BLACKBAUD INC
Form 10-K
February 25, 2015

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

[X]	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the Fiscal Year ended December 31, 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 [X] NO [ ]

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

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

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

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 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.

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 tradeshows, technical conferences and technology seminars, publication of technical and educational articles in industry journals and preparation of competitive analyses. Our customers and strategic partners provide references and recommendations that we often feature in our advertising and promotional activities.

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

Corporate Philanthropy and Volunteerism

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

Competition

The market for software and related services in the nonprofit sector is highly competitive and fragmented. For certain areas of the market, entry barriers are low. However, we believe our experience and 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

(1) 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 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, Luminate Online, Blackbaud CRM and The Financial Edge, and a decline in sales or renewals of these or similar products and related services could harm our business.

We derive a substantial portion of our revenue from the sale of The Raiser's Edge, Luminate Online, Blackbaud CRM and The Financial Edge, and other products that help customers manage constituent relationships and related services, and we expect revenue from these products and related services to continue to account for a substantial portion of our total revenue for the foreseeable future. For example, revenue from the sale of The Raiser's Edge and related services represented approximately 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, Luminate Online, Blackbaud CRM, The Financial Edge or similar products declines significantly, our business would suffer.

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

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

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

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

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.

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.

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		
	High	Low	Dividends Declared
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	136,905	$44.85	—	$50,000

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

Dividend policy and restrictions

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

In accordance with this dividend policy, we paid quarterly dividends at an annual rate of $0.48 per share in 2014 and 2013, resulting in aggregate dividend payments to stockholders of $22.1 million in each of 2014 and 2013. In February 2015, our Board of Directors approved an annual dividend rate of $0.48 per share for 2015. We declared a first quarter dividend of $0.12 per share payable on March 13, 2015, to stockholders of record on February 27, 2015, and currently intend to pay quarterly dividends at an annual rate of $0.48 per share of common stock for each of the remaining fiscal quarters in 2015. Dividends at this rate would total approximately $22.6 million in the aggregate on our common stock in 2015 (assuming 47.0 million shares of common stock are outstanding, net of treasury stock).

Dividends on our common stock will not be cumulative. Consequently, if dividends on our common stock are not declared and/or paid at the targeted level, our stockholders will not be entitled to receive such payments in the future.

We are not obligated to pay dividends, and as described more fully below, our stockholders might not receive any dividends as a result of the following factors:

- Our credit facility limits the amount of dividends we are permitted to pay;
- Our Board of Directors could decide to reduce dividends or not to pay dividends at all, at any time and for any reason;
- The amount of dividends distributed is subject to state law restrictions; and
-

We might not have enough cash to pay dividends due to changes to our operating earnings, working capital requirements and anticipated cash needs.

Assumptions and considerations

We estimate that the cash necessary to fund dividends on our common stock for 2015 at an annual rate of $0.48 per share is approximately $22.6 million (assuming 47.0 million shares of common stock are outstanding, net of treasury stock).

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We have a stock repurchase program that authorizes us to purchase up to $50.0 million of our outstanding shares of common stock. The program does not have an expiration date. The shares could be purchased in a self-tender for our stock, from time to time on the open market or in privately negotiated transactions depending upon market conditions and other factors, all in accordance with the requirements of applicable law. Any open market purchases under the repurchase program will be made in compliance with Rule 10b-18 of the Securities Exchange Act of 1934 and all other applicable securities regulations. We might not purchase any shares of common stock and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, to cancel the stock repurchase program.

We believe that our cash on hand and the cash flows we expect to generate from operations will be sufficient to meet our liquidity requirements through 2015, including dividends and purchases under our stock repurchase program. See "Management's discussion and analysis of financial conditions and results of operations — Liquidity and capital resources" in Item 7 in this report.

If our assumptions as to operating expenses, working capital requirements and capital expenditures are too low or if unexpected cash needs arise that we are not able to fund with cash on hand or with borrowings under our credit facility, we would need to either reduce or eliminate dividends. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash available for future dividends and other purposes, which could negatively impact our stock price, financial condition, results of operations and ability to maintain or expand our business.

We have estimated our dividend only for 2015, and we cannot assure our stockholders that during or following 2015 we will pay dividends at the estimated levels, or at all. We are not required to pay dividends and our Board of Directors may modify or revoke our dividend policy at any time. Dividend payments are within the absolute discretion of our Board of Directors and will be dependent upon many factors and future developments that could differ materially from our current expectations. Indeed, over time our capital and other cash needs, including unexpected cash needs, will invariably change and remain subject to uncertainties, which could impact the level of any dividends we pay in the future.

We believe that our dividend policy could limit, but not preclude, our ability to pursue growth as we intend to retain sufficient cash after the distribution of dividends to permit the pursuit of growth opportunities. In order to pay dividends at the level currently anticipated under our dividend policy and to fund any substantial portion of our stock repurchase program, we expect that we could require financing or borrowings to fund any significant acquisitions or to pursue growth opportunities requiring capital expenditures significantly beyond our anticipated capital expenditure levels. Management will evaluate potential growth opportunities as they arise and, if our Board of Directors determines that it is in our best interest to use cash that would otherwise be available for distribution as dividends to pursue an acquisition opportunity, to materially increase capital spending or for some other purpose, the Board would be free to depart from or change our dividend policy at any time.

Restrictions on payment of dividends

Under Delaware law, we can only pay dividends either out of "surplus" (which is defined as total assets at fair market value minus total liabilities, minus statutory capital) or out of current or the immediately preceding year's earnings. As of December 31, 2014, we had $14.7 million in cash and cash equivalents. In addition, we anticipate that we will have sufficient earnings in 2015 to pay dividends at the level described above. Although we believe we will have sufficient surplus and earnings to pay dividends at the anticipated levels for 2015, our Board of Directors will seek periodically to assure itself of this sufficiency before actually declaring any dividends.

Under our credit facility, we also have restrictions on our ability to declare and pay dividends and our ability to repurchase shares of our common stock. In order to pay any cash dividends and/or repurchase shares of stock: (1) no default or event of default shall have occurred and be continuing under the credit facility, and (2) our pro forma net leverage ratio, as set forth in the credit agreement, must be 0.25 less than the net leverage ratio requirement at the time of dividend declaration or share repurchase. See "Management's discussion and analysis of financial conditions and results of operations — Liquidity and capital resources” in Item 7 in this report.

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Item 6. Selected financial data

The selected financial data set forth below should be read in conjunction with "Management's discussion and analysis of financial condition and results of operations" in Item 7 in this report and our financial statements and the related notes included elsewhere in this report to fully understand factors, including our business acquisitions and presentation of certain of our subscriptions revenues and costs on a gross basis effective October 2013, that may affect the comparability of the information presented below.

The following data, insofar as it relates to each of the years ended December 31, 2014, 2013 and 2012, has been derived from the audited annual financial statements, including the consolidated balance sheets at December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, cash flows and stockholders' equity for the three years ended December 31, 2014, 2013 and 2012 and notes thereto appearing elsewhere herein. The following data, insofar as it relates to each of the years ended December 31, 2011 and 2010, and the consolidated balance sheets as of December 31, 2012, 2011 and 2010 are derived from audited financial statements not included in this report.

	Year ended December 31,				
(in thousands, except per share data)	2014	2013	2012	2011	2010
SUMMARY OF OPERATIONS					
Total revenue	$564,421	$503,817	$447,419	$370,868	$326,565
Total cost of revenue	273,438	232,663	202,460	157,194	132,139
Gross profit	290,983	271,154	244,959	213,674	194,426
Total operating expenses	244,619	219,612	225,524	162,746	148,402
Income from operations	46,364	51,542	19,435	50,928	46,024
Net income	28,290	30,472	6,583	33,220	29,187
PER SHARE DATA					
Basic net income	$0.63	$0.68	$0.15	$0.76	$0.68
Diluted net income	0.62	0.67	0.15	0.75	0.67
Cash dividends	0.48	0.48	0.48	0.48	0.44
BALANCE SHEET DATA					
Total assets	$943,183	$706,610	$705,747	$392,590	$323,806
Deferred revenue, including current portion	221,274	190,574	185,018	163,437	150,661
Total debt, including current portion	280,571	152,908	215,500	—	—
Total long-term liabilities	336,263	188,384	246,368	12,547	9,319

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Blackbaud, Inc.
Item 7. Management's discussion and analysis of financial condition and results of operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Item 1A Risk factors and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements reflect our current view with respect to future events and financial performance and are subject to risks and uncertainties, including those set forth under "Item 1A. Risk factors" and elsewhere in this report, that could cause actual results to differ materially from historical or anticipated results. Except as required by law, we do not intend, and undertake no obligation to revise or update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

Executive summary

We provide software and services for the nonprofit, charitable giving and education communities. Our offerings include a full spectrum of cloud-based and on-premise solutions, and related services for organizations of all sizes, including nonprofit fundraising and relationship management, marketing, advocacy, accounting, payments and analytics, as well as grant management, corporate social responsibility, education and other solutions. We continue to make investments in our product portfolio and go-to-market organization to ensure we are properly positioned to benefit from shifts in the market, including demand for our subscription-based offerings. As of December 31, 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.

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;
2. Accelerate our product portfolio's move to the cloud;
3. Expand our total addressable market;
4. Optimize our back-office infrastructure; and
5. Implement a 3-year margin improvement plan.

We completed our acquisition of MicroEdge in October 2014 for an aggregate purchase price of $159.8 million in cash. MicroEdge is a leading provider of high-performance solutions that enable the worldwide giving community to organize, simplify and measure their acts of charitable giving. The acquisition of MicroEdge expands our offerings in the philanthropic giving sector with MicroEdge's comprehensive technology solutions for grant-making, corporate social responsibility and foundation management.

Additionally, we completed our acquisition of WhippleHill in June 2014 for an aggregate purchase price of $35.0 million in cash. WhippleHill is a leading provider of cloud-based solutions designed exclusively to serve K12 private schools. The acquisition of WhippleHill expanded our offerings in the K12 technology sector.

We have included the results of operations of acquired companies in our consolidated results of operations from the date of their respective acquisition, which impacts the comparability of our results of operations when comparing 2014 to 2013 and 2012. We have noted in the discussion below, to the extent meaningful, the impact on the comparability of our consolidated results of operations to prior year results due to the inclusion of acquired companies.

We derive revenue from charging subscription fees for the use of our cloud-based solutions, selling perpetual licenses and providing a broad offering of services, including consulting, training, installation and implementation services, as well as ongoing customer support and maintenance. Furthermore, we derive revenue from providing hosting services, performing donor prospect research engagements, selling lists of potential donors, providing transaction and payment processing services, benchmarking studies and data modeling services. We have experienced growth in our payment processing services from the continued shift to online giving, further integration of these services into our existing product portfolio and the sale of these services to new and existing customers.

As a result of third-party contractual changes, certain of our subscriptions revenues and costs associated with our payment processing services are presented on a gross basis since October 2013, whereas comparable revenues and costs are presented on a net basis in the prior periods. As such, total revenue, total cost of revenue, subscriptions revenue and cost of subscriptions revenue for prior periods are not directly comparable, although gross profit, operating income and net income were unaffected by the prospective change. An analysis of our historical financial statements for the four quarters and year ended December 31, 2013 presented on a basis comparable to 2014 can be found at www.blackbaud.com/investorrelations, which is intended to assist with the evaluation of our performance in light of the change in presentation.

Overall, revenue in 2014 increased $60.6 million or 12% when compared to 2013. When removing the $21.1 million of incremental 2014 revenue attributable to the change in presentation referenced above and incremental revenue of $4.5 million and $5.8 million from WhippleHill and MicroEdge, respectively, revenue increased 6% during 2014 when compared to 2013. This increase was primarily the result of growth in recurring revenue, which includes subscriptions revenue and maintenance revenue. During 2014, we experienced an increase in demand for our cloud-based and hosted fundraising solutions as our business continues to shift towards providing predominantly subscription-based offerings. Subscriptions revenue also benefited from increases in the number of customers and volume of transactions for which we process payments, as well as variable transactions associated with the use of our solutions to fundraise online. The increase in maintenance revenue is attributable to maintaining high customer retention rates, new customer license agreements and increases in contracts with existing customers during 2014 when compared to 2013.

Income from operations in 2014 decreased by $5.1 million or 10% when compared to 2013. The decrease in income from operations was primarily attributable to $17.5 million of incremental investments we made during 2014 that were targeted to drive the success of our five growth and operational improvement strategies discussed above. Also contributing to the decrease in income from operations during 2014 compared to 2013 were increases in amortization of intangible assets arising from our acquisitions of WhippleHill and MicroEdge of $1.5 million, net acquisition-related expenses of $1.3 million and the impairment of capitalized software development costs of $1.6 million. These unfavorable impacts on income from operations were partially offset by the increases in subscriptions and maintenance revenue discussed above.

At December 31, 2014, our cash and cash equivalents were $14.7 million and outstanding borrowings under the 2014 Credit Facility were $282.4 million. During 2014, we generated $102.3 million in cash flow from operations and raised net debt of $129.5 million. In 2014 we used net cash of $188.9 million for the acquisitions of WhippleHill and MicroEdge, returned $22.1 million to stockholders by way of dividends and had cash outlays of $22.4 million for purchases of property and equipment and capitalized software development costs.

We plan to further increase our focus on subscription-based offerings and expand our payment processing and analytics services as we execute on our key growth initiatives and seek to strengthen our market leadership position, while achieving our targeted level of profitability. In the near term, we anticipate that there will continue to be an impact from our payment processing services on our overall gross and operating margins as growth in the volume of transactions where we provide payment processing services is expected to exceed the growth of certain other product and service offerings.

