Form 10-Q

BLACKBOARD INC - BBBB

Filed: May 04, 2007 (period: March 31, 2007)

Quarterly report which provides a continuing view of a company's financial position

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

FORM 10-Q

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

For the quarterly period ended March 31, 2007

OR

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

Commission file number 000-50784

Blackboard Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**52-2081178**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1899 L Street, N.W. **Washington D.C.**	**20036**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: **(202) 463-4860**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

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

Class	Outstanding at April 30, 2007
Common Stock, $0.01 par value	28,565,938

Blackboard Inc.
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Throughout this Quarterly Report on Form 10-Q, the terms "we," "us," "our" and "Blackboard" refer to Blackboard Inc. and its subsidiaries.

PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

BLACKBOARD INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2006	March 31, 2007 (unaudited)
Current assets:		
Cash and cash equivalents	$ 30,776	$ 25,881
Accounts receivable, net of allowance for doubtful accounts of $767 and $810 at December 31, 2006 and March 31, 2007, respectively	52,394	40,642
Inventories	2,377	2,060
Prepaid expenses and other current assets	3,514	3,599
Deferred tax asset, current portion	7,326	8,480
Deferred cost of revenues, current portion	7,983	7,018
Total current assets	104,370	87,680
Deferred tax asset, noncurrent portion	25,431	20,027
Deferred cost of revenues, noncurrent portion	4,253	3,984
Restricted cash	1,999	2,337
Property and equipment, net	12,761	12,691
Goodwill	101,644	105,730
Intangible assets, net	56,841	54,029
Total assets	$ 307,299	$ 286,478
Current liabilities:		
Accounts payable	$ 2,238	$ 4,068
Accrued expenses	20,519	15,266
Term loan, current portion	246	196
Deferred rent, current portion	371	295
Deferred revenues, current portion	117,972	96,070
Total current liabilities	141,346	115,895
Term loan, noncurrent portion, net of debt discount of $777 and $566 at December 31, 2006 and March 31, 2007, respectively	23,377	18,638
Deferred rent, noncurrent portion	157	127
Deferred revenues, noncurrent portion	2,298	3,412
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized, and no shares issued or outstanding at December 31, 2006 and March 31, 2007	—	—
Common stock, $0.01 par value; 200,000,000 shares authorized; 28,248,214 and 28,491,775 shares issued and outstanding at December 31, 2006 and March 31, 2007, respectively	282	285
Additional paid-in capital	231,331	238,242
Accumulated deficit	(91,492)	(90,121)
Total stockholders' equity	140,121	148,406
Total liabilities and stockholders' equity	$ 307,299	$ 286,478

See notes to unaudited consolidated financial statements.

BLACKBOARD INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2007
Revenues:		
Product	$ 33,174	$ 49,981
Professional services	4,534	5,299
Total revenues	37,708	55,280
Operating expenses:		
Cost of product revenues, excludes $933 and $2,825 in amortization of acquired technology included in amortization of intangibles resulting from acquisitions shown below for the three months ended March 31, 2006 and 2007, respectively (1)	7,966	11,697
Cost of professional services revenues (1)	3,391	3,764
Research and development (1)	4,884	6,953
Sales and marketing (1)	12,149	14,546
General and administrative (1)	7,600	9,317
Amortization of intangibles resulting from acquisitions	1,837	5,399
Total operating expenses	37,827	51,676
(Loss) Income from operations	(119)	3,604
Other income (expense), net:		
Interest expense	(578)	(758)
Interest income	1,241	405
Other (expense) income	(326)	73
Income before provision for income taxes	218	3,324
Provision for income taxes	(70)	(1,380)
Net income	$ 148	$ 1,944
Net income per common share:		
Basic	$ 0.01	$ 0.07
Diluted	$ 0.01	$ 0.07
Weighted average number of common shares:		
Basic	27,577,200	28,351,872
Diluted	28,757,423	29,428,043
(1) Includes the following amounts related to stock-based compensation:		
Cost of product revenues	$ 35	$ 129
Cost of professional services revenues	118	116
Research and development	122	117
Sales and marketing	407	491
General and administrative	817	1,359

See notes to unaudited consolidated financial statements.

BLACKBOARD INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2007
	(in thousands)	
Cash flows from operating activities		
Net income	$ 148	$ 1,944
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Deferred tax (benefit) provision	(203)	883
Excess tax benefits from stock-based compensation	—	(1,568)
Amortization of debt discount	34	211
Depreciation and amortization	1,902	2,512
Amortization of intangibles resulting from acquisitions	1,837	5,399
Change in allowance for doubtful accounts	(9)	43
Noncash stock-based compensation	1,499	2,212
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	4,231	11,709
Inventories	(541)	317
Prepaid expenses and other current assets	426	(85)
Deferred cost of revenues	734	1,234
Accounts payable	335	1,830
Accrued expenses	(9,061)	(4,856)
Deferred rent	124	(106)
Deferred revenues	(11,479)	(20,788)
Net cash (used in) provided by operating activities	(10,023)	891
Cash flows from investing activities		
Acquisition of WebCT, Inc., net of cash acquired	(154,628)	—
Purchase of property and equipment	(1,569)	(2,417)
Payments for patent enforcement costs	—	(1,233)
Purchase of intangible assets	—	(1,500)
Sale of held-to-maturity investments	23,546	—
Sale of available-for-sale investments	39,056	—
Net cash used in investing activities	(93,595)	(5,150)
Cash flows from financing activities		
Proceeds from revolving credit facility	10,000	—
Payments on revolving credit facility	(10,000)	—
Proceeds from term loan	57,522	—
Payments on term loan	(150)	(5,000)
Payments on letters of credit	—	(338)
Excess tax benefits from stock-based compensation	—	1,568
Proceeds from exercise of stock options	2,897	3,134
Net cash provided by (used in) financing activities	60,269	(636)
Net decrease in cash and cash equivalents	(43,349)	(4,895)
Cash and cash equivalents at beginning of period	75,895	30,776
Cash and cash equivalents at end of period	$ 32,546	$ 25,881

See notes to unaudited consolidated financial statements.

BLACKBOARD INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2006 and 2007

In these Notes to Unaudited Consolidated Financial Statements, the terms "the Company" and "Blackboard" refer to Blackboard Inc. and its subsidiaries .

1. Nature of Business

Blackboard Inc. or the Company is a leading provider of enterprise software applications and related services to the education industry. The Company's suites of products include the following products: *Blackboard Learning System(TM), Blackboard Community System(TM), Blackboard Content System(TM), Blackboard Outcomes System(TM), Blackboard Portfolio System(TM,) Blackboard Transaction System(TM) and Blackboard One(TM).*

The Company began operations in 1997 as a limited liability company in Delaware. In 1998, the Company was incorporated in Delaware, merged with the limited liability corporation and is now a C corporation for tax purposes.

On February 28, 2006, the Company completed its merger with WebCT, Inc. or WebCT pursuant to the Agreement and Plan of Merger dated as of October 12, 2005.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the full fiscal year. The consolidated balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2005 and 2006 and for each of the three years in the period ended December 31, 2006 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 23, 2007.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of all significant intercompany balances and transactions. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

Foreign Currency Translation

The functional currency of the Company's foreign subsidiaries is the U.S. dollar. The Company remeasures the monetary assets and liabilities of its foreign subsidiaries, which are maintained in the local currency ledgers, at the rates of exchange in effect at month end. Revenues and expenses recorded in the local currency during the period are translated using average exchange rates for each month. Non-monetary assets and liabilities are translated using historical rates. Resulting adjustments from the remeasurement process are included in other income (expense) in the accompanying consolidated statements of operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain amounts in the prior periods' consolidated financial statements have been reclassified to conform to the current period presentation.

Fair Value of Financial Instruments

SFAS No. 107, *"Disclosures about Fair Value of Financial Instruments,"* requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Due to their short-term nature, the carrying amounts reported in the consolidated financial statements approximate the fair value for cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses. The fair value of the Company's long-term debt is based upon quoted market prices for the same and similar issuances giving consideration to quality, interest rates, maturity and other characteristics. As of March 31, 2007, the Company believes the carrying amount of its long-term debt approximates its fair value since the variable interest rate of the debt approximates a market rate.

Deferred Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting bases and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax net operating loss carryforwards. These deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when such amounts are expected to reverse or be utilized. The realization of total deferred tax assets is contingent upon the generation of future taxable income. Valuation allowances are provided to reduce such deferred tax assets to amounts more likely than not to be ultimately realized.

Income tax provision includes U.S. federal, state and local income taxes and is based on pre-tax income or loss. The interim period provision or benefit for income taxes is based upon the Company's estimate of its annual effective income tax rate. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of the Company's annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes and the ability of the Company to use tax credits and net operating loss carryforwards.

The Company adopted the provisions of FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* " (FIN 48), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, " *Accounting for Income Taxes* ". It prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not recognition threshold should be measured as the largest amount of the tax benefits, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement in the financial statements. As a result of the implementation of FIN 48, the Company recognized an increase of $0.5 million in the unrecognized tax benefit liability, which was accounted for as an increase to the January 1, 2007 accumulated deficit balance. At March 31, 2007, the Company's unrecognized tax benefit liability totaled $0.6 million, all of which would affect the Company's effective tax rate if recognized. Also, upon adoption of FIN 48, the Company reclassified $1.0 million of previously accrued tax contingencies which were included in accrued expenses and recorded an offsetting valuation allowance against certain deferred tax assets that were recorded on the consolidated balance sheets at December 31, 2006. The Company did not record any interest or penalties related to its adoption of FIN 48. The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense.

Cost of Product Revenues

Cost of product revenues excludes amortization of acquired technology intangibles resulting from acquisitions, which is included as amortization of intangibles resulting from acquisitions. Amortization expense related to acquired technology for the three months ended March 31, 2006 and 2007 was $0.9 million and $2.8 million, respectively.

