the term of the lease. During the three months ended March 31, 2009 rent expense was reduced by $66,700 related to this lease provision. There were no such amounts recorded during the three months ended March 31, 2008 because this lease provision began under the renegotiated lease, which became effective in October 2008. The $4.0 million leasehold improvement allowance has been included in the table below of operating lease commitments as a reduction in the Company s lease commitments ratably over the life of the lease. The timing of the reimbursements for the actual leasehold improvements may vary from the amount reflected in the table below.

Additionally, the Company has subleased a portion of its headquarters facility under various agreements extending through 2010. Under these agreements, rent expense was reduced by $45,000 and $65,000 for the three months ended March 31, 2009 and 2008, respectively. The operating lease commitments in the table below have been reduced by minimum aggregate sublease commitments of $140,000 and $62,000 during 2009 and 2010, respectively. No minimum aggregate sublease commitments exist after 2010. The Company has also received, and expects to receive through 2012, quarterly South Carolina state incentive payments as a result of locating its headquarters facility in Berkeley County, South Carolina. These amounts are recorded as a reduction of rent expense and were $0.5 million and $0.4 million for the three months ended March 31, 2009 and 2008, respectively.

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

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As of March 31, 2009, the future minimum lease commitments related to lease agreements, net of related sublease commitments and lease incentives, were as follows:

Year ending December 31,	
(in thousands)	**Operating**