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

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Results of operations

During 2014, 2013 and 2012, we acquired companies that provided us with strategic opportunities to expand our share of the philanthropic giving market through the integration of complementary products and services to serve the changing needs of our customers. The following are the companies we acquired and their respective acquisition date:

- MicroEdge Holdings, LLC (“MicroEdge”) – October 1, 2014;
- WhippleHill Communications, Inc. (“WhippleHill”) – June 16, 2014;
- MyCharity, Ltd. (“MyCharity”) – March 6, 2013; and
- Convio, LLC (“Convio”) – May 4, 2012;

We have included the results of operations of acquired companies in our consolidated results of operations from the date of their respective acquisition, which impacts the comparability of our results of operations when comparing 2014 to 2013 and 2013 to 2012. We have noted in the discussion below, to the extent meaningful, the impact on the comparability of our consolidated results of operations to prior year results due to the inclusion of acquired companies. Because we have integrated the Convio and MyCharity operations, it is impracticable to determine the operating costs attributable solely to these acquired businesses for 2014 and 2013.

Comparison of the years ended December 31, 2014 and 2013

Revenue by segment

The table below compares revenue by segment for 2014 and 2013.

	Year ended December 31,					
(in millions, except percentages)	2014		2013	Change	% Change	
ECBU	$219.9	(1)(2)	$195.6	$24.3	12	%
GMBU	254.7	(1)(3)	225.3	29.4	13	%
IBU	46.5	(1)	41.5	5.0	12	%
Target Analytics	41.8		39.8	2.0	5	%
Other	1.6		1.6	—	—	%
Total revenue(4)	$564.4		$503.8	$60.7	12	%

(1) Included in ECBU, GMBU and IBU revenue for the year ended December 31, 2014 was $6.8 million, $13.2 million and $1.1 million, respectively, attributable to the prospective change in presentation from net to gross for revenue and costs associated with certain payment processing services as a result of certain third-party arrangements that had changes in contractual terms effective October 2013.

(2) Included in ECBU revenue for the year ended December 31, 2014 was $5.8 million attributable to the inclusion of MicroEdge.

(3) Included in GMBU revenue for the year ended December 31, 2014 was $4.5 million attributable to the inclusion of WhippleHill.

(4) The individual amounts for each segment may not sum to total revenue due to rounding.

When removing the impact attributable to the change in revenue presentation and acquisitions of WhippleHill and MicroEdge noted above, the increases in revenue for ECBU, GMBU and IBU during 2014 when compared to 2013 were primarily attributable to growth in subscriptions revenue. The growth in subscriptions resulted from an increase in demand for our cloud-based and hosted fundraising offerings, increases in the number of customers and the volume of transactions for which we process payments, and an increase in usage-based transaction revenue. Also contributing to the growth in ECBU, GMBU and IBU revenue were increases in maintenance revenue primarily from new customer license agreements and increases in contracts with existing customers. The growth in Target Analytics revenue during 2014 when compared to 2013 was primarily the result of increased demand for our subscription-based analytic service offerings.

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Item 7. Management's discussion and analysis of financial condition and results of operations (continued)

Operating results

Subscriptions

	Year ended December 31,					
(in millions, except percentages)	2014		2013	Change	% Change	
Subscriptions revenue	$263.4	(1)(2)	$212.7	$50.7	24	%
Cost of subscriptions	133.2	(1)(3)	93.7	39.5	42	%
Subscriptions gross profit	$130.2		$119.0	$11.2	9	%
Subscriptions gross margin	49	%	56 %			

(1) Included in subscriptions revenue and cost of subscriptions for 2014 was $21.1 million attributable to the prospective change in presentation from net to gross for revenue and costs associated with certain payment processing services as a result of certain third-party arrangements that had changes in contractual terms effective October 2013.

(2) Included in subscriptions revenue for 2014 was $2.7 million and $3.0 million attributable to the inclusion of WhippleHill and MicroEdge, respectively.

(3) Included in cost of subscriptions for 2014 was $1.2 million attributable to the inclusion of WhippleHill. The impact on cost of subscriptions in 2014 as a result of the inclusion of MicroEdge was not significant.

Subscriptions revenue is comprised of revenue from charging for the use of our subscription-based software products, which includes providing access to hosted applications and hosting services, access to certain data services and our online subscription training offerings, revenue from payment processing services as well as variable transaction revenue associated with the use of our products. We continue to experience growth in sales of our hosted applications and hosting services as we meet the demand of our customers that increasingly prefer subscription-based offerings. In addition, we have experienced growth in our payment processing services from the continued shift to online giving, further integration of these services to our existing product portfolio and the sale of these services to new and existing customers.

Excluding the effects of the change in presentation associated with certain of our payment processing services and the inclusion of WhippleHill and MicroEdge as discussed above, the increase in subscriptions revenue during 2014 when compared to 2013 was primarily due an increase in demand for our cloud-based solutions including Luminate CRM, Luminate Online and Altru and for our hosted fundraising solutions including Blackbaud CRM, the Raiser's Edge and the Financial Edge. Subscriptions revenue also grew as a result of increases in the number of customers and the volume of transactions for which we process payments, and an increase in usage-based transaction revenue.

Cost of subscriptions is primarily comprised of human resource costs, hosting expenses, stock-based compensation expense, third-party royalty and data expenses, allocated depreciation, facilities and IT support costs, amortization of intangibles from business combinations, transaction-based costs related to payments services, remittances of amounts due to third-parties under our payment processing services and other costs incurred in providing support and services to our customers.

Excluding the effects of the change in presentation associated with certain of our payment processing services as discussed above, the increase in cost of subscriptions during 2014 when compared to 2013 was primarily due to an increase in human resource costs of $10.5 million, an increase in amortization of intangible assets from business combinations of $1.7 million, an increase in allocated depreciation, facilities and IT support costs of $3.3 million. Also contributing to the increase in cost of subscriptions during 2014 was an increase in transaction-based costs related to our payments services. The increase in human resource costs was primarily due to an increase in subscription customer support directly related to our growing base of subscription customers. The increase in allocated costs was primarily a result of investments made to support anticipated growth in our operations. The inclusion of WhippleHill and MicroEdge also contributed to the increases in human resource costs and allocated costs.

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Item 7. Management’s discussion and analysis of financial condition and results of operations (continued)

The decrease in subscriptions gross margin during 2014 when compared to 2013 was primarily a result of the prospective change in presentation from net to gross revenues and costs as discussed above, which had no impact on gross profit. Absent this presentation change, subscriptions gross margin was 54% for 2014 compared to 56% in 2013. The remaining decrease in subscriptions gross margin for 2014 when compared to 2013 was primarily due to increases in human resource costs and allocated costs outpacing the growth in subscriptions revenue as we expand headcount to support projected future subscriptions growth. In the near term, we anticipate that there will continue to be a negative impact from our payment processing services on our subscriptions gross margin as growth in the volume of transactions where we provide payment processing services is expected to exceed the growth of certain of our other subscription-based offerings.

Maintenance

	Year ended December 31,			
(in millions, except percentages)	2014	2013	Change	% Change
Maintenance revenue	$147.4 (1)	$138.7	$8.7	6 %
Cost of maintenance	25.5 (1)	25.7	(0.2)	(1)%
Maintenance gross profit	$121.9	$113.0	$8.9	8 %
Maintenance gross margin	83 %	81 %		

(1) Included in maintenance revenue and cost of maintenance for 2014 was $1.9 million and $0.6 million, respectively, attributable to the inclusion of MicroEdge.

Maintenance revenue is comprised of annual fees derived from maintenance contracts associated with new software licenses and annual renewals of existing maintenance contracts. These contracts provide customers with updates, enhancements and upgrades to our software products and online, telephone and email support. Maintenance contracts are typically for a term of one year. Approximately 95% of our license customers with maintenance contracts were retained in 2014. This retention rate did not vary materially compared to prior periods. Over time, we anticipate a decrease in maintenance contract renewals as we transition our product portfolio to a subscription-based cloud delivery model and away from a perpetual license-based model.

Excluding the impact of MicroEdge, as discussed above, the increase in maintenance revenue during 2014 when compared to 2013 was primarily comprised of (i) $10.4 million of incremental maintenance from new customer license agreements and increases in contracts with existing customers; and (ii) approximately $4.2 million of incremental maintenance from contractual inflationary rate adjustments; partially offset by (iii) a $7.4 million reduction in maintenance from contracts that were not renewed and reductions in contracts with existing customers.

Cost of maintenance is primarily comprised of human resource costs, stock-based compensation expense, third-party contractor expenses, third-party royalty costs, allocated depreciation, facilities and IT support costs, amortization of intangibles from business combinations and other costs incurred in providing support and services to our customers. When removing the incremental costs attributable to MicroEdge discussed above, cost of maintenance during 2014 decreased when compared to 2013 primarily as a result of a decrease in human resource costs. Human resource costs decreased primarily due to an increase in allocated customer support costs towards subscriptions which is directly related to our growing base of subscription customers and is a trend that is likely to continue.

Maintenance gross margin increased during 2014 when compared to 2013 primarily due to the incremental maintenance revenue from new customers associated with new license agreements and increases in contracts with existing customers combined with the decrease in human resource costs.

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Services

	Year ended December 31,				
(in millions, except percentages)	2014		2013	Change	% Change
Services revenue	$128.4	(1)	$126.5	$1.9	2 %
Cost of services	106.5	(2)	104.0	2.5	2 %
Services gross profit	$21.9		$22.5	$(0.6)	(3)%
Services gross margin	17 %		18 %		

(1) Included in services revenue for 2014 was $1.6 million attributable to the inclusion of WhippleHill. The impact on services revenue in 2014 as result of the inclusion of MicroEdge was not significant.

(2) Included in cost of services for 2014 was $2.5 million and $0.8 million attributable to the inclusion of WhippleHill and MicroEdge, respectively.

We derive services revenue from consulting, implementation, education, analytic and installation services. Consulting, implementation and installation services involve converting data from a customer's existing system, system configuration, process re-engineering and assistance in file set up. Education services involve customer training activities. Analytic services are comprised of donor prospect research, sales of lists of potential donors, benchmarking studies and data modeling services. These analytic services involve the assessment of current and prospective donor information of the customer and are performed using our proprietary analytical tools. The end product is intended to enable organizations to more effectively target their fundraising activities.

When removing the incremental services revenue attributable to WhippleHill discussed above, services revenue during 2014 remained relatively unchanged when compared to 2013. The continuing shift in our go-to-market strategy towards cloud-based subscription offerings, which, in general, require less implementation services than our traditional on-premise perpetual license arrangements has negatively impacted consulting services revenue growth.

Cost of services is primarily comprised of human resource costs, stock-based compensation expense, third-party contractor expenses, classroom rentals, costs incurred in providing customer training, data expense incurred to perform analytic services, allocated depreciation, facilities and IT support costs and amortization of intangibles from business combinations.

When removing the incremental cost of services related to WhippleHill and MicroEdge discussed above, cost of services remained relatively unchanged during 2014 when compared to 2013.

When removing the impact of WhippleHill and MicroEdge discussed above, services gross margin remained relatively unchanged during 2014 when compared to 2013.

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Item 7. Management's discussion and analysis of financial condition and results of operations (continued)

License fees

(in millions, except percentages)	Year ended December 31, 2014	2013	Change	% Change
License fees revenue	$16.2	$16.7	$(0.5)	(3)%
Cost of license fees	1.8	2.8	(1.0)	(36)%
License fees gross profit	$14.4	$13.9	$0.5	4%
License fees gross margin	89%	83%		

We derive license fees revenue from the sale of our software products under perpetual license agreements. During 2014, revenue from license fees decreased primarily as a result of a continued shift in our customers' buying preferences away from solutions offered under perpetual license arrangements towards subscription-based hosted applications.

Cost of license fees is primarily comprised of third-party software royalties, variable reseller commissions, amortization of software development costs and amortization of intangibles from business combinations. The decrease in cost of license fees during 2014 when compared to 2013 was primarily due to a $0.6 million reduction in third-party software royalties as we sold fewer products with third-party software. Also contributing to the decrease in cost of license fees was a modest reduction in reseller commissions.

The increase in license fees gross margin during 2014 when compared to 2013 was primarily due to less sales of products with third-party software royalties associated with them relative to the decrease in license fees revenue.

Other revenue

(in millions, except percentages)	Year ended December 31, 2014	2013	Change	% Change
Other revenue	$9.0	$9.2	$(0.2)	(2)%
Cost of other revenue	6.4	6.5	(0.1)	(2)%
Other gross profit	$2.6	$2.7	$(0.1)	(4)%
Other gross margin	29%	29%		

Other revenue includes the sale of business forms that are used in conjunction with our software products, reimbursement of travel-related expenses primarily incurred during the performance of services at customer locations, fees from user conferences and third-party software referral fees. Other revenue and cost of other revenue during 2014 when compared to 2013 remained relatively unchanged.