Basic and Diluted Net Income per Common Share

Basic net income per common share excludes dilution for potential common stock issuances and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The following schedule presents the calculation of basic and diluted net income per common share:

	Three Months Ended March 31,	
	2006	2007
	(unaudited) (in thousands, except share and per share data)	
Net income	$ 148	$ 1,944
Weighted average shares outstanding, basic	27,577,200	28,351,872
Dilutive effect of:		
Stock options related to the purchase of common stock	1,180,223	1,076,171
Weighted average shares outstanding, diluted	28,757,423	29,428,043
Basic net income per common share	$ 0.01	$ 0.07
Diluted net income per common share	$ 0.01	$ 0.07

Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for its stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, " *Accounting for Stock Issued to Employees* " (APB No. 25), and related interpretations, as permitted by SFAS No. 123, " *Accounting for Stock-Based Compensation* " (SFAS 123). Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2005), " *Share-Based Payment* " (SFAS 123R), using the modified prospective transition method. Under the modified prospective transition method, compensation cost recognized includes: (a) compensation cost for all equity-based payments granted prior to but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and (b) compensation cost for all equity-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated.

Comprehensive Net Income

Comprehensive net income includes net income, combined with unrealized gains and losses not included in earnings and reflected as a separate component of stockholders' equity. There were no material differences between net income and comprehensive net income for the three months ended March 31, 2006 and 2007.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*" (SFAS 157). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities* " (SFAS 159), to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS 157. An entity is prohibited from retrospectively applying SFAS 159, unless it chooses early adoption. The Company is currently evaluating the impact of the provisions of SFAS 159 on its consolidated financial statements.

3. WebCT, Inc. Merger

On February 28, 2006, the Company completed its merger with WebCT pursuant to the Agreement and Plan of Merger dated as of October 12, 2005. Pursuant to the Agreement and Plan of Merger, the Company acquired all the outstanding common stock of WebCT in a cash transaction for approximately $178.3 million. The effective cash purchase price of WebCT before transaction costs was approximately $150.4 million, net of WebCT's February 28, 2006 cash balance of approximately $27.9 million. The Company has included the financial results of WebCT in its consolidated financial statements beginning February 28, 2006.

The merger was accounted for under the purchase method of accounting in accordance with SFAS No. 141, *"Business Combinations"* (SFAS 141). Assets acquired and liabilities assumed were recorded at their fair values as of February 28, 2006. The total purchase price was $187.5 million, including the acquisition-related transaction costs of approximately $9.2 million. Acquisition-related transaction costs include investment banking, legal and accounting fees, and other external costs directly related to the merger.

Of the total purchase price, $18.7 million has been allocated to net tangible assets and $73.3 million has been allocated to definite-lived intangible assets acquired. Definite-lived intangible assets of $73.3 million consist of the value assigned to WebCT's customer relationships of $39.6 million and developed and core technology of $33.7 million. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net tangible and intangible assets acquired. The Company allocated $95.5 million to goodwill which is not deductible for tax purposes.

During the quarter ended March 31, 2007, the Company determined that approximately $3.9 million of deferred tax assets related to WebCT net operating losses may be subject to limitations under Section 382 of the Internal Revenue Code. Accordingly, the Company recorded a valuation allowance of $3.9 million against these deferred tax assets and increased goodwill by $3.9 million. The net deferred tax liability acquired as a result of the WebCT merger was $2.5 million after this adjustment.

4. Stock-Based Compensation

As a result of adopting SFAS 123R on January 1, 2006, the Company's income before provision for income taxes for the three months ended March 31, 2007 was approximately $1.3 million more than if the Company had continued to account for stock-based compensation under APB No. 25. Basic and diluted net income per common share for the three months ended March 31, 2007 were each approximately $0.05 more than if the Company had not adopted SFAS 123R.

The Company has utilized the Black-Scholes valuation model to estimate the fair value of the stock options granted during the three months ended March 31, 2006 and 2007, as well as for option grants during all prior periods. As follows are the weighted-average assumptions used in valuing the stock options granted during the three months ended March 31, 2006 and 2007, and a discussion of the Company's method.

	Three Months Ended March 31,	
	2006	2007
Dividend yield	0%	0%
Expected volatility	41.3%	44.0%
Risk-free interest rate	4.2%	4.7%
Expected life of options	5.0 years	5.1 years
Forfeiture rate	10%	15%

Dividend yield — The Company has never declared or paid dividends on its common stock and does not anticipate paying dividends in the foreseeable future.

Expected volatility — Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. Given the Company's limited historical stock data following its initial public offering in June 2004, the Company has used a blended volatility to best estimate expected volatility. The blended volatility includes the average of the Company's preceding one-year weekly historical volatility and the Company's peer group preceding four-year weekly historical volatility. The Company's peer group historical volatility includes the historical volatility of companies that are similar in revenue size, in the same industry or are competitors.

Risk-free interest rate — This is the average U.S. Treasury rate (having a term that most closely approximates the expected life of the option) for the period in which the option was granted.

Expected life of the options — This is the period of time that the options granted are expected to remain outstanding. The Company uses the short-cut method to calculate the expected life of the options as prescribed under the provisions of Staff Accounting Bulletin No. 107 " *Share-Based Payment* ." Options granted during the three months ended March 31, 2007 have a maximum term of eight years.

Forfeiture rate — This is the estimated percentage of options granted that are expected to be forfeited or cancelled on an annual basis before becoming fully vested. The Company estimates the forfeiture rate based on past turnover data and revises the rate if subsequent information, such as the passage of time, indicates that the actual number of instruments that will vest is likely to differ from previous estimates. The cumulative effect on current and prior periods of a change in the estimated number of instruments likely to vest is recognized in compensation cost in the period of the change.

The compensation cost that has been recognized in the Consolidated Statements of Operations for the Company's stock option plans for the three months ended March 31, 2007 was approximately $2.2 million. The total income tax benefit recognized in the consolidated statements of operations for share-based compensation arrangements was approximately $1.6 million for the three months ended March 31, 2007. For stock subject to graded vesting, the Company has utilized the "straight-line" method for allocating compensation cost by period.

As of March 31, 2007, approximately 1.6 million shares of common stock were available for future grants under the Company's 2004 Stock Incentive Plan (the 2004 Plan) and no options were available for future grants under the Company's Amended and Restated Stock Incentive Plan adopted in 1998. Stock options granted under the 2004 Plan generally vest over a three-year to four-year period and have an eight-year expiration period. The Board of Directors of the Company has approved an increase in the total number of shares of common stock issuable under the 2004 Stock Incentive Plan from 4,600,000 to 5,800,000, which is subject to shareholder approval at the Company's annual meeting of stockholders on June 7, 2007. In April 2007, 569,750 options were granted under the 2004 Plan.

A summary of option activity under the Company's option plans as of March 31, 2007, and changes during the three months then ended are as follows (aggregate intrinsic value in thousands):

	Number of Shares	Weighted Average Price/Share	Aggregate Intrinsic Value
Options exercisable at December 31, 2006	1,810,267	$ 11.85	
Options outstanding at December 31, 2006	3,922,045	$ 18.76	
Granted	510,500	$ 32.44	
Exercised	(234,411)	$ 12.62	
Canceled	(75,949)	$ 21.11	
Options outstanding at March 31, 2007	4,122,185	$ 20.76	$ 53,038
Options exercisable at March 31, 2007	1,798,972	$ 13.05	$ 37,025

The weighted average remaining contractual life for all options outstanding under the Company's stock option plans at March 31, 2007 was 7.68 years. The weighted average remaining contractual life for exercisable stock options at March 31, 2007 was 5.86 years. The weighted average fair market value of the options at the date of grant for options granted during the three months ended March 31, 2007 was $14.77. The total intrinsic value of stock options exercised during the three months ended March 31, 2007 was approximately $4.7 million.

As of March 31, 2007, there was approximately $24.9 million of total unrecognized compensation cost related to unvested stock options granted under the Company's option plans. The cost is expected to be recognized through February 2013 with a weighted average recognition period of approximately 1.6 years.

5. Inventories

	December 31, 2006	March 31, 2007
		(unaudited)
	(in thousands)	
Raw materials	$ 799	$ 644
Work-in-process	658	614
Finished goods	920	802
Total inventories	$ 2,377	$ 2,060

6. Goodwill and Intangible Assets

The carrying amounts of goodwill and intangible assets as of December 31, 2006 and March 31, 2007 are as follows:

	December 31, 2006	March 31, 2007
		(unaudited)
	(in thousands)	
Goodwill	$ 101,644	$ 105,730
Acquired technology	$ 44,107	$ 45,637
Contracts and customer lists	45,042	45,042
Non-compete agreements	2,043	2,043
Trademarks and domain names	71	71
Patents and related costs	944	2,027
Subtotal	92,207	94,820
Less accumulated amortization	(35,366)	(40,791)
Intangible assets, net	$ 56,841	$ 54,029

Intangible assets from acquisitions are amortized over three to five years. Amortization expense related to intangible assets was approximately $1.8 million and $5.4 million for the three months ended March 31, 2006 and 2007, respectively.

During the three months ended March 31, 2007, the Company purchased technology for $1.5 million which will provide future functionality in the Company's products. The technology is classified as acquired technology and recorded as intangible assets on the consolidated balance sheets at March 31, 2007 and is being amortized over three years.

As discussed in Note 3, goodwill increased $3.9 million related to the recording of a valuation allowance against deferred tax assets attributable to WebCT net operating losses that may be subject to limitations under Section 382 of the Internal Revenue Code.

During the three months ended March 31, 2007, the Company capitalized $1.1 million in costs related to defending and protecting its patents.

7. Credit Facilities

In connection with the acquisition of WebCT, the Company paid a portion of the purchase price using borrowings under a $70.0 million senior secured credit facilities agreement with Credit Suisse. The agreement provided for a $60.0 million senior secured term loan facility repayable over six years and a $10.0 million senior secured revolving credit facility due and payable in full at the end of five years. At March 31, 2007 the interest rate on the term loan facility was 7.57%. This interest rate does not reflect the impact of the amortization of debt issuance costs, discussed below, as interest expense.

