BLACKBAUD INC
Form 10-K
February 26, 2014

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

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

For the Fiscal Year ended December 31, 2013

or

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

For the transition period from _____ to _____.

Commission file number: 000-50600

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

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

2000 Daniel Island Drive
Charleston, South Carolina 29492
(Address of principal executive offices, including zip code)
(843) 216-6200
(Registrant's telephone number, including area code)
Securities Registered Pursuant to Section 12(b) of the Act:

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

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

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

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

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

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

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

Form 10-K. [ ]

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 28, 2013 (based on the closing sale price of $32.57 on that date) was approximately $1,086,346,945. Common stock held by each officer and director and by each person known to the registrant who owned 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant's Common Stock outstanding as of February 12, 2014 was 46,119,969.

DOCUMENTS INCORPORATED BY REFERENCE

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

BLACKBAUD, INC.
ANNUAL REPORT ON FORM 10-K
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

PART I

Item 1. Business

Overview

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

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

Our customers use our products and services to help increase donations, reduce fundraising costs, improve communications with constituents, manage their finances and optimize operations. We have focused solely on the nonprofit market since our incorporation in 1982. At the end of 2013, we had more than 29,000 customers spread over 69 countries. Our customers come from nearly every segment of the nonprofit sector, including education, foundations, health and human services, faith-based, arts and cultural, public and societal benefits, environment and animal welfare, as well as international and foreign affairs.

Nonprofit Industry

The nonprofit industry is large and diverse

There were more than 1.6 million U.S. nonprofit organizations registered with the Internal Revenue Service in 2012, including nearly 1.1 million charitable 501(c)(3) organizations - double the number of charities in 1992. We estimate there are approximately another 3 million charities internationally. According to Giving USA 2013, donations to U.S. nonprofit organizations in 2012 were $316.2 billion, amounting to 2.0% of U.S. GDP, a 3.5% increase from 2011 donations of $305.5 billion. The compound annual growth rate of donations over the 10-year period from 2002 to 2012 was 3.1%, not adjusted for inflation. These nonprofit organizations also receive fees for services they provide, which are estimated at more than $1.0 trillion annually.

Traditional methods of fundraising are often costly and inefficient

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

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

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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 specifically designed to serve their particular needs.

Blackbaud Solutions

We offer a broad suite of products and services that address the fundraising needs and operational challenges facing nonprofit organizations. We provide our customers with cloud-based and on-premise software and related services that help them increase donations, reduce the overall costs of managing their businesses and build a strong sense of community while effectively managing communications with their constituents. We also offer a suite of analytical tools and related services that enable nonprofit organizations to extract, aggregate and analyze vast quantities of data to make better-informed operational decisions. In addition, we help our customers increase the returns on their technology investments by providing a broad range of consulting, training and professional services, maintenance and technical support as well as payment processing services.

Our Strategy

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

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

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

Grow our worldwide customer base

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

We believe the United Kingdom, Canada, Australia and the Netherlands, as well as other international markets, represent growing market opportunities for our products and services. We believe the overall market of international nonprofit organizations is changing. Donations to international nonprofit organizations are becoming increasingly important in response to reductions in governmental funding. U.S.-based nonprofit organizations are growing their international activities and opening overseas locations. We believe the international marketplace is currently underserved, and we intend to increase our presence by expanding our sales and marketing efforts internationally. We plan to sell complementary products and services to our installed base of customers, and we plan to offer new products tailored to international markets, including leveraging our market leading domestic analytics solutions to develop offerings tailored specifically to meet the needs of foreign and multi-national nonprofits.

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Revolutionize the customer experience

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

Strategically pursue partnerships and acquisitions

We intend to continue to selectively pursue acquisitions, to expand existing partnerships and to develop new strategic partnerships to enter new markets and pursue significant untapped opportunities. We intend to develop these alliances with companies that provide us with complementary technology, customers and personnel with significant relevant experience, as well as to increase our access to additional geographic and vertical markets. We have completed significant acquisitions over the past five years both in the United States and internationally, including the acquisition of Convio, Inc. (Convio) in May 2012. The acquisition of Convio provided us with expanded subscription and online offerings and has accelerated our evolution to a subscription-based revenue model.

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

Our Operating Structure

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

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

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

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

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

- Target Analytics is primarily focused on marketing, sales and delivery of analytic services to all prospects and customers in North America.