Operating expenses

Sales and marketing

	Year ended December 31,			
(in millions, except percentages)	2014	2013	Change	% Change
Sales and marketing expense	$107.4	$97.6	$9.8	10 %
% of revenue	19 %	19 %		

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

Sales and marketing expense increased during 2014 when compared to 2013 primarily due to increases in human resource costs, commission expense and allocated depreciation, facilities and IT support costs of $3.8 million, $2.2 million and $1.7 million, respectively. Human resource costs increased primarily due to incremental headcount to support the increase in sales and marketing efforts of our growing operations. Commission expense increased driven primarily by an increase in commissionable revenue during the 2014 when compared to 2013. Allocated costs increased primarily as a result of investments made to support anticipated growth in operations. Included in the overall increase in sales and marketing expense during 2014 compared to 2013 was more than $3.1 million related to our 2014 incremental operating investments targeted to accelerate organic revenue growth. The inclusion of WhippleHill and MicroEdge also contributed to the increases in human resource costs and allocated costs.

Sales and marketing expense as a percentage of revenue remained relatively unchanged during 2014 when compared to 2013.

Research and development

	Year ended December 31,			
(in millions, except percentages)	2014	2013	Change	% Change
Research and development expense	$77.2	$65.6	$11.6	18 %
% of revenue	14 %	13 %		

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

Research and development expense increased during 2014 when compared to 2013 primarily due to increases in human resource costs, third-party contractor costs and allocated depreciation, facilities and IT support costs of $8.6 million, $4.2 million and $2.8 million, respectively. Partially offsetting these increases was a $5.1 million increase in the amount of software development costs that were capitalized from an increase in development activities that generate costs which qualify for capitalization as internal-use software. The inclusion of WhippleHill and MicroEdge also contributed to the increases in human resource costs and allocated costs. Included in the overall increase in research and development expense during 2014 compared to 2013 was more than $6.1 million related to our 2014 incremental operating investments, which contributed to the increased third-party contractor costs, as we made investments to optimize our product portfolio including enhancements to existing products as well as new product innovation.

Research and development expense as a percentage of revenue increased during 2014 when compared to 2013 primarily due to our 2014 incremental operating investments as discussed above.

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General and administrative

(in millions, except percentages)	Year ended December 31, 2014	2013	Change	% Change
General and administrative expense	$58.3	$50.3	$8.0	16 %
% of revenue	10 %	10 %		

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

General and administrative expense increased during 2014 when compared to 2013 primarily due to increases in human resource and facilities costs and acquisition-related costs of $9.1 million, $4.5 million, and $1.3 million, respectively. Partially offsetting these increases were decreases in third-party contractor fees and other corporate costs of $1.3 million and $6.9 million. Human resource costs increased primarily due to additional resources needed to support the growth of our business and the inclusion of WhippleHill and MicroEdge. The increases in facilities and acquisition-related expenses were due to our acquisitions of WhippleHill and MicroEdge. The decrease in third-party contractor fees was primarily attributable to one-time costs incurred during 2013 for the implementation of certain back-office systems as well as our CEO search. Included in the overall increase in general and administrative expense during 2014 compared to 2013 was more than $0.7 million related to our 2014 incremental operating investments targeted to optimize our back-office infrastructure.

General and administrative expense as a percentage of revenue remained relatively unchanged during 2014 when compared to 2013.

Non-GAAP financial measures

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

We have acquired businesses whose net tangible assets include deferred revenue. In accordance with GAAP reporting requirements, we recorded write-downs of acquired deferred revenue to fair value, which resulted in lower recognized revenue for a certain period of time until the related obligations to provide services are fulfilled. Therefore, our GAAP revenue after the acquisitions will not reflect the full amount of revenue that would have been reported if the acquired deferred revenue was not written down to fair value. The non-GAAP measures described below reverse the acquisition-related deferred revenue write-downs so that the full amount of revenue booked by the acquired companies is included, which we believe provides a more accurate representation of a revenue run-rate in a given period.

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

	Year ended December 31,			
(in millions, except percentages)	2014	2013	Change	% Change
GAAP revenue	$564.4	$503.8	$60.6	12 %
Non-GAAP adjustments:				
Add: Acquisition-related deferred revenue write-down	6.3	1.1	5.2	473 %
Non-GAAP revenue	$570.7	$504.9	$65.8	13 %
GAAP income from operations	$46.4	$51.5	$(5.1)	(10)%
GAAP operating margin	8 %	10 %		
Non-GAAP adjustments:				
Add: Acquisition-related deferred revenue write-down	6.3	1.1	5.2	473 %
Add: Stock-based compensation expense	17.3	16.9	0.4	2 %
Add: Amortization of intangibles from business combinations	26.1	24.6	1.5	6 %
Add: Impairment of capitalized software development costs	1.6	—	1.6	100 %
Add: Acquisition-related integration costs	0.8	1.8	(1.0)	(56)%
Add: Acquisition-related expenses	2.3	—	2.3	100 %
Add: CEO transition costs	0.9	1.3	(0.4)	(31)%
Add: Restructuring costs	—	3.5	(3.5)	(100)%
Add: Employee severance	—	0.6	(0.6)	(100)%
Total Non-GAAP adjustments	55.3	49.8	5.5	11 %
Non-GAAP income from operations	$101.7	$101.3	$0.4	— %
Non-GAAP operating margin	18 %	20 %		

The modest increase in non-GAAP income from operations and the decrease in non-GAAP operating margin during 2014 when compared to 2013 were primarily due to the 2014 incremental operating investments targeted to drive the success of our five growth and operational improvement strategies - accelerating organic revenue growth, accelerating our product portfolio's move to the cloud, expanding our total addressable market, optimizing our back-office infrastructure and implementing a three-year margin improvement plan. Also contributing to the decrease in non-GAAP operating margin during 2014 was a prospective change from net to gross presentation for revenue and costs associated with our payment processing services as a result of certain third-party arrangements that had changes in contractual terms effective October 2013. While this change in presentation affected our non-GAAP operating margin by approximately 1% percent during 2014, the dollar amount of non-GAAP income from operations was unaffected.

Restructuring

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

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Interest expense

Interest expense remained relatively unchanged when comparing 2014 to 2013. Our interest expense is directly related to the borrowings we incurred to fund our acquisitions of Convio, WhippleHill and MicroEdge. We expect interest expense to increase in 2015 as we experience a full-year of debt service on our increased borrowings in 2014.

Deferred revenue

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

(in millions, except percentages)	Timing of recognition	December 31, 2014	December 31, 2013	Change	% Change
Maintenance	Over the term of the agreement, generally one year	$92.8	$85.2	$7.6	9 %
Subscriptions	Over the term of the agreement, generally one to three years	98.2	72.5	25.7	35 %
Services	As services are delivered	29.5	32.2	(2.7)	(8)%
License fees and other	Upon delivery of the product or service	0.8	0.7	0.1	14 %
Total deferred revenue		221.3	190.6	30.7	16 %
Less: Long-term portion		9.0	9.1	(0.1)	(1)%
Current portion		$212.3	$181.5	$30.8	17 %

To the extent that our customers are billed for our products and services in advance of delivery, we record such amounts in deferred revenue. We generally invoice our maintenance and subscription customers in annual cycles 30 days prior to the end of the contract term. Deferred revenue attributable to maintenance increased during 2014 primarily as a result of the inclusion of MicroEdge. Deferred revenue attributable to subscriptions increased during 2014 primarily as a result of the inclusion of WhippleHill and MicroEdge and an increase in new sale and renewal billings of our subscription-based products. The decrease in deferred revenue from services during 2014 was primarily due to a decrease in consulting arrangements with upfront billing, partially offset by the inclusion of WhippleHill and MicroEdge. The continuing shift in our go-to-market strategy towards subscription-based and cloud-based offerings, which, in general, require less implementation services than our traditional on-premise perpetual license arrangements has negatively impacted consulting services revenue growth. Deferred revenue from license fees and other remained relatively unchanged when comparing 2014 and 2013.

Comparison of the years ended December 31, 2013 and 2012

Revenue by segment

The table below compares revenue by segment for 2013 and 2012.

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

The increases in revenue for ECBU and GMBU during 2013 when compared to 2012 were primarily attributable to growth in subscriptions revenue as a result of the inclusion of Luminate Online, previously a Convio product, and an increase in the volume of transactions for which we process payments. Also contributing to the growth in ECBU revenue were increases in revenue from consulting services and our Blackbaud CRM hosting services. Also contributing to the growth in GMBU revenue

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was the continued increase in demand for our online and hosted solutions as our business shifts towards subscription-based offerings.

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

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

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

Operating results

Subscriptions

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

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

The increase in cost of subscriptions during 2013 when compared to 2012 was primarily attributable to increases in amortization of intangibles from business combinations, hosting costs, human resource costs and allocated depreciation, facilities and IT support costs. The increase also included $8.5 million of costs attributable to a prospective change in presentation from net to gross for revenues and costs associated with certain of our payment processing services effective October 2013.

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

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

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

Maintenance

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

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

Cost of maintenance decreased during 2013 when compared to 2012 primarily due to a decrease in proprietary software costs, partially offset by increases in human resource costs and allocated depreciation, facilities and IT support costs. The decrease in proprietary software costs was primarily attributable to a prospective change in presentation from gross to net for revenue and costs associated with certain third-party software arrangements that had changes in contractual terms effective January 2013. The increase in human resource costs was primarily due to merit-based salary increases and an increase in employee health care costs.

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

Services

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

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

The increase in cost of services during 2013 when compared to 2012 was primarily attributable to increases in human resource costs, the recognition of deferred implementation service costs and allocated depreciation, facilities and IT support costs. Human resource costs increased $3.8 million primarily as a result of increases in accrued bonus costs, merit-based salary increases and employee health care costs. Our recognition of implementation service costs increased $2.2 million during 2013 when compared to 2012 due to a decrease in the amount of costs that are being deferred in connection with our shift from traditional license and related service arrangements to subscription offerings. Allocated depreciation, facilities and IT support costs increased $0.8 million due to the inclusion of allocable costs from the Convio operations as well as investments we have made in our infrastructure to make our operations more scalable.

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

License fees

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

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

The decrease in cost of license fees during 2013 when compared to 2012 was primarily due to a decrease in third-party software royalties resulting from a prospective change in presentation from gross to net for revenue and costs associated with certain third-party software arrangements that had changes in contractual terms effective January 2013.

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

Other revenue

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

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

Cost of other revenue decreased during 2013 when compared to 2012 primarily due to fewer reimbursable expenses related to services provided at customer locations.

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

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Operating expenses

Sales and marketing

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

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

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

Research and development

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

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

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

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General and administrative

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

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

Non-GAAP financial measures

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

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

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

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

Restructuring

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

Interest expense

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

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Income tax provision

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

	2014	2013	2012
Effective tax rate	27.9 %	32.8 %	50.6 %

The decrease in the effective tax rate during 2014 when compared to 2013 was primarily due to a benefit of $1.6 million from statute of limitations expiration and a benefit of $0.7 million from a reduction in the state income tax effective rate in the U.S. The decrease was partially offset by a discrete tax benefit for 2012 research and development tax credits recorded in 2013 of $1.9 million.

The decrease in the effective tax rate during 2013 when compared to 2012 was primarily due to an increase in the benefit from research and development credits and a decrease in nondeductible acquisition costs, partially offset by an increase in nondeductible compensation of certain executive officers and an increase in pretax income.

The U.S. federal research and development credits, which had previously expired on December 31, 2011, were reinstated as part of the American Taxpayer Relief Act of 2012 enacted in January 2013. This legislation retroactively reinstated and extended the credits from the previous expiration date through December 31, 2013. The 2014 research and development credits were reinstated in December 2014 as part of the Tax Increase Prevention Act of 2014.

Our effective income tax rate may fluctuate quarterly as a result of factors, including transactions entered into, changes in the geographic distribution of our earnings or losses, our assessment of certain tax contingencies, valuation allowances, and changes in tax law in jurisdictions where we conduct business.

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

We file income tax returns in the U.S. for federal and various state jurisdictions as well as in foreign jurisdictions including Canada, United Kingdom, Australia, the Netherlands and Ireland. We are generally subject to U.S. federal income tax examination for calendar tax years ending 2011 through 2014, as well as state and foreign income tax examinations for various years depending on statute of limitations of those jurisdictions.

We have taken federal and state tax positions for which it is reasonably possible that the total amount of unrecognized tax benefits may decrease within the next twelve months. The possible decrease could result from the expiration of statutes of limitations. The reasonably possible decrease at December 31, 2014 was insignificant.

Seasonality

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

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Liquidity and capital resources

At December 31, 2014, cash and cash equivalents totaled $14.7 million, compared to $11.9 million at December 31, 2013. The increase in cash and cash equivalents during 2014 was principally attributable to cash generated from operations of $102.3 million, a net increase in debt of $129.5 million, partially offset by the use of net cash of $188.9 million for the acquisitions of WhippleHill and MicroEdge, the payment of dividends of $22.1 million and cash outlays for purchases of property and equipment and capitalized software development costs totaling $22.4 million.

Our principal sources of liquidity are operating cash flow, funds available under the 2014 Credit Facility and cash on hand. Our operating cash flow depends on continued customer renewal of our subscription, maintenance and support agreements and market acceptance of our products and services. Based on current estimates of revenue and expenses, we believe that the currently available sources of funds and anticipated cash flows from operations will be adequate for at least the next twelve months to finance our operations, fund anticipated capital expenditures, meet our debt obligations and pay dividends. Dividend payments are not guaranteed and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, not to declare or pay further dividends and/or repurchase our common stock.

During 2015, we expect capital expenditures between $24.0 and $26.0 million, which includes purchases of property and equipment and estimated capitalized software development costs. Refer to the commitments and contingencies subsection below for future minimum commitments related to purchase obligations.

We have drawn on our credit facility from time to time to help us meet financial needs, such as business acquisitions and purchases of common stock under our repurchase program. At December 31, 2014, our available borrowing capacity under the 2014 Credit Facility was $136.9 million. We believe the 2014 Credit Facility will provide us with sufficient flexibility to meet our future financial needs. The credit facility matures in February 2019.