The Company repaid $10.0 million on the revolving credit facility on March 28, 2006. As of March 31, 2007, no amounts were outstanding on the revolving credit facility and $10.0 million in borrowings were available. The Company is required to pay a commitment fee, due at the end of each calendar quarter until the maturity date, equal to 0.5% on the average daily unused portion of the revolving credit facility as defined in the senior secured credit facilities agreement. The Company records this fee in interest expense.

The senior secured credit facilities agreement allows for voluntary principal prepayments of principal and requires mandatory principal prepayments within 90 days after calendar year-end based on a calculation of excess cash flow as defined in the senior secured credit facilities agreement. The Company has not been required to make any mandatory principal prepayments within 90 days after year-end based on the calculation of excess cash flow as defined in the senior secured credit facilities agreement. The Company made scheduled principal payments on the term loan facility of $0.2 million which were due on the last day of each quarter from March 31, 2006 through December 31, 2006 and made a scheduled principal payment of $0.1 million on March 31, 2007. A principal payment in the amount of $49,000 is due on the last day of each quarter from June 30, 2007 through December 31, 2010 with a $1.4 million principal payment each due on March 31, 2011 and June 30, 2011 and a $15.9 million payment due on September 30, 2011. The Company prepaid principal of $35.0 million during 2006 and $4.9 million during March 2007. As of March 31, 2007, the Company had $19.4 million outstanding on the term loan facility.

In connection with obtaining the senior secured credit facilities, the Company incurred $2.5 million in debt issuance costs. These costs, which are recorded as a debt discount, are netted against the remaining principal amount outstanding. The debt discount is being amortized as interest expense using the effective interest method over the term of the senior secured credit facilities and such amortization has been adjusted for any prepayments on the term loan facility. During the three months ended March 31, 2007, the Company recognized approximately $0.1 million in additional interest expense associated with the acceleration in the amortization of the debt discount due to the prepayment of debt principal. During the three months ended March 31, 2007, the Company recorded amortization expense of approximately $0.2 million as interest expense.

8. Commitments and Contingencies

The Company, from time to time, is subject to litigation relating to matters in the ordinary course of business. The Company believes that any ultimate liability resulting from these contingencies will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

9. Quarterly Financial Information

The Company's quarterly operating results normally fluctuate as a result of seasonal variations in its business, principally due to the timing of client budget cycles and student attendance at client facilities. Historically, the Company has had lower new sales in its first and fourth quarters than in the remainder of the year. The Company's expenses, however, do not vary significantly with these changes and, as a result, such expenses do not fluctuate significantly on a quarterly basis. Historically, the Company has performed a disproportionate amount of its professional services, which are recognized as incurred, in its second and third quarters each year. The Company expects quarterly fluctuations in operating results to continue as a result of the uneven seasonal demand for its licenses and services offerings.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report contains forward-looking statements. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "intends" and similar expressions are intended to identify forward-looking statements. The important factors discussed under the caption "Risk Factors," presented below, could cause actual results to differ materially from those indicated by forward-looking statements made herein. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

General

We are a leading provider of enterprise software applications and related services to the education industry. Our clients use our software to integrate technology into the education experience and campus life, and to support activities such as a professor assigning digital materials on a class website; a student collaborating with peers or completing research online; an administrator managing a departmental website; or a merchant conducting cash-free transactions with students and faculty through pre-funded debit accounts. Our clients include colleges, universities, schools and other education providers, as well as textbook publishers and student-focused merchants who serve these education providers and their students.

We generate revenues from sales and licensing of products and from professional services. Our product revenues consist principally of revenues from annual software licenses, client hosting engagements and the sale of bundled software-hardware systems. We typically sell our licenses and hosting services under annually renewable agreements, and our clients generally pay the annual fees at the beginning of the contract term. We recognize revenues from these agreements, as well as revenues from bundled software-hardware systems, which do not recur, ratably over the contractual term, which is typically 12 months. Billings associated with licenses and hosting services are recorded initially as deferred revenues and then recognized ratably into revenues over the contract term. We also generate product revenues from the sale and licensing of third party software and hardware that is not bundled with our software. These revenues are generally recognized upon shipment of the products to our clients.

We derive professional services revenues primarily from training, implementation, installation and other consulting services. Substantially all of our professional services are performed on a time-and-materials basis. We recognize these revenues as the services are performed.

We typically license our individual applications either on a stand-alone basis or bundled as part of either of two suites, the *Blackboard Academic Suite(tm)* and the *Blackboard Commerce Suite(tm).* The *Blackboard Academic Suite* includes the products formerly known as *WebCT Campus Edition(tm)* and *WebCT Vista(tm)* , which were acquired in our merger with WebCT, Inc.

We generally price our software licenses on the basis of full-time equivalent students or users. Accordingly, annual license fees are generally greater for larger institutions.

Our operating expenses consist of cost of product revenues, cost of professional services revenues, research and development expenses, sales and marketing expenses, general and administrative expenses and amortization of intangibles resulting from acquisitions.

Major components of our cost of product revenues include license and other fees that we owe to third parties upon licensing software, and the cost of hardware that we bundle with our software. We initially defer these costs and recognize them into expense over the period in which the related revenue is recognized. Cost of product revenues also includes amortization of internally developed technology available for sale, employee compensation, stock-based compensation and benefits for personnel supporting our hosting, support and production functions, as well as related facility rent, communication costs, utilities, depreciation expense and cost of external professional services used in these functions. All of these costs are expensed as incurred. The costs of third-party software and hardware that is not bundled with software are also expensed when incurred, normally upon delivery to our client. Cost of product revenues excludes $0.9 million and $2.8 million in amortization of acquired technology included in amortization of intangibles resulting from acquisitions for the three months ended March 31, 2006 and 2007, respectively.

Cost of professional services revenues primarily includes the costs of compensation, stock-based compensation and benefits for employees and external consultants who are involved in the performance of professional services engagements for our clients, as well as travel and related costs, facility rent, communication costs, utilities and depreciation expense used in these functions. All of these costs are expensed as incurred.

Research and development expenses include the costs of compensation, stock-based compensation and benefits for employees who are associated with the creation and testing of the products we offer, as well as the costs of external professional services, travel and related costs attributable to the creation and testing of our products, related facility rent, communication costs, utilities and depreciation expense. All of these costs are expensed as incurred.

Sales and marketing expenses include the costs of compensation, including bonuses and commissions, stock-based compensation and benefits for employees who are associated with the generation of revenues, as well as marketing expenses, costs of external marketing-related professional services, investor relations, facility rent, utilities, communications, travel attributable to those sales and marketing employees in the generation of revenues and bad debt expense. All of these costs are expensed as incurred.

General and administrative expenses include the costs of compensation, stock-based compensation and benefits for employees in the human resources, legal, finance and accounting, management information systems, facilities management, executive management and other administrative functions that are not directly associated with the generation of revenues or the creation and testing of products. In addition, general and administrative expenses include the costs of external professional services and insurance, as well as related facility rent, communication costs, utilities and depreciation expense used in these functions.

Amortization of intangibles includes the amortization of costs associated with products, acquired technology, customer lists, non-compete agreements and other identifiable intangible assets. These intangible assets were recorded at the time of our acquisitions and relate to contractual agreements, technology and products that we continue to utilize in our business.

Critical Accounting Policies and Estimates

The discussion of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. During the preparation of these consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, bad debts, fixed assets, long-lived assets, including purchase accounting and goodwill, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our consolidated financial statements. Our critical accounting policies have been discussed with the audit committee of our board of directors.

We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue recognition. Our revenues are derived from two sources: product sales and professional services sales. Product revenues include software license, hardware, premium support and maintenance, and hosting revenues. Professional services revenues include training and consulting services. We recognize software license and maintenance revenues in accordance with the American Institute of Certified Public Accountants' Statement of Position (SOP) 97-2, *"Software Revenue Recognition,"* as modified by SOP 98-9, *"Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions."* Our software does not require significant modification and customization services. Where services are not essential to the functionality of the software, we begin to recognize software licensing revenues when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the fee is fixed and determinable; and (4) collectibility is probable.

We do not have vendor-specific objective evidence, or VSOE, of fair value for our support and maintenance separate from our software. Accordingly, when licenses are sold in conjunction with our support and maintenance, we recognize the license revenue over the term of the maintenance service period.

We sell hardware in two types of transactions: sales of hardware in conjunction with our software licenses, which we refer to as bundled hardware-software systems, and sales of hardware without software, which generally involve the resale of third-party hardware. After any necessary installation services are performed, hardware revenues are recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the fee is fixed and determinable; and (4) collectibility is probable. We have not determined VSOE of the fair value for the separate components of bundled hardware-software systems. Accordingly, when a bundled hardware-software system is sold, all revenue is recognized over the term of the maintenance service period. Hardware sales without software are recognized upon delivery of the hardware to our client.

Hosting revenues are recorded in accordance with Emerging Issues Task Force (EITF) 00-3, *"Application of AICPA SOP 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware."* We recognize hosting fees and set-up fees ratably over the term of the hosting agreement.

We recognize professional services revenues, which are generally contracted on a time-and-materials basis and consist of training, implementation and installation services, as the services are provided.

We do not offer specified upgrades or incrementally significant discounts. Advance payments are recorded as deferred revenues until the product is shipped, services are delivered or obligations are met and the revenue can be recognized. Deferred revenues represent the excess of amounts invoiced over amounts recognized as revenues. We provide non-specified upgrades of our product only on a when-and-if-available basis. Any contingencies, such as rights of return, conditions of acceptance, warranties and price protection, are accounted for under SOP 97-2. The effect of accounting for these contingencies included in revenue arrangements has not been material.