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

Products and Services

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

Our broad suite of software, services and analytical tools help nonprofit organizations manage the key aspects of their operations. By automating business processes, our products streamline operations for our customers and help to reduce the

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overall costs of operating their organizations. We provide solutions that address many of the technological and business process needs of our customers, including:

Constituent relationship management;

Financial management and reporting;

Cost accounting information for projects and grants;

Integration of financial data and donor information in a centralized system;

Online fundraising;

Peer-to-peer fundraising;

Event, data and information management;

Student information systems for independent schools and small colleges;

Ticketing management;

General admissions management;

Analytics and prospect research;

Consulting and educational services; and

Payment processing and related regulation compliance.

Software products

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

Fundraising and Constituent Relationship Management

The Raiser's Edge

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

Blackbaud CRM

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

Luminate CRM

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

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eTapestry

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

Online Solutions

Luminate Online

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

Blackbaud NetCommunity

Blackbaud NetCommunity is an Internet marketing and communications tool that enables organizations that utilize the Raiser's Edge software to build interactive websites and manage email marketing campaigns. With Blackbaud NetCommunity, organizations can, among other things, establish online communities for social networking among constituents and also provide a platform for online giving, membership purchases and event registration. Because Blackbaud NetCommunity requires the Raiser's Edge database to operate, it can only be sold with Raiser's Edge or to existing Raiser's Edge customers. However, Blackbaud NetCommunity, in concert with The Raiser's Edge, provides a single source of up-to-date constituent information across an entire organization, regardless of how individual constituents interact and communicate with the organization.

Sphere eMarketing

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

Everyday Hero

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

Online Express

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

Financial Management

The Financial Edge

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

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School Management

The Education Edge

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

Blackbaud's Student Information System

Blackbaud's Student Information System is a complete software solution designed for small colleges and other institutions of higher education with a full-time enrollment of less than 5,000. The solution links student information across all campus offices and includes functionality designed specifically to organize the admissions and registrar's processes. Blackbaud's Student Information System helps significantly reduce time spent on data maintenance and creation of class schedules and allows institutions to communicate efficiently with prospects, students and alumni.

Ticketing

The Patron Edge

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

General Admissions Management

Altru

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

Events Management

TeamRaiser

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

Sphere Friends Asking Friends

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

Consulting and education services

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

- System implementation, including all aspects of installation and configuration, to ensure a smooth transition from the customer's legacy system and to create a more streamlined business workflow;
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Management of the data conversion process to ensure data is a reliable and powerful source of information for an organization;

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- Business process analysis and application customization to ensure that the organization's system is properly aligned with an organization's processes and objectives;
- Removal of duplicate records, database merging and enrichment, information cleansing and consolidation, and secure credit card transaction processing;
- Database production activities, including direct marketing, business intelligence, cultivation and stewardship processes; and
- Website design services, Internet strategy consulting and specialized services, such as email marketing and search engine optimization.

In addition, we apply our industry knowledge and experience, combined with expert knowledge of our products, to evaluate an organization's needs and consult on how to improve a business process. This work is performed by consultants who have extensive and relevant domain experience in all aspects of nonprofit management, accounting, project management and IT services. We believe that no other software company provides this broad a range of consulting and technology services and solutions dedicated to the nonprofit industry.

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

Analytics services

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

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

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

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

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

Maintenance

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

call support priority and dedicated support resources.

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Payment processing

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

Customers

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

Sales and Marketing

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

We generally begin a customer relationship with the sale of one of our primary products or services, such as The Raiser's Edge, Blackbaud CRM or Luminate, and then offer additional products and services to the customer as the organization's needs increase.

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

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

Corporate Philanthropy and Volunteerism

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

Competition

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

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

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

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

We also compete with providers of traditional, less automated fundraising services, including parties providing services in support of traditional direct mail campaigns, special events fundraising, peer to peer, telemarketing and personal solicitations. Although there are numerous general software developers marketing products that have some application in the nonprofit market, these competitors have generally neglected to focus specifically on this market and typically lack the domain expertise to cost effectively build or implement integrated solutions for the market's needs. We believe we compete successfully against these traditional fundraising services, primarily because our products and services are more automated, more robust, more tailored to the needs of nonprofits and more efficient.

Research and Development

We have made substantial investments in research and development and expect to continue to do so as a part of our strategy to introduce additional products and services. As of December 31, 2013, we had 464 employees working on research and development. Our research and development expenses for 2013, 2012 and 2011 were $65.6 million, $64.7 million and $47.7 million, respectively.

Technology and Architecture

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

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

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

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

- Flexible. Our component-based architecture is programmable and easily customized by our customers without requiring modification of the source code, ensuring that the technology can be extended to accommodate changing demands of our clients and the market.
- Adaptable. The architecture of our applications allows us to easily add features and functionality or to integrate with third-party applications in order to adapt to our customers' needs or market deman