At December 31, 2014, the carrying amount of our debt under the 2014 Credit Facility was $280.6 million. Our average daily borrowings were $200.0 million during 2014.

Following is a summary of the financial covenants under the 2014 Credit Facility:

Financial covenant	Requirement	As of December 31, 2014
Net Leverage Ratio	≤ 3.50 to 1.00	2.20 to 1.00
Interest Coverage Ratio	≥ 2.50 to 1.00	16.57 to 1.00

Under the 2014 Credit Facility, we also have restrictions on our ability to declare and pay dividends and our ability to repurchase shares of our common stock. In order to pay any cash dividends and/or repurchase shares of stock: (1) no default or event of default shall have occurred and be continuing under the 2014 Credit Facility, and (2) our pro forma net leverage ratio, as set forth in the credit agreement, must be 0.25 less than the net leverage ratio requirement at the time of dividend declaration or share repurchase. At December 31, 2014, we were in compliance with all debt covenants under the 2014 Credit Facility.

At December 31, 2014, our total cash and cash equivalents balance includes approximately $8.8 million of cash that was held by operations outside the U.S. While these funds may not be needed to fund our U.S. operations for at least the next 12 months, if we need these funds, we may be required to accrue and pay taxes to repatriate the funds. Our current plans anticipate repatriating undistributed earnings in Canada. We currently do not intend nor anticipate a need to repatriate our other cash held outside the U.S.

MicroEdge acquisition

We financed the acquisition of MicroEdge through cash on hand and borrowings under the 2014 Credit Facility. As previously disclosed, in February 2014, we entered into the 2014 Credit Facility in an aggregate principal amount of $325 million, with a right to increase the revolving commitments and/or request additional term loans in a principal amount of up to $200 million. On October 1, 2014, we exercised our right, and certain lenders agreed, to increase the revolving credit commitments by $100 million such that as of October 1, 2014, the aggregate revolving credit commitments are $250 million. The additional revolving credit commitments have the same terms as the existing revolving credit commitments. On October 1, 2014, we drew down $140 million in revolving credit commitments under the 2014 Credit Facility to finance the acquisition of MicroEdge.

Entry into interest rate swap agreements

In March 2014, we entered into an interest rate swap agreement (the “March 2014 Swap Agreement”), which effectively converts portions of our variable rate debt under the 2014 Credit Facility to a fixed rate for the term of the swap agreement. The initial notional value of the March 2014 Swap Agreement was $125.0 million with an effective date beginning in March 2014. In March 2017, the notional value of the March 2014 Swap Agreement will decrease to $75.0 million for the remaining term through February 2018. We designated the March 2014 Swap Agreement as a cash flow hedge at the inception of the contract.

In October 2014, we entered into an additional interest rate swap agreement (the “October 2014 Swap Agreement”), which effectively converts portions of our variable rate debt under the 2014 Credit Facility to a fixed rate for the term of the swap agreement. The initial notional value of the October 2014 Swap Agreement was $75.0 million with an effective date beginning in October 2014. In September 2015, the notional value of the October 2014 Swap Agreement will decrease to $50.0 million for the remaining term through June 2016. We designated the October 2014 Swap Agreement as a cash flow hedge at the inception of the contract.

Operating cash flow

Net cash provided by operating activities of $102.3 million decreased by $5.0 million during 2014 when compared to the prior year, primarily due to a decrease in earnings as adjusted for non-cash transactions, partially offset by an increase in cash flow from operations associated with working capital. Throughout both 2014 and 2013, our cash flows from operations were derived principally from: (i) our earnings from on-going operations prior to non-cash expenses such as depreciation, amortization, stock-based compensation and adjustments to our provision for sales returns and allowances; (ii) the tax benefit associated with our deferred tax assets, which reduces our cash outlay for income tax expense; and (iii) changes in our working capital.

Working capital changes as they impact the statement of cash flows are composed of changes in accounts receivable, prepaid expenses and other assets, trade accounts payable, accrued expenses and other liabilities and deferred revenue. Cash flow from operations associated with working capital increased $10.3 million in 2014 when compared to 2013. The net working capital increase was primarily due to:

- a change in the timing of payouts for certain bonus plans, from quarterly to annually;
- increases in deferred revenue from growth in subscriptions;
- increases in accrued commissions and salaries; and
- fluctuations in the timing of vendor payments; which were partially offset by
- an increase in prepaid taxes; and
- increases in accounts receivable from growth in subscriptions.

Investing cash flow

During 2014, we used net cash of $188.9 million for the acquisitions of WhippleHill and MicroEdge compared to $0.9 million spent on investments in acquired companies during 2013. Aggregate cash outlays for purchases of property and equipment and capitalized software development costs were $22.4 million during 2014, which was relatively unchanged from 2013.

During 2012, we used approximately $280.7 million for the acquisition of Convio. Outside of this acquisition, cash used in investing activities was relatively unchanged when comparing 2013 and 2012.

Financing cash flow

During 2014, we had a net increase in debt of $129.5 million, which was primarily used to finance the acquisition of MicroEdge, and we received a tax benefit of $7.5 million from the exercise of stock-based compensation awards. Cash outlays related to deferred financing costs increased $3.0 million during 2014 when compared to 2013 as a result of refinancing our credit facility. Also during 2014, we paid dividends of $22.1 million, which was relatively consistent with the amounts paid in 2013 and 2012.

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Item 7. Management’s discussion and analysis of financial condition and results of operations (continued)

During 2013, we had a net reduction in debt of $62.6 million primarily from payments made on outstanding borrowings compared to a net increase in debt of $215.5 million primarily used to fund the acquisition of Convio during 2012.

Commitments and contingencies

As of December 31, 2014, we had future minimum commitments as follows:

	Payments due by period				
(in millions)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases[(1)]	$96.5	$13.2	$24.3	$23.2	$35.8
Debt and interest[(2)]	301.9	10.0	18.3	273.6	—
Purchase obligations[(3)]	13.0	8.0	5.0	—	—
Total	$411.4	$31.2	$47.6	$296.8	$35.8

(1) Our commitments related to operating leases have not been reduced by incentive payments and reimbursement of leasehold improvements.

(2) Included in the table above is $19.5 million of interest. The actual interest expense recognized in our consolidated statements of comprehensive income will depend on the amount of debt, the length of time the debt is outstanding and the interest rate, which could be different from our assumptions used in the above table, which include: (i) that the amounts outstanding under the 2014 Credit Facility at December 31, 2014 will remain outstanding until maturity, with minimum payments occurring as currently scheduled, and (ii) that there are no assumed future borrowings on the 2014 Revolving Facility for the purposes of determining minimum commitment amounts.

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

The term loans under the 2014 Credit Facility require periodic principal payments. The balance of the term loans and any amounts drawn on the revolving credit loans are due upon maturity of the 2014 Credit Facility in February 2019.

The total liability for uncertain tax positions as of December 31, 2014 and 2013, was $3.6 million and $3.7 million, respectively. Our accrued interest and penalties related to tax positions taken on our tax returns was insignificant as of December 31, 2014 and $0.6 million as of December 31, 2013.

In February 2015, our Board of Directors approved our annual dividend rate of $0.48 per share for 2015. Dividends at the annual rate would aggregate to $22.6 million assuming 47.0 million shares of our common stock are outstanding, although dividends are not guaranteed and our Board of Directors may decide to change or suspend dividend payments at any time for any reason. Our ability to continue to declare and pay dividends quarterly this year and beyond might be restricted by, among other things, the terms of our credit facility, general economic conditions and our ability to generate adequate operating cash flow.

Off-balance sheet arrangements

As of December 31, 2014, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have, a current or future effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Foreign currency exchange rates

Approximately 13% of our total net revenue for the year ended December 31, 2014 was derived from operations outside the United States. We do not have significant operations in countries in which the economy is considered to be highly inflationary. Our consolidated financial statements are denominated in U.S. dollars and, accordingly, changes in the exchange rate between foreign currencies and the U.S. dollar will affect the translation of our subsidiaries’ financial results into U.S. dollars for purposes of reporting our consolidated financial results. The accumulated currency translation adjustment, recorded within other comprehensive loss as a component of stockholders' equity, was a loss of $0.9 million and $1.1 million at December 31, 2014 and 2013, respectively.

The vast majority of our contracts are entered into by our U.S., Canadian or U.K. entities. The contracts entered into by the U.S. entity are almost always denominated in U.S. dollars or Canadian dollars, and contracts entered into by our U.K., Australian, Irish and Netherlands subsidiaries are generally denominated in Pounds Sterling, Australian dollars and Euros, respectively. Historically, as the U.S. dollar weakened, foreign currency translation resulted in an increase in our revenues and expenses denominated in non-U.S. currencies. Conversely, as the U.S. dollar strengthened, foreign currency translation resulted in a decrease in our revenue and expenses denominated in non-U.S. currencies. During 2014, foreign translation resulted in an increase in our revenues and expenses denominated in non-U.S. currencies. Though we do not believe our exposure to currency exchange rates has had a material impact on our consolidated results of operations or financial position, we expect an impact on our operating results in the near term due to exchange rate fluctuations, primarily from Canadian dollar exchange rate fluctuations, and we will continue to monitor our exposure.

Inflation

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

Critical accounting policies and estimates

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, we reconsider and evaluate our estimates and assumptions, including those that impact revenue recognition, long-lived and intangible assets and goodwill, the provision for income taxes, and the accounting for business combinations, among others.

We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could materially differ from any of our estimates under different assumptions or conditions. We believe the critical accounting policies listed below affect significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition

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

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

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

Determining whether and when these criteria have been met can require significant judgment and estimates. We deem acceptance of an agreement to be evidence of an arrangement. Delivery of our services occurs when the services have been performed. Delivery of our products occurs when the product is shipped or transmitted, and title and risk of loss have transferred to the customers. Our typical agreements do not include customer acceptance provisions; however, if acceptance provisions are provided, delivery is deemed to occur upon acceptance. We consider the fee to be fixed or determinable unless the fee is subject to refund or adjustment or is not payable within our standard payment terms. Payment terms greater than 90 days are considered to be beyond our customary payment terms. Collection is deemed probable if we expect that the customer will be able to pay amounts under the arrangement as they become due. If we determine that collection is not probable, we defer revenue recognition until collection. Revenue is recognized net of sales returns and allowances.

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

Subscriptions

We provide hosting services to customers who have purchased perpetual rights to certain of our software products (“hosting services”). Revenue from hosting services, as well as data enrichment services, data management services and online training programs, is recognized ratably beginning on the activation date over the term of the agreement, which generally ranges from one to three years. Any related set-up fees are recognized ratably over the estimated period that the customer benefits from the related hosting service. The estimated period of benefit is evaluated on an annual basis using historical customer retention information by product or service.

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

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

We offer certain payment processing services with the assistance of third-party vendors. In general, when we are the principal in a transaction based on the predominant weighting of factors identified in ASC 605-45, we record the revenue and related costs on a gross basis. Otherwise, we net the cost of revenue associated with the service against the gross amount billed to the customer and record the net amount as revenue.

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

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License fees

We sell perpetual software licenses with maintenance, varying levels of professional services and, in certain instances, with hosting services. We allocate revenue to each of the elements in these arrangements using the residual method under which we first allocate revenue to the undelivered elements, typically the non-software license components, based on VSOE of fair value of the various elements. We determine VSOE of fair value of the various elements using different methods. VSOE of fair value for maintenance services associated with software licenses is based upon renewal rates stated in the agreements with customers, which demonstrate a consistent relationship of maintenance pricing as a percentage of the contractual license fee. VSOE of fair value of professional services and other products and services is based on the average selling price of these same products and services to other customers when sold on a stand-alone basis. Any remaining revenue is allocated to the delivered elements, which is normally the software license in the arrangement. In general, revenue is recognized for software licenses upon delivery to our customers. When a software license is sold with software customization services, generally the services are to provide the customer assistance in creating special reports and other enhancements that will improve operational efficiency and/or help to support business process improvements. These services are generally not essential to the functionality of the software and the related revenues are recognized either as the services are delivered or upon completion. However, when software customization services are considered essential to the functionality of the software, we recognize revenue for both the software license and the services using the percentage-of-completion method.

Services

We generally bill consulting, installation and implementation services based on hourly rates plus reimbursable travel-related expenses. Revenue is recognized for these services over the period the services are delivered.

We recognize analytic services revenue from donor prospect research engagements, the sale of lists of potential donors, benchmarking studies and data modeling service engagements upon delivery. In arrangements where we provide customers the right to updates to the lists during the contract period, revenue is recognized ratably over the contract period.

We sell training at a fixed rate for each specific class at a per attendee price or at a packaged price for several attendees, and recognize the related revenue upon the customer attending and completing training. Additionally, we sell fixed-rate programs, which permit customers to attend unlimited training over a specified contract period, typically one year, subject to certain restrictions, and revenue in those cases is recognized ratably over the contract period.

Maintenance

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

Deferred revenue

To the extent that our customers are billed for the above described services in advance of delivery, we record such amounts in deferred revenue.