Allowance for doubtful accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability, failure or refusal of our clients to make required payments. We analyze accounts receivable, historical percentages of uncollectible accounts and changes in payment history when evaluating the adequacy of the allowance for doubtful accounts. We use an internal collection effort, which may include our sales and services groups as we deem appropriate, in our collection efforts. Although we believe that our reserves are adequate, if the financial condition of our clients deteriorates, resulting in an impairment of their ability to make payments, or if we underestimate the allowances required, additional allowances may be necessary, which will result in increased expense in the period in which such determination is made.

Long-lived assets. We record our long-lived assets, such as property and equipment, at cost. We review the carrying value of our long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable in accordance with the provisions of SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."* We evaluate these assets by examining estimated future cash flows to determine if their current recorded value is impaired. We evaluate these cash flows by using weighted probability techniques as well as comparisons of past performance against projections. Assets may also be evaluated by identifying independent market values. If we determine that an asset's carrying value is impaired, we will record a write-down of the carrying value of the identified asset and charge the impairment as an operating expense in the period in which the determination is made. Although we believe that the carrying values of our long-lived assets are appropriately stated, changes in strategy or market conditions or significant technological developments could significantly impact these judgments and require adjustments to recorded asset balances.

Purchase Accounting and Goodwill. As the result of acquisitions, any excess purchase price over the net tangible and identifiable intangible assets acquired are recorded as goodwill. A preliminary allocation of the purchase price to tangible and intangible net assets acquired is based upon a preliminary valuation and our estimates and assumptions may be subject to change. We assess the impairment of goodwill in accordance with SFAS No. 142, " *Goodwill and Other Intangible Assets.* " Accordingly, we test our goodwill for impairment annually on October 1, or whenever events or changes in circumstances indicate an impairment may have occurred, by comparing its fair value to its carrying value. Impairment may result from, among other things, deterioration in the performance of the acquired business, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of the acquired business, and a variety of other circumstances. If we determine that an impairment has occurred, we are required to record a write-down of the carrying value and charge the impairment as an operating expense in the period the determination is made. Although we believe goodwill is appropriately stated in our consolidated financial statements, changes in strategy or market conditions could significantly impact these judgments and require an adjustment to the recorded balance.

*Deferred Income Taxes***.** Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting bases and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax net operating loss carryforwards. These deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when such amounts are expected to reverse or be utilized. The realization of total deferred tax assets is contingent upon the generation of future taxable income. Valuation allowances are provided to reduce such deferred tax assets to amounts more likely than not to be ultimately realized.

Income tax provision includes U.S. federal, state and local income taxes and is based on pre-tax income or loss. The interim period provision or benefit for income taxes is based upon our estimate of our annual effective income tax rate. In determining the estimated annual effective income tax rate, we analyze various factors, including projections of our annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes and our ability to use tax credits and net operating loss carryforwards.

We adopted the provisions of FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* " (FIN 48), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, " *Accounting for Income Taxes* ". It prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not recognition threshold should be measured as the largest amount of the tax benefits, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement in the financial statements. As a result of the implementation of FIN 48, we recognized an increase of $0.5 million in the unrecognized tax benefit liability, which was accounted for as an increase to the January 1, 2007 accumulated deficit balance. As of March 31, 2007, our unrecognized tax benefit liability totaled $0.6 million, all of which would affect our effective tax rate if recognized. Also, upon adoption of FIN 48, we reclassified $1.0 million of previously accrued tax contingencies which were included in accrued expenses and recorded an offsetting valuation allowance against certain deferred tax assets that were recorded on the consolidated balance sheets at December 31, 2006. We did not record any interest or penalties related to our adoption of FIN 48. Our continuing practice is to recognize interest and penalties related to income tax matters in income tax expense.

Stock-Based Compensation. Prior to January 1, 2006, we accounted for our stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, " *Accounting for Stock Issued to Employees* " (APB No. 25), and related interpretations, as permitted by SFAS No. 123, " *Accounting for Stock-Based Compensation* " (SFAS 123). Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123 (revised 2005), " *Share-Based Payment* " (SFAS 123R), using the modified prospective transition method. Under the modified prospective transition method, compensation cost recognized includes: (a) compensation cost for all equity-based payments granted prior to but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and (b) compensation cost for all equity-based payments granted subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS 123R.

As of March 31, 2007, there was approximately $24.9 million of total unrecognized compensation cost related to unvested stock options granted under our option plans. The cost is expected to be recognized through February 2013 with a weighted average recognition period of approximately 1.6 years.

Recent Accounting Pronouncements. In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*" (SFAS 157). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS 157 on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities* " (SFAS 159), to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS 157. An entity is prohibited from retrospectively applying SFAS 159, unless it chooses early adoption. We are currently evaluating the impact of the provisions of SFAS 159 on our consolidated financial statements.

Important Factors Considered by Management

We consider several factors in evaluating both our financial position and our operating performance. These factors, while primarily focused on relevant financial information, also include other measures such as general market and economic conditions, competitor information and the status of the regulatory environment.

To understand our financial results, it is important to understand our business model and its impact on our consolidated financial statements. The accounting for the majority of our contracts requires us to initially record deferred revenues on our consolidated balance sheet upon invoicing the sale and then to recognize revenue in subsequent periods ratably over the term of the contract in our consolidated statements of operations. Therefore, to better understand our operations, one must look at both revenues and deferred revenues.

In evaluating our revenues, we analyze them in three categories: recurring ratable revenues, non-recurring ratable revenues and other revenues.

- Recurring ratable revenues include those product revenues that are recognized ratably over the contract term, which is typically one year, and that recur each year assuming clients renew their contracts. These revenues include revenues from the licensing of all of our software products, hosting arrangements and enhanced support and maintenance contracts related to our software products, including certain professional services performed by our professional services groups.

- Non-recurring ratable revenues include those product revenues that are recognized ratably over the term of the contract, which is typically one year, but that do not contractually recur. These revenues include certain hardware components of our *Blackboard Transaction System* products and certain third-party hardware and software sold to our clients in conjunction with our software licenses.

- Other revenues include those revenues that are recognized as earned and are not deferred to future periods. These revenues include professional services, the sales of *Blackboard One* , as well as the supplies and commissions we earn from publishers related to digital course supplement downloads.

In the case of both recurring ratable revenues and non-recurring ratable revenues, an increase or decrease in the revenues in one period would be attributable primarily to increases or decreases in sales in prior periods. Unlike recurring ratable revenues, which benefit both from new license sales and from the renewal of previously existing licenses, non-recurring ratable revenues primarily reflect one-time sales that do not contractually renew.

Other factors that we consider in making strategic cash flow and operating decisions include cash flows from operations, capital expenditures, total operating expenses and earnings.

Results of Operations

The following table sets forth selected unaudited consolidated statement of operations data expressed as a percentage of total revenues for each of the periods indicated.

	Three Months Ended March 31, (unaudited)	
	2006	2007
Revenues:		
Product	88%	90%
Professional services	12	10
Total revenues	100	100
Operating expenses:		
Cost of product revenues	21	21
Cost of professional services revenues	9	7
Research and development	13	12
Sales and marketing	32	26
General and administrative	20	17
Amortization of intangibles resulting from acquisitions	5	10
Total operating expenses	100	93
Income from operations	0%	7%

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Our total revenues for the three months ended March 31, 2007 were $55.3 million, representing an increase of $17.6 million, or 46.6%, as compared to $37.7 million for the three months ended March 31, 2006.

A detail of our total revenues by classification is as follows:

	Three Months Ended March 31,					
	2006			2007		
	Product Revenues	Professiona Services Revenues	Total	Product Revenues	Professiona Services Revenues	Total
	(Unaudited) (in millions)					
Recurring ratable revenues	$26.8	$0.3	$27.1	$42.0	$0.7	$42.7
Non-recurring ratable revenues	4.5	—	4.5	5.1	—	5.1
Other revenues	1.9	4.2	6.1	2.9	4.6	7.5
Total revenues	$33.2	$4.5	$37.7	$50.0	$5.3	$55.3

Product revenues. Product revenues, including domestic and international, for the three months ended March 31, 2007 were $50.0 million, representing an increase of $16.8 million, or 50.7%, as compared to $33.2 million for the three months ended March 31, 2006.

Recurring ratable product revenues increased by $15.2 million, or 56.7%, for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006. This increase was primarily due to a $10.4 million increase in revenues from *Blackboard Learning System* enterprise licenses, a $1.0 million increase in revenues from *Blackboard Content System* licenses and a $0.5 million increase in revenues from *Blackboard Community System* licenses. Product revenues from the *Blackboard Commerce Suite* increased by $0.9 million due to an increase in revenues from *Blackboard Transaction System* licenses. The further increase in recurring ratable product revenues was due to a $1.6 million increase in hosting revenues and a $0.6 million increase in revenues from enhanced support and maintenance revenues related to our software products. These increases in recurring ratable product revenues were attributable to current and prior period sales to new and existing clients, including clients resulting from the WebCT merger. The results for the three months ended March 31, 2007 contained three months of revenues related to clients acquired in the WebCT merger as compared to the three months ended March 31, 2006 which only included one month of revenues related to these acquired clients. The 2006 revenues were further reduced due to the fair value adjustment to the acquired WebCT deferred revenue balances in purchase accounting.

The increase in *Blackboard Learning System* enterprise product revenue was also attributable to the continued shift from the *Blackboard Learning System* basic products to the *Blackboard Learning System* enterprise products and cross-selling other enterprise products to existing clients. The *Blackboard Learning System* enterprise products have additional functionality that is not available in the *Blackboard Learning System* basic products and consequently some *Blackboard Learning System* basic product clients upgrade to the *Blackboard Learning System* enterprise products. Licenses of the enterprise version of the *Blackboard Learning System* enterprise products have higher average pricing, which normally results in at least twice the contractual value as compared to *Blackboard Learning System* basic product licenses.

The increase in non-recurring ratable product revenues was primarily due to an increase in sales of *Blackboard Commerce Suite* hardware products.

The increase in other product revenues was primarily due to an increase in third party hardware and software revenues and an increase in publisher revenues due to the inclusion of WebCT publisher relationships.

Of our total revenues, our total international revenues for the three months ended March 31, 2007 were $12.0 million, representing an increase of $5.2 million, or 76.5%, as compared to $6.8 million for the three months ended March 31, 2006. International product revenues, which consist primarily of recurring ratable product revenues, were $11.0 million for the three months ended March 31, 2007, representing an increase of $5.1 million, or 86.4%, as compared to $5.9 million for the three months ended March 31, 2006. The increase in international recurring ratable product revenues was primarily due to an increase in international revenues from *Blackboard Academic Suite* products, which include former WebCT products, resulting from prior period sales to new and existing clients. The further increase in total international revenues was attributable to an increase in professional services revenues due to the increase in the number of international licensees of our *Blackboard Academic Suite* products, which generally purchase greater volumes of our service offerings. In addition, the increase in international revenues also reflects our investment in increasing the size of our international sales force and international marketing efforts during prior periods, which expanded our international presence and enabled us to sell more of our products to new and existing clients in our international markets.

Professional services revenues. Professional services revenues for the three months ended March 31, 2007 were $5.3 million, representing an increase of $0.8 million, or 16.9%, as compared to $4.5 million for the three months ended March 31, 2006. The increase in professional services was primarily attributable to an increase in the number and size of service engagements, which is directly related to the increase in the number of enterprise level licensees, which generally purchase greater volumes of our service offerings and increased sales of certain enhanced support and maintenance services. As a percentage of total revenues, professional services revenues for the three months ended March 31, 2007 were 9.6% as compared to 12.0% for the three months ended March 31, 2006. This decrease was expected and was due primarily to the impact of purchase accounting adjustments to WebCT's beginning deferred revenue balances during 2006. As a result of the fair value adjustment to the acquired deferred revenue balances during 2006, we expect the percentage of professional services revenues to continue to remain lower than in the prior year and for this trend to continue for the remainder of 2007.

Cost of product revenues. Our cost of product revenues for the three months ended March 31, 2007 was $11.7 million, representing an increase of $3.7 million, or 46.8%, as compared to $8.0 million for the three months ended March 31, 2006. The increase in cost of product revenues was primarily due to a $1.3 million increase in expenses related to hosting services due to the increase in the number of clients, including former WebCT clients, contracting for new hosting services or expanding their existing hosting arrangements. Further, the increase was due to a $1.2 million increase in our technical support expenses primarily due to increased personnel costs, including the inclusion of three months of expenses associated with the WebCT technical support groups as compared to only one month of expenses for the quarter ended March 31, 2006. Further, the increase was due to a $0.9 million increase in hardware and software costs primarily associated with third party products sold with the *Blackboard Transaction System* and a $0.2 million increase in royalty expenses primarily attributable to the acquired WebCT publisher relationships. Cost of product revenues as a percentage of product revenues decreased to 23.4% for the three months ended March 31, 2007 from 24.0% for the three months ended March 31, 2006. This increase in product revenues margin was due primarily to the fair value adjustment to the acquired WebCT deferred revenue balances during 2006. Consequently, we expect our product revenues margins to continue to remain higher than in the prior year for the remainder of 2007.

Cost of product revenues excludes amortization of acquired technology intangibles resulting from acquisitions, which is included as amortization of intangibles resulting from acquisitions. Amortization expense related to acquired technology was $0.9 million and $2.8 million for the three months ended March 31, 2006 and 2007, respectively. Cost of product revenues, including amortization of acquired technology, as a percentage of product revenues was 29.1% for the three months ended March 31, 2007 as compared to 26.8% for the three months ended March 31, 2006. The results for the three months ended March 31, 2007 contained three months of amortization resulting from the WebCT merger as compared to the three months ended March 31, 2006 which only included one month of amortization.

Cost of professional services revenues. Our cost of professional services revenues for the three months ended March 31, 2007 was $3.8 million, representing an increase of $0.4 million, or 11.0%, as compared to $3.4 million for the three months ended March 31, 2006. This increase was primarily attributable to the WebCT merger in which the results for the quarter ended March 31, 2007 contained three months of expenses resulting from the inclusion of WebCT professional services operations as compared to the quarter ended March 31, 2006 which only included one month of WebCT expenses. Cost of professional services revenues as a percentage of professional services revenues decreased to 71.0% for the three months ended March 31, 2007 from 74.8% for the three months ended March 31, 2006. The increase in professional services revenues margin was due to the increase in the number and size of service engagements throughout the three months ended March 31, 2007.

Research and development expenses. Our research and development expenses for the three months ended March 31, 2007 were $7.0 million, representing an increase of $2.1 million, or 42.4%, as compared to $4.9 million for the three months ended March 31, 2006. This increase was primarily attributable to a $1.2 million increase in personnel-related costs due to increased average headcount during 2007 as compared to 2006. The results for the three months ended March 31, 2007 contained the full impact of expenses related to the former WebCT company as compared to the three months ended March 31, 2006 which only had expenses related to the former WebCT company following the completion of the merger on February 28, 2006. In addition, there was a $0.4 million increase in professional services costs resulting from our continued efforts to increase the functionality of our products and a $0.2 million increase in software and equipment expenses to support research and development activities.

Sales and marketing expenses. Our sales and marketing expenses for the three months ended March 31, 2007 were $14.5 million, representing an increase of $2.4 million, or 19.7%, as compared to $12.1 million for the three months ended March 31, 2006. This increase was primarily attributable to increased personnel-related costs due to increased average headcount during 2007 as compared to 2006. The results for the three months ended March 31, 2007 contained the full impact of expenses related to the former WebCT company as compared to the three months ended March 31, 2006 which only had expenses related to the former WebCT company following the completion of the merger on February 28, 2006.

General and administrative expenses. Our general and administrative expenses for the three months ended March 31, 2007 were $9.3 million, representing an increase of $1.7 million, or 22.6%, as compared to $7.6 million for the three months ended March 31, 2006. This increase was primarily attributable to increased personnel-related costs resulting from increased headcount during 2006 and 2007 and higher average salaries across all general and administrative functional departments. Further, stock-based compensation expense increased $0.5 million due to increases in outstanding options for general and administrative function employees during 2006 and the three months ended March 31, 2007.

Net interest income (expense). Our net interest expense for the three months ended March 31, 2007 was $0.4 million as compared to net interest income of $0.7 million for the three months ended March 31, 2006. This decrease was primarily attributable to interest expense associated with the credit facilities agreement we entered into with Credit Suisse to fund a portion of the acquisition of WebCT. In addition, we recognized approximately $0.1 million in additional interest expense associated with the acceleration in the amortization of debt issuance costs due to the prepayment of debt principal in March 2007. Further, the net interest expense for the three months ended March 31, 2007 was due in part to lower cash and cash equivalent and short-term investment balances during the three months ended March 31, 2007 as compared to the three months ended March 31, 2006 resulting from the use of cash for the acquisition of WebCT.

Other income (expense). Our other income for the three months ended March 31, 2007 was $0.1 million and pertains to the remeasurement of our foreign subsidiaries ledgers, which are maintained in the local foreign currency, into the United States dollar.

Income taxes. Our provision for income taxes for the three months ended March 31, 2007 was $1.4 million as compared to $0.1 million for the three months ended March 31, 2006. The increase was due to our increased income during the three months ended March 31, 2007 as compared to the three months ended March 31, 2006.

Net income. As a result of the foregoing, we reported net income of $0.1 million and $1.9 million for the three months ended March 31, 2006 and 2007, respectively.

Liquidity and Capital Resources

Our cash and cash equivalents were $25.9 million at March 31, 2007 as compared to $30.8 million at December 31, 2006. The decrease in cash and cash equivalents was primarily due to the use of cash for payments on our term loan and the purchase of property and equipment.

Net cash provided by operating activities was $0.9 million during the quarter ended March 31, 2007 as compared to net cash used in operating activities of $10.0 million during the quarter ended March 31, 2006. This change for the quarter ended March 31, 2007 compared to the quarter ended March 31, 2006 was primarily due to net income of $1.9 million for the quarter ended March 31, 2007, which was an increase of $1.8 million from $0.1 million for the quarter ended March 31, 2006. Accounts receivable decreased $11.7 million during the quarter ended March 31, 2007 due to collections, the lower volume of new sales to new and existing clients and the lower level of renewing licenses during the first quarter of 2007 as compared to the fourth quarter of 2006. Amortization of intangibles increased as results for the three months ended March 31, 2007 contained three months of amortization resulting from the WebCT merger as compared to the three months ended March 31, 2006 which only had one month of amortization. These increases in cash flow were offset, in part, by a decrease in deferred revenues. We recognize revenues on annually renewable agreements, which results in deferred revenues. Deferred revenues as of March 31, 2007 were $99.5 million, representing a decrease of $20.8 million, or 17.3%, from $120.3 million as of December 31, 2006. This decrease was expected due to the seasonal variations in our business. We historically have lower sales to new and existing clients in our first quarter due to the timing of our clients' budget cycles and the renewal dates for our existing clients' annual licenses. Deferred revenues decreased due to the lower volume of new sales to new and existing clients and the lower level of renewing licenses during the first quarter of 2007 as compared to the fourth quarter of 2006, offset by the recognition of revenues from prior period sales. Accrued expenses also decreased $4.9 million during the quarter ended March 31, 2007 due to the payment of liabilities in 2007 including 2006 annual employee bonuses and fourth quarter 2006 sales commissions.

Net cash used in investing activities was $5.2 million during the quarter ended March 31, 2007 as compared to $93.6 million during the quarter ended March 31, 2006. During the quarter ended March 31, 2006, the company paid $154.6 million in net cash related to the acquisition of WebCT. During the quarter ended March 31, 2007, cash expenditures for purchase of property and equipment were $2.4 million, which represents approximately 4.4% of total revenues. During the quarter ended March 31, 2007, we purchased technology for $1.5 million which will provide future functionality in our products and paid $1.2 million related to patent enforcement costs.