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Valuation of long-lived and intangible assets and goodwill

We review identifiable intangible and other long-lived assets for impairment when events change or circumstances indicate the carrying amount may not be recoverable. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant decrease in the market value of the business or asset acquired, a significant adverse change in the extent or manner in which the business or asset acquired is used or significant adverse change in the business climate or a change in circumstances that indicates it is more likely than not that a long-lived asset will be sold or otherwise disposed of before the end of its previously estimated useful life. If such events or changes in circumstances occur, we use the undiscounted cash flow method to determine whether the asset is impaired. Cash flows would include the estimated terminal value of the asset and exclude any interest charges. To the extent that the carrying value of the asset exceeds the undiscounted cash flows over the estimated remaining life of the asset, we measure the impairment using discounted cash flows. The discount rate utilized would be based on our best estimate of our risks and required investment returns at the time the impairment assessment is made. During the year ended December 31, 2014, we recorded impairment charges of $1.6 million against certain previously capitalized software development costs which reduced the carrying value of certain previously capitalized software development costs to zero. The impairment charges resulted from obtaining software products through the acquisition of WhippleHill and determining that it was no longer probable that certain computer software that was being developed would be placed into service.

Goodwill is assigned to our four reporting units, which are defined as our four operating segments (see Note 18 to our consolidated financial statements). We test goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Significant judgment is required in the assessment of qualitative factors including but not limited to an evaluation of macroeconomic conditions as they relate to our business, industry and market trends, as well as the overall future financial performance of our reporting units and future opportunities in the markets in which they operate. To the extent the qualitative factors indicate that the fair value is likely less than the carrying amount, we compare the fair value of the reporting unit with its carrying amount.

We estimate fair value for each reporting unit based on projected future cash flows discounted using our weighted average cost of capital. A number of significant assumptions and estimates are involved in estimating the fair value of each reporting unit, including revenue growth rates, operating margins, capital spending, discount rate, and working capital changes. Additionally, we make certain judgments and assumptions in allocating assets and liabilities to determine the carrying values for each of our reporting units. We believe the assumptions we use in estimating fair value of our reporting units are reasonable, but are also unpredictable and inherently uncertain. Actual future results may differ from those estimates.

If the carrying amount exceeds its fair value, impairment is indicated. If an impairment is indicated, the impairment is measured as the excess of the recorded goodwill over its fair value, which could materially adversely impact our consolidated financial position and results of operations. The 2014 annual impairment test of our goodwill indicated there was no impairment.

Income taxes

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

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

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Item 7. Management’s discussion and analysis of financial condition and results of operations (continued)

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

Business combinations

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

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

Recently adopted accounting pronouncements

Effective January 1, 2014, we adopted Accounting Standards Update (“ASU”) 2013-11, Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. Under ASU 2013-11, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward or a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The adoption of ASU 2013-11 did not have a material impact on our consolidated financial statements.

Recently issued accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASU 2014-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early adoption is not permitted. An entity should apply ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized as an adjustment to the opening balance of retained earnings at the date of initial application. We expect the adoption of ASU 2014-09 will impact our consolidated financial statements. We are currently evaluating implementation methods and the extent of the impact that implementation of this standard will have upon adoption.

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Item 7A. Quantitative and qualitative disclosures about market risk

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

Interest rate risk

Our variable rate debt is our primary financial instrument with market risk exposure for changing interest rates. We manage interest rate risk through a combination of short-term and long-term borrowings and the use of derivative instruments entered into for hedging purposes. Due to the nature of our debt, the materiality of the fair values of the derivative instruments and the highly liquid, short-term nature and level of our cash and cash equivalents as of December 31, 2014, we believe there is no material risk of exposure to changing interest rates for those positions. There were no significant changes in how we manage interest rate risk between December 31, 2013 and December 31, 2014.

Foreign currency risk

For a discussion of our exposure to foreign currency exchange rate fluctuations, see "Management's discussion and analysis of financial conditions and results of operations — Foreign currency exchange rates" in Item 7 in this report.

Item 8. Financial statements and supplementary data

The following financial statements are filed as part of this Annual Report on Form 10-K:

BLACKBAUD, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, of cash flows, and of stockholders' equity present fairly, in all material respects, the financial position of Blackbaud, Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

As described in Management's report on internal control over financial reporting in Item 9A, management has excluded MicroEdge from its assessment of internal control over financial reporting as of December 31, 2014 because it was acquired by the Company in a purchase business combination during 2014. We have also excluded MicroEdge from our audit of internal control over financial reporting. MicroEdge is a wholly-owned subsidiary whose total assets and total revenues represent 2.0% and 1.0%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2014.

/S/ PRICEWATERHOUSECOOPERS LLP
Charlotte, North Carolina
February 25, 2015

Blackbaud, Inc.
Consolidated balance sheets

(in thousands, except share amounts)	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$14,735	$11,889
Donor restricted cash	140,709	107,362
Accounts receivable, net of allowance of $4,539 and $5,613 at December 31, 2014 and 2013, respectively	77,523	66,969
Prepaid expenses and other current assets	40,392	30,115
Deferred tax asset, current portion	14,423	13,434
Total current assets	287,782	229,769
Property and equipment, net	50,402	49,550
Goodwill	349,008	264,599
Intangible assets, net	229,307	143,441
Other assets	26,684	19,251
Total assets	$943,183	$706,610
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$11,436	$10,244
Accrued expenses and other current liabilities	52,201	40,443
Donations payable	140,709	107,362
Debt, current portion	4,375	17,158
Deferred revenue, current portion	212,283	181,475
Total current liabilities	421,004	356,682
Debt, net of current portion	276,196	135,750
Deferred tax liability	43,639	36,880
Deferred revenue, net of current portion	8,991	9,099
Other liabilities	7,437	6,655
Total liabilities	757,267	545,066
Commitments and contingencies (see Note 13)		
Stockholders' equity:		
Preferred stock; 20,000,000 shares authorized, none outstanding	—	—
Common stock, $0.001 par value; 180,000,000 shares authorized, 56,048,135 and 55,699,817 shares issued at December 31, 2014 and 2013, respectively	56	56
Additional paid-in capital	245,674	220,763
Treasury stock, at cost; 9,740,054 and 9,573,102 shares at December 31, 2014 and 2013, respectively	(190,440)	(183,288)
Accumulated other comprehensive loss	(1,032)	(1,385)
Retained earnings	131,658	125,398
Total stockholders' equity	185,916	161,544
Total liabilities and stockholders' equity	$943,183	$706,610

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

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Blackbaud, Inc.
Consolidated statements of comprehensive income

(in thousands, except share and per share amounts)	Years ended December 31, 2014	2013	2012
Revenue			
License fees	$16,216	$16,715	$20,551
Subscriptions	263,435	212,656	162,102
Services	128,371	126,548	119,626
Maintenance	147,418	138,745	136,101
Other revenue	8,981	9,153	9,039
Total revenue	564,421	503,817	447,419
Cost of revenue			
Cost of license fees	1,818	2,763	2,993
Cost of subscriptions	133,221	93,649	68,773
Cost of services	106,506	104,005	97,208
Cost of maintenance	25,448	25,741	26,001
Cost of other revenue	6,445	6,505	7,485
Total cost of revenue	273,438	232,663	202,460
Gross profit	290,983	271,154	244,959
Operating expenses			
Sales and marketing	107,360	97,614	95,218
Research and development	77,179	65,645	64,692
General and administrative	58,277	50,320	63,133
Restructuring	—	3,494	175
Amortization	1,803	2,539	2,106
Impairment of cost method investment	—	—	200
Total operating expenses	244,619	219,612	225,524
Income from operations	46,364	51,542	19,435
Interest income	59	67	146
Interest expense	(6,011)	(5,818)	(5,864)
Loss on debt extinguishment and termination of derivative instruments	(996)	—	—
Other expense, net	(182)	(462)	(392)
Income before provision for income taxes	39,234	45,329	13,325
Income tax provision	10,944	14,857	6,742
Net income	$28,290	$30,472	$6,583
Earnings per share			
Basic	$0.63	$0.68	$0.15
Diluted	$0.62	$0.67	$0.15
Common shares and equivalents outstanding			
Basic weighted average shares	45,215,138	44,684,812	44,145,535
Diluted weighted average shares	45,799,874	45,421,140	44,691,845
Dividends per share	$0.48	$0.48	$0.48
Other comprehensive income (loss)			
Foreign currency translation adjustment	261	53	(34)
Unrealized gain (loss) on derivative instruments, net of tax	92	535	(791)
Total other comprehensive income (loss)	353	588	(825)

Comprehensive income	$28,643	$31,060	$5,758

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

Blackbaud, Inc.
Consolidated statements of cash flows

	Years ended December 31,		
(in thousands)	2014	2013	2012
Cash flows from operating activities			
Net income	$28,290	$30,472	$6,583
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	45,417	43,164	32,241
Provision for doubtful accounts and sales returns	5,248	5,403	9,591
Stock-based compensation expense	17,345	16,910	19,240
Excess tax benefits from stock based compensation	(7,455)	—	(81)
Deferred taxes	3,050	13,873	7,585
Impairment of capitalized software development costs	1,626	—	—
Loss on debt extinguishment and termination of derivative instruments	996	—	—
Amortization of deferred financing costs and discount	734	613	678
Impairment of cost method investment	—	—	200
Other non-cash adjustments	1,163	1,261	(293)
Changes in operating assets and liabilities, net of acquisition of businesses:			
Accounts receivable	(5,750)	3,161	(9,397)
Prepaid expenses and other assets	(8,464)	2,977	(8,817)
Trade accounts payable	(948)	(218)	(1,363)
Accrued expenses and other liabilities	4,014	(17,055)	(388)
Donor restricted cash	(33,510)	(39,801)	(27,990)
Donations payable	33,510	39,801	27,990
Deferred revenue	17,011	6,683	12,912
Net cash provided by operating activities	102,277	107,244	68,691
Cash flows from investing activities			
Purchase of property and equipment	(13,911)	(20,086)	(20,557)
Purchase of net assets of acquired companies, net of cash acquired	(188,918)	(876)	(280,687)
Capitalized software development costs	(8,535)	(3,197)	(1,245)
Net cash used in investing activities	(211,364)	(24,159)	(302,489)
Cash flows from financing activities			
Proceeds from issuance of debt	365,100	103,008	315,000
Payments on debt	(235,589)	(165,600)	(99,500)
Debt issuance costs	(3,003)	—	(2,440)
Proceeds from exercise of stock options	188	385	3,146
Excess tax benefits from stock based compensation	7,455	—	81
Dividend payments to stockholders	(22,107)	(22,081)	(21,731)
Net cash provided by (used in) financing activities	112,044	(84,288)	194,556
Effect of exchange rate on cash and cash equivalents	(111)	(399)	213
Net increase (decrease) in cash and cash equivalents	2,846	(1,602)	(39,029)
Cash and cash equivalents, beginning of year	11,889	13,491	52,520
Cash and cash equivalents, end of year	$14,735	$11,889	$13,491
Supplemental disclosure of cash flow information			
Cash (paid) received during the year for:			
Interest	$(4,894)	$(5,108)	$(5,098)

Taxes, net of refunds	$(9,581)	$4,132	$(3,456)
Purchase of equipment and other assets included in accounts payable	$(3,300)	$(1,557)	$(4,641)

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

Blackbaud, Inc.
Consolidated statements of stockholders' equity

(in thousands, except share amounts)	Common stock Shares	Common stock Amount	Additional paid-in capital	Treasury stock	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
Balance at December 31, 2011	53,959,532	$ 54	$ 175,401	$ (166,226)	$ (1,148)	$ 131,921	$ 140,002
Net income	—	—	—	—	—	6,583	6,583
Payment of dividends	—	—	—	—	—	(21,731)	(21,731)
Exercise of stock options, stock appreciation rights and restricted stock units	355,180	—	3,146	—	—	—	3,146
Surrender of 189,547 shares upon restricted stock vesting and exercise of stock appreciation rights	—	—	—	(4,672)	—	—	(4,672)
Tax impact of exercise of equity-based compensation	—	—	81	—	—	—	81
Stock-based compensation	—	—	19,151	—	—	89	19,240
Equity-based awards assumed in business combination	—	—	5,859	—	—	—	5,859
Restricted stock grants	687,652	1	—	—	—	—	1
Restricted stock cancellations	(142,760)	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	(825)	—	(825)
Balance at December 31, 2012	54,859,604	$ 55	$ 203,638	$ (170,898)	$ (1,973)	$ 116,862	$ 147,684
Net income	—	—	—	—	—	30,472	30,472
Payment of dividends	—	—	—	—	—	(22,081)	(22,081)
Exercise of stock options, stock appreciation rights and restricted stock units	609,500	—	385	—	—	—	385
Surrender of 363,731 shares upon vesting of restricted stock and restricted stock units and exercise of stock appreciation rights	—	—	—	(12,390)	—	—	(12,390)
Tax impact of exercise of equity-based compensation	—	—	(25)	—	—	—	(25)
Stock-based compensation	—	—	16,765	—	—	145	16,910
Restricted stock grants	458,462	1	—	—	—	—	1
Restricted stock cancellations	(227,749)	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	588	—	588
Balance at December 31, 2013	55,699,817	$ 56	$ 220,763	$ (183,288)	$ (1,385)	$ 125,398	$ 161,544
Net income	—	—	—	—	—	28,290	28,290
Payment of dividends	—	—	—	—	—	(22,107)	(22,107)
Exercise of stock options, stock appreciation rights and restricted stock units	186,473	—	188	—	—	—	188
Surrender of 166,952 shares upon vesting of restricted stock and restricted stock units and exercise of	—	—	—	(7,152)	—	—	(7,152)

stock appreciation rights							
Tax impact of exercise of equity-based compensation	—	—	7,455	—	—	—	7,455
Stock-based compensation	—	—	17,268	—	—	77	17,345
Restricted stock grants	248,567	—	—	—	—	—	—
Restricted stock cancellations	(86,722)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	353	—	353
Balance at December 31, 2014	56,048,135	$ 56	$ 245,674	$ (190,440)	$ (1,032)	$ 131,658	$ 185,916

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

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Blackbaud, Inc.
Notes to consolidated financial statements

1. Organization
We provide software and services for the nonprofit, charitable giving and education communities. Our offerings include a full spectrum of cloud-based and on-premise solutions, and related services for organizations of all sizes, including nonprofit fundraising and relationship management, marketing, advocacy, accounting, payments and analytics, as well as grant management, corporate social responsibility, education and other solutions. As of December 31, 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.
2. Summary of significant accounting policies
Basis of presentation
The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”).
Basis of consolidation
The consolidated financial statements include the accounts of Blackbaud, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.
Use of estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, we reconsider and evaluate our estimates and assumptions, including those that impact revenue recognition, long-lived and intangible assets and goodwill, stock-based compensation, the provision for income taxes, capitalization of software development costs, our allowance for sales returns and doubtful accounts, deferred sales commissions and professional services costs, valuation of derivative instruments, accounting for business combinations and loss contingencies. Changes in the facts or circumstances underlying these estimates could result in material changes and actual results could materially differ from these estimates.
Revenue recognition
Our revenue is primarily generated from the following sources: (i) charging for the use of our software products in a hosted environment; (ii) providing software maintenance and support services; (iii) providing professional services including implementation, training, consulting, analytic, hosting and other services; and (iv) selling perpetual licenses of our software products.
We recognize revenue when all of the following conditions are met:
•Persuasive evidence of an arrangement exists;
•The products or services have been delivered;
•The fee is fixed or determinable; and
•Collection of the resulting receivable is probable.