Net cash used in financing activities was $0.6 million during the quarter ended March 31, 2007 as compared to net cash provided by financing activities of $60.3 million during the quarter ended March 31, 2006. During the quarter ended March 31, 2006, we received $67.5 million in proceeds, net of $2.5 million in debt issuance costs, associated with the credit facilities agreement we entered into with Credit Suisse to fund a portion of the acquisition of WebCT. During the quarter ended March 31, 2006, we repaid the $10.0 million revolving credit facility and $0.2 million of the term loan facility. During the quarter ended March 31, 2007, we made payments of $5.0 million on the term loan facility. During the quarter ended March 31, 2007, we also received $3.1 million in proceeds from exercise of stock options as compared to $2.9 million for the quarter ended March 31, 2006.

In connection with the acquisition of WebCT, we paid a portion of the purchase price using borrowings under a $70.0 million senior secured credit facilities agreement with Credit Suisse. The agreement provided for a $60.0 million senior secured term loan facility repayable over six years and a $10.0 million senior secured revolving credit facility due and payable in full at the end of five years. At March 31, 2007, the interest rate on the term loan facility was 7.57%. This interest rate does not reflect the impact of the amortization of debt issuance costs, discussed below, as interest expense.

We repaid $10.0 million on the revolving credit facility on March 28, 2006. As of March 31, 2007, no amounts were outstanding on the revolving credit facility and $10.0 million in borrowings were available. We are required to pay a commitment fee, due at the end of each calendar quarter until the maturity date, equal to 0.5% on the average daily unused portion of the revolving credit facility as defined in the senior secured credit facilities agreement. We record this fee in interest expense.

The senior secured credit facilities agreement allows for voluntary principal prepayments of principal and requires mandatory principal prepayments within 90 days after calendar year-end based on a calculation of excess cash flow as defined in the senior secured credit facilities agreement. We have not been required to make any mandatory principal prepayments within 90 days after year-end based on the calculation of excess cash flow as defined in the senior secured credit facilities agreement. We made scheduled principal payments on the term loan facility of $0.2 million which were due on the last day of each quarter from March 31, 2006 through December 31, 2006 and made a scheduled principal payment of $0.1 million on March 31, 2007. A principal payment in the amount of $49,000 is due on the last day of each quarter from June 30, 2007 through December 31, 2010 with a $1.4 million principal payment each due on March 31, 2011 and June 30, 2011 and a $15.9 million payment due on September 30, 2011. We prepaid principal of $35.0 million during 2006 and $4.9 million during March 2007. As of March 31, 2007, we had $19.4 million outstanding on the term loan facility.

In connection with obtaining the senior secured credit facilities, we incurred $2.5 million in debt issuance costs. These costs, which are recorded as a debt discount, are netted against the remaining principal amount outstanding. The debt discount is being amortized as interest expense using the effective interest method over the term of the senior secured credit facilities and such amortization has been adjusted for any prepayments on the term loan facility. During the quarter ended March 31, 2007, we recognized approximately $0.1 million in additional interest expense associated with the acceleration in the amortization of the debt discount due to the $4.9 million prepayment of debt principal during March 2007. During the quarter ended March 31, 2007, we recorded approximately $0.2 million of amortization of the debt discount as interest expense.

We believe that our existing cash and cash equivalents, available borrowings and future cash provided by operating activities will be sufficient to meet our working capital and capital expenditure needs over the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our marketing and sales activities, the timing and extent of spending to support product development efforts and expansion into new territories, the timing of introductions of new products or services, the timing of enhancements to existing products and services and the timing of capital expenditures. Also, we may make investments in, or acquisitions of, complementary businesses, services or technologies, which could also require us to seek additional equity or debt financing. To the extent that available funds are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

We do not have any off-balance sheet arrangements with unconsolidated entities or related parties and accordingly, there are no off-balance sheet risks to our liquidity and capital resources from unconsolidated entities.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our principal exposure to market risk relates to changes in interest rates. At March 31, 2007, $19.4 million was outstanding on our term loan facility with Credit Suisse, subject to covenants and restrictions. The interest rate on the term loan facility accrues at one of the following rates selected by us: (a) adjusted LIBOR plus 2.25% or (b) an alternate base rate plus 1.25%. The alternate base rate is the higher of Credit Suisse's prime rate and the federal funds effective rate plus 0.5%. At March 31, 2007, the interest rate on the term loan facility was 7.57%. Interest rate changes would result in increases or decreases in the fair value of our debt due to differences between market interest rates and rates in effect at the inception of our debt obligation. For the quarter ended March 31, 2007, a one percentage point increase in interest rates would have increased our interest expense by approximately $0.1 million.

Interest income on our cash and cash equivalents is subject to interest rate fluctuations. For the quarter ended March 31, 2007, a one percentage point decrease in interest rates would have reduced our interest income by approximately $0.3 million.

We have accounts on our foreign subsidiaries ledgers which are maintained in the local foreign currency and remeasured into the United States dollar. As a result, we are exposed to movements in the exchange rates of various currencies against the United States dollar and against the currencies of other countries in which we sell products and services. In particular, we have accounts recorded in Canadian dollars. Therefore, when the Canadian dollar strengthens or weakens against the United States dollar, net income is increased or decreased, respectively. Other income of $0.1 million was recorded during the quarter ended March 31, 2007. For the quarter ended March 31, 2007, a one percentage point adverse change in the exchange rate of the Canadian dollar into the United States dollar as of March 31, 2007 would have increased other expense by approximately $0.1 million.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2007. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2007, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes in Internal Control over Financial Reporting.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. ***Risk Factors.***

Our merger with WebCT presents many risks, and we may not realize the financial and strategic goals that were contemplated at the time of the transaction.

The WebCT merger, which was completed on February 28, 2006, is the largest acquisition that we have undertaken. We entered into this transaction with the expectation that it would result in various benefits including, among other things, enhanced revenue and profits, and enhancements to our product portfolio and customer base. Risks that we may encounter in seeking to realize these benefits include:

- we may not realize the anticipated increase in our revenues if a larger than predicted number of customers decline to renew their contracts, if we are unable to sell WebCT's products to our customer base or if the acquired contracts do not allow us to recognize revenues on a timely basis;
- we may have difficulty incorporating WebCT's technologies or products with our existing product lines and maintaining uniform standards, controls, procedures and policies;
- we may have higher than anticipated costs in continuing support and development of WebCT's products;
- we may lose anticipated tax benefits or have additional legal or tax exposures;
- we may not be able to retain key WebCT employees;
- we may face contingencies related to product liability, intellectual property, financial disclosures, and accounting practices or internal controls; and
- we may be unable to manage effectively the increased size and complexity of the combined company, and our management's attention may be diverted from our ongoing business by transition or integration issues.

Our business strategy contemplates future business combinations and acquisitions which may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.

During the course of our history, we have acquired several businesses, and a key element of our growth strategy is to pursue additional acquisitions in the future. Any acquisition could be expensive, disrupt our ongoing business and distract our management and employees. We may not be able to identify suitable acquisition candidates, and if we do identify suitable candidates, we may not be able to make these acquisitions on acceptable terms or at all. If we make an acquisition, we could have difficulty integrating the acquired technology, employees or operations. In addition, the key personnel of the acquired company may decide not to work for us. Acquisitions also involve the risk of potential unknown liabilities associated with the acquired business.

As a result of these risks, we may not be able to achieve the expected benefits of any acquisition. If we are unsuccessful in completing or integrating acquisitions that we may pursue in the future, we would be required to reevaluate our growth strategy, and we may have incurred substantial expenses and devoted significant management time and resources in seeking to complete and integrate the acquisitions.

Future business combinations could involve the acquisition of significant tangible and intangible assets, which could require us to record in our statements of operations ongoing amortization of intangible assets acquired in connection with acquisitions, which we currently do with respect to our historic acquisitions including the WebCT merger. In addition, we may need to record write-downs from future impairments of identified tangible and intangible assets and goodwill. These accounting charges would reduce any future reported earnings, or increase a reported loss. In future acquisitions, we could also incur debt to pay for acquisitions, or issue additional equity securities as consideration, which could cause our stockholders to suffer significant dilution.

Our ability to utilize, if any, net operating loss carryforwards acquired in any acquisitions including those acquired in the WebCT merger, may be significantly limited or unusable by us under Section 382 or other sections of the Internal Revenue Code.

We incurred a significant amount of debt to finance the WebCT merger, which could constrict our liquidity, result in substantial cash outflows, and adversely affect our financial health and ability to obtain financing in the future.

In connection with the WebCT merger, we secured $70.0 million in borrowings through Credit Suisse, Cayman Islands Branch consisting of a $60.0 million senior secured term loan facility repayable over six years and a $10.0 million senior secured revolving credit facility due and payable in full at the end of five years. As of March 31, 2007, $19.4 million was outstanding under the term loan facility, and no amount was outstanding under the revolving credit facility. This debt may impair our ability to obtain future additional financing for working capital, capital expenditures, acquisitions, general corporate or other purposes, and a substantial portion of our cash flows from operations may be dedicated to the debt repayment, thereby reducing the funds available to us for other purposes. This debt could make us more vulnerable to industry downturns and competitive pressures. Any failure by us to satisfy our obligations with respect to these debt obligations would constitute a default under the credit facilities.

Providing enterprise software applications to the education industry is an emerging and uncertain business; if the market for our products fails to develop, we will not be able to grow our business.

Our success will depend on our ability to generate revenues by providing enterprise software applications and services to colleges, universities, schools and other education providers. This market has only recently developed, and the viability and profitability of this market is unproven. Our ability to grow our business will be compromised if we do not develop and market products and services that achieve broad market acceptance with our current and potential clients and their students and employees. The use of online education, transactional or content management software applications and services in the education industry may not become widespread, and our products and services may not achieve commercial success. Even if potential clients decide to implement products of this type, they may still choose to design, develop or manage all or a part of their system internally.

Given our clients' relatively early adoption of enterprise software applications aimed at the education industry, they are likely to be less risk-averse than most colleges, universities, schools and other education providers. Accordingly, the rate at which we have been able to establish relationships with our clients in the past may not be indicative of the rate at which we will be able to establish additional client relationships in the future.

Most of our clients use our products to facilitate online education, which is a relatively new field; if online education does not continue to develop and gain acceptance, demand for our products could suffer.

Our success will depend in part upon the continued adoption by our clients and potential clients of online education initiatives. Some academics and educators are opposed to online education in principle and have expressed concerns regarding the perceived loss of control over the education process that can result from offering courses online. Some of these critics, particularly college and university professors, have the capacity to influence the market for online education, and their opposition could reduce the demand for our products and services. In addition, the growth and development of the market for online education may prompt some members of the academic community to advocate more stringent protection of intellectual property associated with course content, which may impose additional burdens on clients and potential clients offering online education. This could require us to modify our products, or could cause these clients and potential clients to abandon their online education initiatives.

We face intense and growing competition, which could result in price reductions, reduced operating margins and loss of market share.

We operate in highly competitive markets and generally encounter intense competition to win contracts. If we are unable to successfully compete for new business and license renewals, our revenue growth and operating margins may decline. The markets for online education, transactional, portal and content management products are intensely competitive and rapidly changing, and barriers to entry in these markets are relatively low. With the introduction of new technologies and market entrants, we expect competition to intensify in the future. Some of our principal competitors offer their products at a lower price, which has resulted in pricing pressures. Such pricing pressures and increased competition generally could result in reduced sales, reduced margins or the failure of our product and service offerings to achieve or maintain more widespread market acceptance.

Our primary competitors for the *Blackboard Academic Suite* are companies and open source solutions that provide course management systems, such as ANGEL Learning, Inc., Desire2Learn Inc., eCollege.com, Jenzabar, Inc., Moodle, The Sakai Project, VCampus Educator and WebTycho; learning content management systems, such as HarvestRoad Ltd. and Concord USA, Inc.; and education enterprise information portal technologies, such as SunGard SCT Inc., an operating unit of SunGard Data Systems Inc. We also face competition from clients and potential clients who develop their own applications internally, large diversified software vendors who offer products in numerous markets including the education market and other open source software applications. Our competitors for the *Blackboard Commerce Suite* include companies that provide transaction systems, security systems, and off-campus merchant relationship programs.

We may also face competition from potential competitors that are substantially larger than we are and have significantly greater financial, technical and marketing resources, and established, extensive direct and indirect channels of distribution. As a result, they may be able to respond more quickly to new or emerging technologies and changes in client requirements, or to devote greater resources to the development, promotion and sale of their products than we can. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or prospective clients. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share to our detriment.

If potential clients or competitors use open source software to develop products that are competitive with our products and services, we may face decreased demand and pressure to reduce the prices for our products.

The growing acceptance and prevalence of open source software may make it easier for competitors or potential competitors to develop software applications that compete with our products, or for clients and potential clients to internally develop software applications that they would otherwise have licensed from us. One of the aspects of open source software is that it can be modified or used to develop new software that competes with proprietary software applications, such as ours. Such competition can develop without the degree of overhead and lead time required by traditional proprietary software companies. As open source offerings become more prevalent, customers may defer or forego purchases of our products, which could reduce our sales and lengthen the sales cycle for our products or result in the loss of current clients to open source solutions. If we are unable to differentiate our products from competitive products based on open source software, demand for our products and services may decline, and we may face pressure to reduce the prices of our products.

Because most of our licenses are renewable on an annual basis, a reduction in our license renewal rate could significantly reduce our revenues.

Our clients have no obligation to renew their licenses for our products after the expiration of the initial license period, which is typically one year, and some clients have elected not to do so. A decline in license renewal rates could cause our revenues to decline. We have limited historical data with respect to rates of renewals, so we cannot accurately predict future renewal rates. Our license renewal rates may decline or fluctuate as a result of a number of factors, including client dissatisfaction with our products and services, our failure to update our products to maintain their attractiveness in the market or budgetary constraints or changes in budget priorities faced by our clients.

We may experience difficulties that could delay or prevent the successful development, introduction and sale of new products under development. If introduced for sale, the new products may not adequately meet the requirements of the marketplace and may not achieve any significant degree of market acceptance, which could cause our financial results to suffer. In addition, during the development period for the new products, our customers may defer or forego purchases of our products and services.

If our newest product, the Blackboard Outcomes System, does not gain widespread market acceptance, our financial results could suffer.

We introduced our newest software application, the Blackboard Outcomes System, in December 2006. Our ability to grow our business will depend, in part, on client acceptance of this product, which is currently unproven. If we are not successful in gaining market acceptance of this product, our revenues may fall below our expectations.

Because we generally recognize revenues ratably over the term of our contract with a client, downturns or upturns in sales will not be fully reflected in our operating results until future periods.

We recognize most of our revenues from clients monthly over the terms of their agreements, which are typically 12 months, although terms can range from one month to over 60 months. 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, client renewals, 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. This ratable revenue recognition also makes it difficult for us to rapidly increase our revenues through additional sales in any period, as revenues from new clients must be recognized over the applicable agreement term.

Our operating margins may suffer if our professional services revenues increase in proportion to total revenues because our professional services revenues have lower gross margins.

Because our professional services revenues typically have lower gross margins than our product revenues, an increase in the percentage of total revenues represented by professional services revenues could have a detrimental impact on our overall gross margins, and could adversely affect our operating results. In addition, we sometimes subcontract professional services to third parties, which further reduce our gross margins on these professional services. As a result, an increase in the percentage of professional services provided by third-party consultants could lower our overall gross margins.

If our products contain errors or if new product releases are delayed, we could lose new sales and be subject to significant liability claims.

Because our software products are complex, they may contain undetected errors or defects, known as bugs. Bugs can be detected at any point in a product's life cycle, but are more common when a new product is introduced or when new versions are released. In the past, we have encountered product development delays and defects in our products. We expect that, despite our testing, errors will be found in new products and product enhancements in the future. Significant errors in our products could lead to:

- delays in or loss of market acceptance of our products;
- diversion of our resources;
- a lower rate of license renewals or upgrades;
- injury to our reputation; and
- increased service expenses or payment of damages.

Because our clients use our products to store and retrieve critical information, we may be subject to significant liability claims if our products do not work properly. We cannot be certain that the limitations of liability set forth in our licenses and agreements would be enforceable or would otherwise protect us from liability for damages. A material liability claim against us, regardless of its merit or its outcome, could result in substantial costs, significantly harm our business reputation and divert management's attention from our operations.

The length and unpredictability of the sales cycle for our software could delay new sales and cause our revenues and cash flows for any given quarter to fail to meet our projections or market expectations.

The sales cycle between our initial contact with a potential client and the signing of a license with that client typically ranges from 6 to 15 months. As a result of this lengthy sales cycle, we have only a limited ability to forecast the timing of sales. A delay in or failure to complete license transactions could harm our business and financial results, and could cause our financial results to vary significantly from quarter to quarter. Our sales cycle varies widely, reflecting differences in our potential clients' decision-making processes, procurement requirements and budget cycles, and is subject to significant risks over which we have little or no control, including:

- clients' budgetary constraints and priorities;
- the timing of our clients' budget cycles;
- the need by some clients for lengthy evaluations that often include both their administrators and faculties; and
- the length and timing of clients' approval processes.

Potential clients typically conduct extensive and lengthy evaluations before committing to our products and services and generally require us to expend substantial time, effort and money educating them as to the value of our offerings.

Our sales cycle with international postsecondary education providers and U.S. K-12 schools may be longer than our historic U.S. postsecondary sales cycle, which could cause us to incur greater costs and could reduce our operating margins.

As we target more of our sales efforts at international postsecondary education providers and U.S. K-12 schools, we could face greater costs, longer sales cycles and less predictability in completing some of our sales, which may harm our business. A potential client's decision to use our products and services may be a decision involving multiple institutions and, if so, these types of sales would require us to provide greater levels of education to prospective clients regarding the use and benefits of our products and services. In addition, we expect that potential international postsecondary and U.S. K-12 clients may demand more customization, integration services and features. As a result of these factors, these sales opportunities may require us to devote greater sales support and professional services resources to individual sales, thereby increasing the costs and time required to complete sales and diverting sales and professional services resources to a smaller number of international and U.S. K-12 transactions.

We may have exposure to greater than anticipated tax liabilities.

We are subject to income taxes and other taxes in a variety of jurisdictions and are subject to review by both domestic and foreign taxation authorities. The determination of our provision for income taxes and other tax liabilities requires significant judgment and the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements, which may materially affect our financial results in the period or periods for which such determination is made.

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

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 under Section 382 of the Internal Revenue Code.

If our net operating loss carryforwards are further limited, and we have taxable income which 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, and our future cash flow, financial position and financial results may be negatively impacted.

Our future success depends on our ability to continue to retain and attract qualified employees.

Our future success depends upon the continued service of our key management, technical, sales and other critical personnel, including employees who joined Blackboard from WebCT. Whether we are able to execute effectively on our business strategy will depend in large part on how well key management and other personnel perform in their positions and are integrated within our company. Key personnel have left our company over the years, and there may be additional departures of key personnel from time to time. In addition, as we seek to expand our global organization, the hiring of qualified sales, technical and support personnel has been difficult due to the limited number of qualified professionals. Failure to attract, integrate and retain key personnel would result in disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of company initiatives and the results of our operations.

Our move to our new headquarters location may be delayed, which would disrupt our operations and increase our expenses.

On December 15, 2006, we entered into an office lease agreement for approximately 112,000 square feet of space in Washington DC to which we plan to relocate our headquarters. The timing of our move will depend on the date that the tenant currently occupying the building vacates the space. If the existing tenant delays its move, we will not be able to move in on schedule, which would disrupt our operations. In the event of a significant delay, we would need to extend the lease at our existing headquarters, which we may not be able to do on terms favorable to us.

If we do not maintain the compatibility of our products with third-party applications that our clients use in conjunction with our products, demand for our products could decline.