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

Determining whether and when these criteria have been met can require significant judgment and estimates. We deem acceptance of an agreement to be evidence of an arrangement. Delivery of our services occurs when the services have been performed. Delivery of our products occurs when the product is shipped or transmitted, and title and risk of loss have transferred to the customers. Our typical agreements do not include customer acceptance provisions; however, if acceptance provisions are provided, delivery is deemed to occur upon acceptance. We consider the fee to be fixed or determinable unless the fee is subject to refund or adjustment or is not payable within our standard payment terms. Payment terms greater than 90 days are considered to be beyond our customary payment terms. Collection is deemed probable if we expect that the customer will be able to pay amounts under the arrangement as they become due. If we determine that collection is not probable, we defer revenue recognition until collection. Revenue is recognized net of sales returns and allowances.

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

Subscriptions

We provide hosting services to customers who have purchased perpetual rights to certain of our software products (“hosting services”). Revenue from hosting services, as well as data enrichment services, data management services and online training programs, is recognized ratably beginning on the activation date over the term of the agreement, which generally ranges from one to three years. Any related set-up fees are recognized ratably over the estimated period that the customer benefits from the related hosting service. The estimated period of benefit is evaluated on an annual basis using historical customer retention information by product or service.

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

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

We offer certain payment processing services with the assistance of third-party vendors. In general, when we are the principal in a transaction based on the predominant weighting of factors identified in ASC 605-45, we record the revenue and related costs on a gross basis. Otherwise, we net the cost of revenue associated with the service against the gross amount billed to the customer and record the net amount as revenue.

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

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

License fees
We sell perpetual software licenses with maintenance, varying levels of professional services and, in certain instances, with hosting services. We allocate revenue to each of the elements in these arrangements using the residual method under which we first allocate revenue to the undelivered elements, typically the non-software license components, based on VSOE of fair value of the various elements. We determine VSOE of fair value of the various elements using different methods. VSOE of fair value for maintenance services associated with software licenses is based upon renewal rates stated in the agreements with customers, which demonstrate a consistent relationship of maintenance pricing as a percentage of the contractual license fee. VSOE of fair value of professional services and other products and services is based on the average selling price of these same products and services to other customers when sold on a stand-alone basis. Any remaining revenue is allocated to the delivered elements, which is normally the software license in the arrangement. In general, revenue is recognized for software licenses upon delivery to our customers.
When a software license is sold with software customization services, generally the services are to provide the customer assistance in creating special reports and other enhancements that will improve operational efficiency and/or help to support business process improvements. These services are generally not essential to the functionality of the software and the related revenues are recognized either as the services are delivered or upon completion. However, when software customization services are considered essential to the functionality of the software, we recognize revenue for both the software license and the services using the percentage-of-completion method.
Services
We generally bill consulting, installation and implementation services based on hourly rates plus reimbursable travel-related expenses. Revenue is recognized for these services over the period the services are delivered.
We recognize analytic services revenue from donor prospect research engagements, the sale of lists of potential donors, benchmarking studies and data modeling service engagements upon delivery. In arrangements where we provide customers the right to updates to the lists during the contract period, revenue is recognized ratably over the contract period.
We sell training at a fixed rate for each specific class at a per attendee price or at a packaged price for several attendees, and recognize the related revenue upon the customer attending and completing training. Additionally, we sell fixed-rate programs, which permit customers to attend unlimited training over a specified contract period, typically one year, subject to certain restrictions, and revenue in those cases is recognized ratably over the contract period.
Maintenance
We recognize revenue from maintenance services ratably over the contract term, typically one year. Maintenance contracts are at rates that vary according to the level of the maintenance program associated with the software product and are generally renewable annually. Maintenance contracts may also include the right to unspecified product upgrades on an if-and-when available basis. Certain support services are sold in prepaid units of time and recognized as revenue upon their usage.
Deferred revenue
To the extent that our customers are billed for the above described services in advance of delivery, we record such amounts in deferred revenue.

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

Fair value measurements
We measure certain financial assets and liabilities at fair value on a recurring basis, including derivative instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. An active market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. We use a three-tier fair value hierarchy to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

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

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

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

We record all derivative instruments on our consolidated balance sheets at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized currently in earnings. If the derivative is designated as a cash flow hedge, the effective portions of the changes in fair value of the derivative are recorded in other comprehensive income and reclassified to earnings in a manner that matches the timing of the earnings impact of the hedged transactions. Ineffective portions of the changes in the fair value of cash flow hedges are recognized currently in earnings. See Note 12 of these consolidated financial statements for further discussion of our derivative instruments.

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

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

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

Cash and cash equivalents
We consider all highly liquid investments purchased with a maturity of three months or less and cash items in transit to be cash equivalents.

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

Donor restricted cash and donations payable
Restricted cash consists of donations collected by us and payable to our customers, net of the associated transaction fees earned. Monies associated with donations payable are segregated in a separate bank account and used exclusively for the payment of donations payable. This usage restriction is either legally or internally imposed and reflects our intention with regard to such deposits.
Concentration of credit risk
Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents, donor restricted cash and accounts receivable. Our cash and cash equivalents and donor restricted cash are placed with high credit-quality financial institutions. Our accounts receivable are derived from sales to customers who primarily operate in the nonprofit sector. With respect to accounts receivable, we perform ongoing evaluations of our customers and maintain an allowance for doubtful accounts based on historical experience and our expectations of future losses. As of and for the years ended December 31, 2014, 2013 and 2012, there were no significant concentrations with respect to our consolidated revenues or accounts receivable.
Property and equipment
We record property and equipment at cost and depreciate them over their estimated useful lives using the straight-line method. Property and equipment subject to capital leases are depreciated over the lesser of the term of the lease or the estimated useful life of the asset. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. Repair and maintenance costs are expensed as incurred.
Construction-in-progress represents purchases of computer software and hardware associated with new internal system implementation projects which had not been placed in service at the respective balance sheet dates. We transferred these assets to the applicable property category on the date they are placed in service. There was no capitalized interest applicable to construction-in-progress for the years ended December 31, 2014 and 2013.
Business combinations
We are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed at the acquisition date based upon their estimated fair values. Goodwill as of the acquisition date represents the excess of the purchase consideration of an acquired business over the fair value of the underlying net tangible and intangible assets acquired and liabilities assumed. This allocation and valuation require management to make significant estimates and assumptions, especially with respect to long-lived and intangible assets.
Critical estimates in valuing intangible assets include, but are not limited to, estimates about: future expected cash flows from customer contracts, proprietary technology and non-compete agreements; the acquired company's brand awareness and market position, assumptions about the period of time the brand will continue to be valuable; as well as expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed, and discount rates. Our estimates of fair value are based upon assumptions we believe to be reasonable, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur.

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

Goodwill
Goodwill represents the purchase price in excess of the net amount assigned to assets acquired and liabilities assumed by us in a business combination. Goodwill is allocated to reporting units and tested annually for impairment. Our reporting units are our four reportable segments as described in Note 18 of these consolidated financial statements. We will also test goodwill for impairment between annual impairment tests if indicators of potential impairment exist. We first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Significant judgment is required in the assessment of qualitative factors including but not limited to an evaluation of macroeconomic conditions as they relate to our business, industry and market trends, as well as the overall future financial performance of our reporting units and future opportunities in the markets in which they operate. To the extent the qualitative factors indicate that there is more than 50% likelihood that the fair value is less than the carrying amount, we compare the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, impairment is indicated and we will recognize an impairment loss in an amount equal to the difference. As a result of our 2014 qualitative assessments of goodwill assigned to each of our reporting units, we concluded it was not more likely than not that the fair value of each reporting unit was less than its carrying value, respectively. There was no impairment of goodwill during 2014, 2013 or 2012.
Intangible assets
We amortize finite-lived intangible assets over their estimated useful lives as follows.

	Basis of amortization	Amortization period (in years)
Customer relationships	Straight-line and accelerated [1]	4-15
Marketing assets	Straight-line	1-8
Acquired software and technology	Straight-line	1-10
Non-compete agreements	Straight-line	2-5
Database	Straight-line	8

(1) Certain of the customer relationships are amortized on an accelerated basis.
Indefinite-lived intangible assets consist of trade names. We evaluate the estimated useful lives and the potential for impairment of finite and indefinite-lived intangible assets on an annual basis, or more frequently if events or circumstances indicate revised estimates of useful lives may be appropriate or that the carrying amount may not be recoverable. If the carrying amount is no longer recoverable based upon the undiscounted cash flows of the asset, the amount of impairment is the difference between the carrying amount and the fair value of the asset. Substantially all of our intangible assets were acquired in business combinations. There was no impairment of acquired intangible assets during 2014, 2013 or 2012.
Cost method investments
Cost method investments consist of investments in privately held companies where we do not have the ability to exercise significant influence or have control over the investee. We record these investments at cost and periodically test them for other-than-temporary impairment. During the year ended December 31, 2012, we determined that our cost method investment had other-than-temporary impairment based on the projected liquidity of the investment. We used the income approach to determine the fair value of the investment in determining the impairment. An insignificant impairment loss was recorded in income from operations for the year ended December 31, 2012. There were no remaining cost method investments at December 31, 2014.
Deferred financing costs
Deferred financing costs included in other assets represent the direct costs of entering into our credit facility in February 2014 and portions of the unamortized deferred financing costs from prior facilities. These costs are amortized over the term of the credit facility as interest expense using the effective interest method.

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

Stock-based compensation

We measure stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense over the requisite service period, which is the vesting period. We determine the fair value of stock options and stock appreciation rights using a Black-Scholes option pricing model, which requires us to use significant judgment to make estimates regarding the life of the award, volatility of our stock price, the risk-free interest rate and the dividend yield of our stock over the life of the award. We determine the fair value of awards that contain market conditions using a Monte Carlo simulation model. Changes to these estimates would result in different fair values of awards.

We estimate the number of awards that will be forfeited and recognize expense only for those awards that we expect will ultimately vest. Significant judgment is required in determining the adjustment to compensation expense for estimated forfeitures. Compensation expense in a period could be impacted, favorably or unfavorably, by differences between estimated and actual forfeitures.

Income taxes

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

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

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

Foreign currency

Net assets recorded in a foreign currency are translated at the exchange rate on the balance sheet date. Revenue and expense items are translated at the average exchange rate for the year. The resulting translation adjustments are recorded in accumulated other comprehensive income.

Gains and losses resulting from foreign currency transactions denominated in currency other than the functional currency are recorded at the approximate rate of exchange at the transaction date in other expense, net. For each of the years ended December 31, 2014, 2013 and 2012, we recorded insignificant net foreign currency losses.