Our software applications can be used with a variety of third-party applications used by our clients to extend the functionality of our products, which we believe contributes to the attractiveness of our products in the market. If we are not able to maintain the compatibility of our products with third-party applications, demand for our products could decline, and we could lose sales. We may desire in the future to make our products compatible with new or existing third-party applications that achieve popularity within the education marketplace, and these third-party applications may not be compatible with our designs. Any failure on our part to modify our applications to ensure compatibility with such third-party applications would reduce demand for our products and services.

If we are unable to protect our proprietary technology and other rights, it will reduce our ability to compete for business.

If we are unable to protect our intellectual property, our competitors could use our intellectual property to market products similar to our products, which could decrease demand for our products. In addition, we may be unable to prevent the use of our products by persons who have not paid the required license fee, which could reduce our revenues. We rely on a combination of copyright, patent, trademark and trade secret laws, as well as licensing agreements, third-party nondisclosure agreements and other contractual provisions and technical measures, to protect our intellectual property rights. These protections may not be adequate to prevent our competitors from copying or reverse-engineering our products and these protections may be costly and difficult to enforce. Our competitors may independently develop technologies that are substantially equivalent or superior to our technology. To protect our trade secrets and other proprietary information, we require employees, consultants, advisors and collaborators to enter into confidentiality agreements. These agreements may not provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. The protective mechanisms we include in our products may not be sufficient to prevent unauthorized copying. Existing copyright laws afford only limited protection for our intellectual property rights and may not protect such rights in the event competitors independently develop products similar to ours. In addition, the laws of some countries in which our products are or may be licensed do not protect our products and intellectual property rights to the same extent as do the laws of the United States.

If we are found to infringe the proprietary rights of others, we could be required to redesign our products, pay significant royalties or enter into license agreements with third parties.

A third party may assert that our technology violates its intellectual property rights. As the number of products in our markets increases and the functionality of these products further overlaps, we believe that infringement claims will become more common. Any claims, regardless of their merit, could:

- be expensive and time consuming to defend;
- force us to stop licensing our products that incorporate the challenged intellectual property;
- require us to redesign our products and reimburse certain costs to our clients;
- divert management's attention and other company resources; and
- require us to enter into royalty or licensing agreements in order to obtain the right to use necessary technologies, which may not be available on terms acceptable to us, if at all.

Expansion of our business internationally will subject our business to additional economic and operational risks that could increase our costs and make it difficult for us to operate profitably.

One of our key growth strategies is to pursue international expansion. Expansion of our international operations may require significant expenditure of financial and management resources and result in increased administrative and compliance costs. As a result of such expansion, we will be increasingly subject to the risks inherent in conducting business internationally, including:

- foreign currency fluctuations, which could result in reduced revenues and increased operating expenses;
- potentially longer payment and sales cycles;
- difficulty in collecting accounts receivable;
- the effect of applicable foreign tax structures, including tax rates that may be higher than tax rates in the United States or taxes that may be duplicative of those imposed in the United States;
- tariffs and trade barriers;
- general economic and political conditions in each country;
- inadequate intellectual property protection in foreign countries;
- uncertainty regarding liability for information retrieved and replicated in foreign countries;
- the difficulties and increased expenses in complying with a variety of foreign laws, regulations and trade standards; and
- unexpected changes in regulatory requirements.

Unauthorized disclosure of data, whether through breach of our computer systems or otherwise, could expose us to protracted and costly litigation or cause us to lose clients.

Maintaining the security of online education and transaction networks is of critical importance for our clients because these activities involve the storage and transmission of proprietary and confidential client and student information, including personal student information and consumer financial data, such as credit card numbers, and this area is heavily regulated in many countries in which we operate, including the United States. Individuals and groups may develop and deploy viruses, worms and other malicious software programs that attack or attempt to infiltrate our products. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, we could be subject to liability or our business could be interrupted. Penetration of our network security could have a negative impact on our reputation and could lead our present and potential clients to choose competing offerings and result in regulatory action against us. Even if we do not encounter a security breach ourselves, a well-publicized breach of the consumer data security of any major consumer Web site could lead to a general public loss of confidence in the use of the Internet, which could significantly diminish the attractiveness of our products and services.

Operational failures in our network infrastructure could disrupt our remote hosting service, could cause us to lose current hosting clients and sales to potential hosting clients and could result in increased expenses and reduced revenues.

Unanticipated problems affecting our network systems could cause interruptions or delays in the delivery of the hosting service we provide to some of our clients. We provide remote hosting through computer hardware that is currently located in third-party co-location facilities in Virginia, The Netherlands and Canada. We do not control the operation of these co-location facilities. Lengthy interruptions in our hosting service could be caused by the occurrence of a natural disaster, power loss, vandalism or other telecommunications problems at the co-location facilities or if these co-location facilities were to close without adequate notice. Although we have multiple transmission lines into the co-location facilities through two telecommunications service providers, we have experienced problems of this nature from time to time in the past, and we will continue to be exposed to the risk of network failures in the future. We currently do not have adequate computer hardware and systems to provide alternative service for most of our hosted clients in the event of an extended loss of service at the co-location facilities. Each Virginia co-location facility provides data backup redundancy for the other Virginia co-location facility. However, they are not equipped to provide full disaster recovery to all of our hosted clients. If there are operational failures in our network infrastructure that cause interruptions, slower response times, loss of data or extended loss of service for our remotely hosted clients, we may be required to issue credits or pay penalties, current hosting clients may terminate their contracts or elect not to renew them, and we may lose sales to potential hosting clients. If we determine that we need additional hardware and systems, we may be required to make further investments in our network infrastructure.

We could lose revenues if there are changes in the spending policies or budget priorities for government funding of colleges, universities, schools and other education providers.

Most of our clients and potential clients are colleges, universities, schools and other education providers who depend substantially on government funding. Accordingly, any general decrease, delay or change in federal, state or local funding for colleges, universities, schools and other education providers could cause our current and potential clients to reduce their purchases of our products and services, to exercise their right to terminate licenses, or to decide not to renew licenses, any of which could cause us to lose revenues. In addition, a specific reduction in governmental funding support for products such as ours would also cause us to lose revenues.

U.S. and foreign government regulation of the Internet could cause us to incur significant expenses, and failure to comply with applicable regulations could make our business less efficient or even impossible.

The application of existing laws and regulations potentially applicable to the Internet, including regulations relating to issues such as privacy, defamation, pricing, advertising, taxation, consumer protection, content regulation, quality of products and services and intellectual property ownership and infringement, can be unclear. It is possible that U.S., state and foreign governments might attempt to regulate Internet transmissions or prosecute us for violations of their laws. In addition, these laws may be modified and new laws may be enacted in the future, which could increase the costs of regulatory compliance for us or force us to change our business practices. Any existing or new legislation applicable to us could expose us to substantial liability, including significant expenses necessary to comply with such laws and regulations, and dampen the growth in use of the Internet.

Specific federal laws that could also have an impact on our business include the following:

- The Children’s Online Protection Act and the Children’s Online Privacy Protection Act restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect personal information from children under the age of 13; and

- The Family Educational Rights and Privacy Act imposes parental or student consent requirements for specified disclosures of student information, including online information.

Our clients’ use of our software as their central platform for online education initiatives may make us subject to any such laws or regulations, which could impose significant additional costs on our business or subject us to additional liabilities.

We may be subject to state and federal financial services regulation, and any violation of any present or future regulation could expose us to liability, force us to change our business practices or force us to stop selling or modify our products and services.

Our transaction processing product and service offering could be subject to state and federal financial services regulation. The *Blackboard Transaction System* supports the creation and management of student debit accounts and the processing of payments against those accounts for both on-campus vendors and off-campus merchants. For example, one or more federal or state governmental agencies that regulate or monitor banks or other types of providers of electronic commerce services may conclude that we are engaged in banking or other financial services activities that are regulated by the Federal Reserve under the U.S. Federal Electronic Funds Transfer Act or Regulation E thereunder or by state agencies under similar state statutes or regulations. Regulatory requirements may include, for example:

- disclosure of consumer rights and our business policies and practices;
- restrictions on uses and disclosures of customer information;
- error resolution procedures;
- limitations on consumers' liability for unauthorized account activity;
- data security requirements;
- government registration; and
- reporting and documentation requirements.

A number of states have enacted legislation regulating check sellers, money transmitters or transaction settlement service providers as banks. If we were deemed to be in violation of any current or future regulations, we could be exposed to financial liability and adverse publicity or forced to change our business practices or stop selling some of our products and services. As a result, we could face significant legal fees, delays in extending our product and services offerings, and damage to our reputation that could harm our business and reduce demand for our products and services. Even if we are not required to change our business practices, we could be required to obtain licenses or regulatory approvals that could cause us to incur substantial costs.

Item 6. Exhibits.

(a) Exhibits:

Exhibit No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

			Blackboard Inc.
Dated:	May 4, 2007	By:	/s/ Michael J. Beach
			Michael J. Beach Chief Financial Officer (On behalf of the registrant and as Principal Financial Officer)

EXHIBIT 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael L. Chasen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blackboard Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 4, 2007

/s/ Michael L. Chasen

Michael L. Chasen
Chief Executive Officer

EXHIBIT 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael J. Beach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blackboard Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 4, 2007

/s/ Michael J. Beach

Michael J. Beach
Chief Financial Officer

EXHIBIT 32.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

I, Michael L. Chasen, Chief Executive Officer of Blackboard Inc. (the "Company"), do hereby certify, under the standards set forth in and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge that:

1. The Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2007 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 4, 2007

/s/ Michael L. Chasen

Michael L. Chasen
Chief Executive Officer

EXHIBIT 32.2

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

I, Michael J. Beach, Chief Financial Officer of Blackboard Inc. (the "Company"), do hereby certify, under the standards set forth in and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge that:

1. The Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2007 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 4, 2007

/s/ Michael J. Beach

Michael J. Beach
Chief Financial Officer