Research and development

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

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Software development costs
We incur certain costs associated with the development of internal-use software and software developed related to our cloud-based solutions, which are accounted for as internal-use software. The costs incurred in the preliminary stages of internal-use software development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized costs for internal-use software developed for our cloud-based solutions are recorded to other assets. Historically, we have also incurred and capitalized costs in connection with the development of certain of our software products licensed to customers on a perpetual basis, which are accounted for as costs of software to be sold, leased or otherwise marketed; however, costs capitalized related to those products were insignificant as of December 31, 2014 and as of December 31, 2013. Capitalized costs for internal-use software related to business processes are recorded as part of computer software costs within property and equipment and were $0.6 million as of December 31, 2014 and insignificant as of December 31, 2013.
Internal-use software is amortized on a straight line basis over its estimated useful life, which is generally three years. We evaluate the useful lives of these assets on an annual basis and test for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. During the year ended December 31, 2014, we recorded impairment charges of $1.6 million against certain previously capitalized software development costs. The charges reduced the carrying value of the certain previously capitalized software development costs to zero and are reflected in research and development expense. The impairment charges resulted from obtaining software products through the acquisition of WhippleHill and determining that it was no longer probable that certain computer software that was being developed would be placed into service. There were no impairments during the years ended December 31, 2013 or 2012.
At December 31, 2014 and 2013, capitalized software development costs, net of accumulated amortization, were $8.9 million and $4.2 million, respectively. Amortization expense related to software development costs was $1.9 million and $1.0 million for the years ended December 31, 2014 and 2013, respectively, and is included in both cost of license fees and cost of subscriptions. For the year ended December 31, 2012, amortization expense related to software development costs was insignificant.
Sales returns and allowance for doubtful accounts
We maintain a reserve for returns and credits which is estimated based on several factors including historical experience, known credits yet to be issued, the aging of customer accounts and the nature of service level commitments. A considerable amount of judgment is required in assessing these factors. Provisions for sales returns and credits are charged against the related revenue items.
Accounts receivable are recorded at original invoice amounts less an allowance for doubtful accounts, an amount we estimate to be sufficient to provide adequate protection against losses resulting from extending credit to our customers. In judging the adequacy of the allowance for doubtful accounts, we consider multiple factors including historical bad debt experience, the general economic environment, the need for specific customer reserves and the aging of our receivables. A considerable amount of judgment is required in assessing these factors and if any receivables were to deteriorate, an additional provision for doubtful accounts could be required. Accounts are written off after all means of collection are exhausted and recovery is considered remote. Provisions for doubtful accounts are recorded in general and administrative expense.
Below is a summary of the changes in our allowance for sales returns.

Years ended December 31, (in thousands)	Balance at beginning of year	Provision/adjustment	Write-off	Balance at end of year

2014	$5,158	$ 4,407	$(5,380	) $4,185
2013	7,730	4,132	(6,704	) 5,158
2012	3,652	8,914	(4,836	) 7,730

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

Years ended December 31, (in thousands)	Balance at beginning of year	Provision/adjustment	Write-off	Balance at end of year
2014	$455	$ 777	$(878)	$354
2013	816	775	(1,136)	455
2012	261	976	(421)	816

Sales commissions
We pay sales commissions at the time contracts with customers are signed or shortly thereafter, depending on the size and duration of the sales contract. To the extent that these commissions relate to revenue not yet recognized, the amounts are recorded as deferred sales commission costs. Subsequently, the commissions are recognized as expense as the revenue is recognized.
Below is a summary of the changes in our deferred sales commission costs included in prepaid expenses and other current assets.

Years ended December 31, (in thousands)	Balance at beginning of year	Additions	Expense	Balance at end of year
2014	$20,088	$24,615	$(22,073)	$22,630
2013	18,142	20,487	(18,541)	20,088
2012	16,452	19,693	(18,003)	18,142

Advertising costs
We expense advertising costs as incurred, which was $1.6 million, $1.1 million and $1.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.
Restructuring costs
Restructuring costs include charges for the costs of exit or disposal activities. The liability for costs associated with exit or disposal activities is measured initially at fair value and only recognized when the liability is incurred.

Impairment of long-lived assets
We review long-lived assets for impairment when events change or circumstances indicate the carrying amount may not be recoverable. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant decrease in the market value of the business or asset acquired, a significant adverse change in the extent or manner in which the business or asset acquired is used or significant adverse change in the business climate. If such events or changes in circumstances are present, the undiscounted cash flow method is used to determine whether the asset is impaired. No impairment of long-lived assets occurred in 2014 except for the impairment of previously capitalized software development costs discussed above. No impairment of long-lived assets occurred in 2013 or 2012.
Contingencies
We are subject to the possibility of various loss contingencies in the normal course of business. We record an accrual for a contingency when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Often these issues are subject to substantial uncertainties and, therefore, the probability of loss and the estimation of damages are difficult to ascertain. These assessments can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions that have been deemed reasonable by us. Although we believe we have substantial defenses in these matters, we could incur judgments or enter into settlements of claims that could have a material adverse effect on our consolidated financial position, results of operations or cash flows in any particular period.

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Earnings per share
We compute basic earnings per share by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. 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 outstanding during the period. Diluted earnings per share reflect the assumed exercise, settlement and vesting of all dilutive securities using the "treasury stock method" except when the effect is anti-dilutive. Potentially dilutive securities consist of shares issuable upon the exercise of stock options, settlement of stock appreciation rights and vesting of restricted stock awards and units.
Recently adopted accounting pronouncements
Effective January 1, 2014, we adopted Accounting Standards Update ("ASU") 2013-11, Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. Under ASU 2013-11, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward or a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The adoption of ASU 2013-11 did not have a material impact on our consolidated financial statements.
Recently issued accounting pronouncements
In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASU 2014-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early adoption is not permitted. An entity should apply ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized as an adjustment to the opening balance of retained earnings at the date of initial application. We expect the adoption of ASU 2014-09 will impact our consolidated financial statements. We are currently evaluating implementation methods and the extent of the impact that implementation of this standard will have upon adoption.
3. Business combinations
2014 Acquisitions
MicroEdge
On October 1, 2014, we completed our acquisition of all of the outstanding equity, including all voting equity interests of MicroEdge Holdings, LLC ("MicroEdge"). MicroEdge is a provider of high-performance solutions that enable the worldwide giving community to organize, simplify and measure their acts of charitable giving. The acquisition of MicroEdge expands our offerings in the philanthropic giving sector with MicroEdge's comprehensive technology solutions for grant-making, corporate social responsibility and foundation management. We acquired MicroEdge for an aggregate purchase price of $159.8 million in cash. As a result of the acquisition, MicroEdge has become a wholly-owned subsidiary of ours. The operating results of MicroEdge have been included in our consolidated financial statements from the date of acquisition within the Enterprise Customer Business Unit. From the date of acquisition through December 31, 2014, MicroEdge's total revenue was $5.8 million and and its loss from operations was insignificant. Acquisition-related costs of $2.1 million, which primarily consisted of legal and financial advisory services, were expensed as incurred in general and administrative expense during the year ended December 31, 2014. We financed the acquisition of MicroEdge through cash on hand and borrowings of $140 million under our existing

credit facility.

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The preliminary purchase price allocation is based upon a preliminary valuation of assets and liabilities and the estimates and assumptions are subject to change as we obtain additional information during the measurement period, which may be up to one year from the acquisition date. The assets and liabilities pending finalization include the valuation of acquired intangible assets, the assumed deferred revenue and the evaluation of deferred income taxes. Differences between the preliminary and final valuation could have a material impact on our future results of operations and financial position. The following table summarizes the allocation of the purchase price based on the estimated fair value of the assets acquired and the liabilities assumed:

(in thousands)	
Net working capital, excluding deferred revenue	$9,642
Property and equipment	1,371
Other long term assets	792
Deferred revenue	(11,670)
Deferred tax liability	(6,090)
Intangible assets and liabilities	90,200
Goodwill	75,541
	$159,786

The estimated fair value of accounts receivable acquired approximates the contractual value of $6.3 million. The estimated goodwill recognized is attributable primarily to the opportunities for expected synergies from combining operations and the assembled workforce of MicroEdge, all of which was assigned to our Enterprise Customer Business Unit reporting segment. Approximately $34.9 million of the goodwill arising in the acquisition is deductible for income tax purposes.

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

MicroEdge	Intangible assets acquired (in thousands)	Weighted average amortization period (in years)
Customer relationships	$61,200	13
Marketing assets	2,500	6
Marketing assets	1,600	Indefinite
Acquired technology	24,300	6
Non-compete agreements	600	3
Total intangible assets	$90,200	11

The fair value of the intangible assets was based on variations of the income approach, which estimates fair value based on the present value of cash flows that the assets are expected to generate which included the relief-from-royalty method, incremental cash flow method, excess earnings method and with and without method, depending on the intangibles asset being valued. Customer relationships are amortized on an accelerated basis. Marketing assets, acquired technology and non-compete agreements are amortized on a straight-line basis.

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The following unaudited pro forma condensed combined consolidated results of operations assume that the acquisition of MicroEdge occurred on January 1, 2013. This unaudited pro forma financial information does not reflect any adjustments for anticipated synergies resulting from the acquisition and should not be relied upon as being indicative of the historical results that would have been attained had the transaction been consummated as of January 1, 2013, or of the results that may occur in the future. The unaudited pro forma information reflects adjustments for amortization of intangibles related to the fair value adjustments of the assets acquired, write-down of acquired deferred revenue to fair value, additional interest expense related to the financing of the transaction and the related tax effects of the adjustments.

	Years ended December 31,	
(in thousands, except per share amounts)	2014	2013
Revenue	$592,930	$528,095
Net income	$26,944	$25,300
Basic earnings per share	$0.60	$0.57
Diluted earnings per share	$0.59	$0.56

WhippleHill

On June 16, 2014, we acquired all of the outstanding stock, including all voting equity interests of WhippleHill Communications, Inc. (“WhippleHill”), a privately held company based in New Hampshire, for $35.0 million in cash, subject to certain adjustments set forth in the stock purchase agreement. WhippleHill is a leading provider of cloud-based solutions designed exclusively to serve K12 private schools. The acquisition of WhippleHill expanded our offerings in the K12 technology sector. The operating results of WhippleHill have been included in our consolidated financial statements from the date of acquisition. From the date of acquisition through December 31, 2014, WhippleHill's total revenue was $4.5 million and its loss from operations was $1.7 million. Insignificant acquisition-related costs, which primarily consisted of legal and financial advisory services, were expensed as incurred in general and administrative expense during the year ended December 31, 2014.

We recorded $22.2 million of finite-lived intangible assets, $9.3 million of goodwill (all of which is deductible for income tax purposes) and $3.5 million of net tangible assets acquired and liabilities assumed associated with this acquisition based on our preliminary determination of estimated fair values. The estimated fair values of the finite-lived intangible assets were based on variations of the income approach which estimates fair value based upon the present value of cash flows that the assets are expected to generate and which included the relief-from-royalty method, incremental cash flow method and excess earnings method. Included in net tangible assets acquired and liabilities assumed was $4.6 million of acquired accounts receivable, for which fair value was estimated to approximate the contractual value. The assets and liabilities recorded for the acquisition of WhippleHill were based on preliminary valuations and the estimates and assumptions are subject to change as we obtain additional information during the measurement period, which may be up to one year from the acquisition date. The assets and liabilities pending finalization include the valuation of acquired intangible assets, the assumed deferred revenue and the evaluation of deferred income taxes. Differences between the preliminary and final valuation could have a material impact on our future results of operations and financial position. The estimated goodwill recognized is attributable primarily to the opportunities for expected synergies from combining operations and the assembled workforce of WhippleHill, all of which was assigned to our General Markets Business Unit reporting segment. During the three months ended December 31, 2014, we recorded insignificant measurement period adjustments to the estimated fair values of the assets acquired and liabilities assumed based on updated information.

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The WhippleHill acquisition resulted in the identification of the following identifiable finite-lived intangible assets:

WhippleHill	Intangible assets acquired (in thousands)	Weighted average amortization period (in years)
Customer relationships	$11,300	11
Acquired technology	8,500	6
Trade names	2,300	8
Non-compete agreements	100	3
Total intangible assets	$22,200	9

The fair value of the intangible assets was based on variations of the income approach, which estimates fair value based on the present value of cash flows that the assets are expected to generate which included the relief-from-royalty method, incremental cash flow method, excess earnings method and with and without method, depending on the intangibles asset being valued. Customer relationships are being amortized on an accelerated basis. Acquired technology, trade names and non-compete agreements are being amortized on a straight-line basis.

We determined that the WhippleHill acquisition was not a material business combination. As such, pro forma disclosures are not required and are not presented.

2012 Acquisition

Convio

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

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

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

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

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

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

Convio	Intangible assets acquired (in thousands)	Weighted average amortization period (in years)
Customer relationships	$53,000	15
Marketing assets	7,800	7
Acquired technology	69,000	8
In-process research and development	9,100	7
Non-compete agreements	1,440	2
Unfavorable leasehold interests	(690)	7
Total intangible assets	$139,650	10

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

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

(in thousands, except per share amounts)	Year ended December 31, 2012
Revenue	$476,887
Net income	$116
Basic earnings per share	$—
Diluted earnings per share	$—

4. Earnings per share

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

	Years ended December 31,		
(in thousands, except share and per share amounts)	2014	2013	2012
Numerator:			
Net income	$28,290	$30,472	$6,583
Denominator:			
Weighted average common shares	45,215,138	44,684,812	44,145,535
Add effect of dilutive securities:			
Employee stock-based compensation	584,736	736,328	546,310
Weighted average common shares assuming dilution	45,799,874	45,421,140	44,691,845
Earnings per share:			
Basic	$0.63	$0.68	$0.15
Diluted	$0.62	$0.67	$0.15

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

	Years ended December 31,		
	2014	2013	2012
Shares excluded from calculations of diluted EPS	23,159	116,438	434,050

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5. Fair value measurements

Recurring fair value measurements

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

	Fair value measurement using			
(in thousands)	Level 1	Level 2	Level 3	Total
Fair value as of December 31, 2014				
Financial liabilities:				
Derivative instruments[(1)]	$—	$268	$—	$268
Total financial liabilities	$—	$268	$—	$268
Fair value as of December 31, 2013				
Financial liabilities:				
Derivative instruments[(1)]	$—	$427	$—	$427
Total financial liabilities	$—	$427	$—	$427

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

We believe the carrying amounts of our cash and cash equivalents, donor restricted cash, accounts receivable, trade accounts payable, accrued expenses and other current liabilities and donations payable approximate their fair values at December 31, 2014 and 2013, due to the immediate or short-term maturity of these instruments.

We believe the carrying amount of our debt approximates its fair value at December 31, 2014 and 2013, as the debt bears interest rates that approximate market value. As LIBOR rates are observable at commonly quoted intervals, it is classified within Level 2 of the fair value hierarchy.

Non-recurring fair value measurements

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets and goodwill which are recognized at fair value during the period in which an acquisition is completed, from updated estimates and assumptions during the measurement period, or when they are considered to be impaired. These non-recurring fair value measurements, primarily for intangible assets acquired, were based on Level 3 unobservable inputs. In the event of an impairment, we determine the fair value of the goodwill and intangible assets using a discounted cash flow approach, which contains significant unobservable inputs and therefore is considered a Level 3 fair value measurement. The unobservable inputs in the analysis generally include future cash flow projections and a discount rate.

There were no non-recurring fair value adjustments recorded to intangible assets and goodwill during the years ended December 31, 2014 or 2013, except for certain business combination accounting adjustments to the initial fair value estimates of the assets acquired and liabilities assumed at the acquisition date from updated estimates and assumptions during the measurement period. The measurement period may be up to one year from the acquisition date. We record any measurement period adjustments to the fair value of assets acquired and liabilities assumed, with the corresponding offset to goodwill.

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6. Property and equipment

Property and equipment consisted of the following, as of:

(in thousands)	Estimated useful life (years)	December 31, 2014	2013
Equipment	3 - 5	$3,680	$3,710
Computer hardware	3 - 5	67,145	59,394
Computer software	3 - 5	24,126	19,989
Construction in progress	-	587	93
Furniture and fixtures	5 - 7	7,182	6,987
Leasehold improvements	Term of lease	14,528	11,375
Total property and equipment		117,248	101,548
Less: accumulated depreciation		(66,846)	(51,998)
Property and equipment, net of depreciation		$50,402	$49,550

Depreciation expense was $17.3 million, $17.5 million and $14.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Property and equipment, net of depreciation, under capital leases at December 31, 2014 and 2013 was not significant.

7. Goodwill and other intangible assets

The change in goodwill for each reportable segment (as defined in Note 18 of these consolidated financial statements) during the year ended December 31, 2014, consisted of the following:

(in thousands)	ECBU	GMBU	IBU	Target Analytics	Other(1)	Total
Balance at December 31, 2013	$147,828	$74,956	$6,542	$33,177	$2,096	$264,599
Additions related to business combinations	75,541	9,257	—	—	—	84,798
Adjustments related to prior year business combinations	—	—	140	—	—	140
Effect of foreign currency translation	—	—	(529)	—	—	(529)
Balance at December 31, 2014	$223,369	$84,213	$6,153	$33,177	$2,096	$349,008

(1) Other includes goodwill not assigned to one of our four reportable segments.

We have no accumulated impairment losses as of December 31, 2014 and 2013. Additions to goodwill for ECBU and GMBU during the year ended December 31, 2014, related to our acquisitions of MicroEdge and WhippleHill, respectively, as described in Note 3 of these consolidated financial statements. The addition to goodwill for IBU during the year ended December 31, 2014 was the result of measurement period adjustments to the estimated fair values of the assets acquired and liabilities assumed based on updated information for the entity we acquired during the year ended December 31, 2013.

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We have recorded intangible assets acquired in various business combinations based on their fair values at the date of acquisition. The table below sets forth the balances of each class of intangible asset and related amortization as of:

	December 31,	
(in thousands)	2014	2013
Finite-lived gross carrying amount		
Customer relationships	$174,239	$102,030
Marketing assets	15,158	10,384
Acquired software and technology	126,650	94,144
Non-compete agreements	1,158	2,128
Database	4,275	4,275
Total finite-lived gross carrying amount	321,480	212,961
Accumulated amortization		
Customer relationships	(43,671)	(33,442)
Marketing assets	(6,137)	(4,529)
Acquired software and technology	(40,801)	(27,671)
Non-compete agreements	(389)	(1,739)
Database	(3,867)	(3,332)
Total accumulated amortization	(94,865)	(70,713)
Indefinite-lived gross carrying amount		
Marketing assets	2,692	1,193
Total intangible assets, net	$229,307	$143,441

Changes to the gross carrying amounts of intangible asset classes during 2014 were related to our business acquisitions as described in Note 3 of these financial statements, the write-off of certain non-compete agreements that expired and the effect of foreign currency translation.

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

	Year ended December 31,		
(in thousands)	2014	2013	2012
Included in cost of revenue:			
Cost of license fees	$349	$421	$485
Cost of subscriptions	20,239	18,578	11,969
Cost of services	2,910	2,528	1,992
Cost of maintenance	772	457	722
Cost of other revenue	75	75	75
Total included in cost of revenue	24,345	22,059	15,243
Included in operating expenses	1,803	2,539	2,106
Total	$26,148	$24,598	$17,349

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The following table outlines the estimated future amortization expense for each of the next five years for our finite-lived intangible assets as of December 31, 2014:

Year ended December 31,	Amortization expense (in thousands)
2015	$32,828
2016	35,282
2017	32,760
2018	30,582
2019	27,430
Total	$158,882

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

(in thousands)	December 31, 2014	December 31, 2013
Deferred sales commissions	$22,630	$20,088
Prepaid software maintenance	9,480	6,875
Taxes, prepaid and receivable	8,991	1,112
Deferred professional services costs	5,753	7,445
Software development costs	8,914	4,172
Prepaid royalties	3,192	2,813
Other assets	8,116	6,861
Total prepaid expenses and other assets	67,076	49,366
Less: Long-term portion	26,684	19,251
Total prepaid expenses and other current assets	$40,392	$30,115

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

(in thousands)	December 31, 2014	December 31, 2013
Taxes payable	$4,285	$5,430
Accrued commissions and salaries	8,712	7,127
Accrued bonuses	19,480	9,258
Lease incentive obligations	4,099	2,636
Deferred rent liabilities	4,200	2,706
Customer credit balances	2,573	3,281
Accrued health care costs	2,707	2,459
Unrecognized tax benefit	3,791	3,698
Other liabilities	9,791	10,503
Total accrued expenses and other liabilities	59,638	47,098
Less: Long-term portion	7,437	6,655
Total accrued expenses and other current liabilities	$52,201	$40,443

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10. Deferred revenue

Deferred revenue consisted of the following as of:

(in thousands)	December 31, 2014	December 31, 2013
Maintenance	$92,823	$85,219
Subscriptions	98,225	72,480
Services	29,457	32,153
License fees and other	769	722
Total deferred revenue	221,274	190,574
Less: Deferred revenue, net of current portion	8,991	9,099
Deferred revenue, current portion	$212,283	$181,475

11. Debt

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

	Debt balance at		Weighted average effective interest rate at	
(in thousands, except percentages)	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Credit facility:				
Revolving credit loans	$110,700	$70,408	1.56 %	1.95 %
Term loans	171,719	82,500	2.03 %	2.39 %
Total debt	282,419	152,908	1.85 %	2.14 %
Less: Unamortized debt discount	1,848	—		
Less: Debt, current portion	4,375	17,158	1.39 %	2.39 %
Debt, net of current portion	$276,196	$135,750	1.85 %	2.11 %

We were previously party to a $325.0 million five-year credit facility entered into during February 2012. The credit facility included: a dollar and a designated currency revolving credit facility with sublimits for letters of credit and swingline loans (the “2012 Revolving Facility”) and a delayed draw term loan (the “2012 Term Loan”) together, (the “2012 Credit Facility”).

2014 Refinancing

In February 2014, we entered into a five-year $325.0 million credit facility (the “2014 Credit Facility”) and drew $175.0 million on a term loan upon closing, which was used to repay all amounts outstanding under the 2012 Credit Facility. The 2014 Credit Facility includes the following facilities: (i) a dollar and a designated currency revolving credit facility with sublimits for letters of credit and swingline loans (the “2014 Revolving Facility”) and (ii) a term loan facility (the “2014 Term Loan”).

Certain participants of the 2012 Term Loan participated in the 2014 Term Loan and the change in the present value of our future cash flows to these participants under the 2012 Term Loan and under the 2014 Term Loan was less than 10%. Accordingly, we accounted for the refinancing event for these participants as a debt modification. Certain participants of the 2012 Term Loan did not participate in the 2014 Term Loan. Accordingly, we accounted for the refinancing event for these participants as a debt extinguishment. Certain participants of the 2012 Revolving Facility participated in the 2014 Revolving Facility and provided increased borrowing capacities. Accordingly, we accounted for the refinancing event for these participants as a debt modification. Certain participants of the 2012 Revolving Facility did not participate in the 2014 Revolving Facility. Accordingly, we accounted for the refinancing event for these participants as a debt extinguishment.

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We recorded a $0.4 million loss on debt extinguishment related to the write-off of deferred financing costs for the portions of the 2012 Credit Facility considered to be extinguished. This loss was recognized in the consolidated statements of comprehensive income within loss on debt extinguishment and termination of derivative instruments.
In connection with our entry into the 2014 Credit Facility, we paid $2.5 million in financing costs, of which $1.1 million were capitalized and, together with a portion of the unamortized deferred financing costs from the 2012 Credit Facility and prior facilities, are being amortized into interest expense over the term of the new facility using the effective interest method. As of December 31, 2014 and 2013, deferred financing costs totaling $1.7 million and $1.9 million, respectively, were included in other assets on the consolidated balance sheet.
Summary of the 2014 Credit Facility
The 2014 Credit Facility is secured by the stock and limited liability company interests of certain of our subsidiaries and is guaranteed by our material domestic subsidiaries.
Amounts borrowed under the dollar tranche revolving credit loans and term loan under the 2014 Credit Facility bear interest at a rate per annum equal to, at our option, (a) a base rate equal to the highest of (i) the prime rate, (ii) federal funds rate plus 0.50% and (iii) one month LIBOR plus 1.00% (the "Base Rate"), in addition to a margin of 0.00% to 0.50%, or (b) LIBOR rate plus a margin of 1.00% to 1.50%. Swingline loans bear interest at a rate per annum equal to the Base Rate plus a margin of 0.00% to 0.50% or such other rate agreed to between the Swingline lender and us. Designated currency tranche revolving credit loans bear interest at a rate per annum equal to the LIBOR rate for the applicable currency plus a margin of 1.00% to 1.50%. The exact amount of any margin depends on the nature of the loan (Base Rate or LIBOR) and our net leverage ratio (as defined in the 2014 Credit Facility).
We also pay a quarterly commitment fee on the unused portion of the revolving credit facility from 0.15% to 0.225% per annum, depending on our leverage ratio. At December 31, 2014, the commitment fee was 0.175%.
The term loan under the 2014 Credit Facility requires periodic principal payments. The balance of the term loan and any amounts drawn on the revolving credit loans are due upon maturity of the 2014 Credit Facility in February 2019. We evaluate the classification of our debt as current or non-current based on the required annual maturities of the 2014 Credit Facility.
The 2014 Credit Facility includes financial covenants related to the net leverage ratio and interest coverage ratio, as well as restrictions on our ability to declare and pay dividends and our ability to repurchase shares of our common stock. At December 31, 2014, we were in compliance with our debt covenants under the 2014 Credit Facility.
Financing for MicroEdge Acquisition
The 2014 Credit Facility included a right to increase the revolving commitments and/or request additional term loans in a principal amount of up to $200 million. On October 1, 2014, we exercised our right, and certain lenders agreed, to increase the revolving credit commitments by $100 million such that currently and for the period commencing October 1, 2014, the aggregate revolving credit commitments are $250 million. The additional revolving credit commitments have the same terms as the existing revolving credit commitments.
On October 1, 2014, we drew down $140 million in revolving credit commitments under the 2014 Credit Facility to finance the acquisition of MicroEdge.
As of December 31, 2014, the required annual maturities related to the 2014 Credit Facility were as follows:

Year ending December 31, (in thousands)	Annual maturities
2015	$4,375
2016	4,375
2017	4,375
2018	4,375
2019	$264,919
Thereafter	$—

Total required maturities	$282,419

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12. Derivative instruments

We use derivative instruments to manage interest rate risk. In February 2014, in connection with the refinancing of our debt, we terminated the two interest rate swap agreements associated with the 2012 Credit Facility. As part of the settlement of our swap liabilities, we recorded a loss of $0.6 million, which was recognized in the consolidated statements of comprehensive income within loss on debt extinguishment and termination of derivative instruments. This loss resulted in the recognition of an insignificant tax benefit.

In March 2014, we entered into an interest rate swap agreement (the "March 2014 Swap Agreement"), which effectively converts portions of our variable rate debt under the 2014 Credit Facility to a fixed rate for the term of the swap agreement. The initial notional value of the March 2014 Swap Agreement was $125.0 million with an effective date beginning in March 2014. In March 2017, the notional value of the March 2014 Swap Agreement will decrease to $75.0 million for the remaining term through February 2018. We designated the March 2014 Swap Agreement as a cash flow hedge at the inception of the contract.

In October 2014, we entered into an additional interest rate swap agreement (the "October 2014 Swap Agreement"), which effectively converts portions of our variable rate debt under the 2014 Credit Facility to a fixed rate for the term of the swap agreement. The initial notional value of the October 2014 Swap Agreement was $75.0 million with an effective date beginning in October 2014. In September 2015, the notional value of the October 2014 Swap Agreement will decrease to $50.0 million for the remaining term through June 2016. We designated the October 2014 Swap Agreement as a cash flow hedge at the inception of the contract.

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