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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 June 30, 2011

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.)*
650 Massachusetts Avenue, N.W. Washington D.C.	**20001**
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

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

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

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 July 31, 2011
Common Stock, $0.01 par value	35,137,816

Blackboard Inc.

Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2011

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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.

UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2010	June 30, 2011
Current assets:		
Cash and cash equivalents	$ 70,314	$ 84,676
Accounts receivable, net of allowance for doubtful accounts of $994 and $1,435, respectively	89,914	154,986
Prepaid expenses and other current assets	16,961	23,400
Deferred tax asset, current portion	5,818	5,818
Deferred cost of revenues	3,256	4,788
Total current assets	186,263	273,668
Deferred tax asset, noncurrent portion	15,185	25,577
Restricted cash	5,741	5,714
Property and equipment, net	43,002	45,388
Other assets	1,582	1,670
Goodwill	478,728	481,935
Intangible assets, net	116,649	105,328
Total assets	$ 847,150	$939,280
Current liabilities:		
Accounts payable	$ 1,818	$ 5,042
Accrued expenses	41,018	64,183
Deferred rent, current portion	450	789
Deferred revenues, current portion	211,752	214,433
Revolving credit facility	—	46,000
Convertible senior notes, net of debt discount of $2,674 at December 31, 2010	162,326	165,000
Total current liabilities	417,364	495,447
Deferred rent, noncurrent portion	11,978	11,561
Deferred tax liability, noncurrent portion	3,502	4,943
Deferred revenues, noncurrent portion	6,223	4,764
Total liabilities	439,067	516,715
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.01 par value; 200,000,000 shares authorized; 34,666,197 and 35,110,317 shares issued and outstanding, respectively	347	351
Additional paid-in capital	465,908	486,540
Accumulated other comprehensive income, net	794	2,056
Accumulated deficit	(58,966)	(66,382)
Total stockholders’ equity	408,083	422,565
Total liabilities and stockholders’ equity	$ 847,150	$939,280

See notes to unaudited consolidated financial statements.

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BLACKBOARD INC.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Revenues:				
Product	$ 97,474	$ 114,297	$ 191,204	$ 223,682
Professional services	10,254	9,864	17,590	19,235
Total revenues	107,728	124,161	208,794	242,917
Operating expenses:				
Cost of product revenues, excludes $2,816 and $1,085 for the three months ended June 30, 2010 and 2011, respectively, and $5,324 and $2,645 for the six months ended June 30, 2010 and 2011, respectively, in amortization of acquired technology included in amortization of intangibles resulting from acquisitions shown below(1)	27,409	32,542	51,943	66,952
Cost of professional services revenues(1)	5,386	6,284	9,865	12,963
Research and development(1)	12,047	16,866	24,252	33,437
Sales and marketing(1)	27,930	40,382	53,245	75,021
General and administrative(1)	16,851	24,300	31,556	42,970
Amortization of intangibles resulting from acquisitions	9,359	7,644	18,337	16,815
Total operating expenses	98,982	128,018	189,198	248,158
Income (loss) from operations	8,746	(3,857)	19,596	(5,241)
Other expense, net:				
Interest expense	(2,908)	(2,937)	(5,796)	(6,099)
Interest income	50	12	71	34
Other expense, net	(379)	(198)	(906)	(630)
Income (loss) before (provision for) benefit from income taxes	5,509	(6,980)	12,965	(11,936)
(Provision for) benefit from income taxes	(1,149)	2,920	(3,569)	4,520
Net income (loss)	$ 4,360	$ (4,060)	$ 9,396	$ (7,416)
Net income (loss) per common share:				
Basic	$ 0.13	$ (0.12)	$ 0.28	$ (0.21)
Diluted	$ 0.13	$ (0.12)	$ 0.27	$ (0.21)
Weighted average number of common shares:				
Basic	34,128,218	35,030,028	33,798,698	34,895,971
Diluted	34,769,318	35,030,028	34,629,788	34,895,971
(1) Includes the following amounts related to stock-based compensation:				
Cost of product revenues	$ 264	$ 332	$ 607	$ 686
Cost of professional services revenues	149	162	297	366
Research and development	296	334	563	670
Sales and marketing	1,858	2,294	3,721	4,382
General and administrative	2,500	2,496	4,835	4,885

See notes to unaudited consolidated financial statements.

BLACKBOARD INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30,	
	2010	2011
Cash flows from operating activities		
Net income (loss)	$ 9,396	$ (7,416)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Deferred income taxes	1,266	(10,096)
Excess tax benefits from stock-based compensation	(2,799)	(174)
Amortization of debt discount and issuance costs	3,065	2,996
Depreciation and amortization	9,537	12,252
Amortization of intangibles resulting from acquisitions	18,337	16,815
Change in allowance for doubtful accounts	(120)	442
Stock-based compensation	10,023	10,989
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(15,317)	(65,152)
Prepaid expenses and other current assets	(1,183)	(6,502)
Deferred cost of revenues	2,156	(1,532)
Accounts payable	171	3,189
Accrued expenses	8,384	23,134
Deferred rent	(256)	(78)
Deferred revenues	(46,227)	866
Net cash used in operating activities	(3,567)	(20,267)
Cash flows from investing activities		
Acquisitions, net of cash acquired	(40,158)	(6,107)
Purchases of property and equipment	(12,791)	(14,638)
Net cash used in investing activities	(52,949)	(20,745)
Cash flows from financing activities		
Releases of letters of credit	61	27
Payment for debt issuance costs	—	(300)
Proceeds from revolving credit facility	—	46,000
Excess tax benefits from stock-based compensation	2,799	174
Proceeds from exercise of stock options	23,587	9,473
Net cash provided by financing activities	26,447	55,374
Net (decrease) increase in cash and cash equivalents	(30,069)	14,362
Cash and cash equivalents at beginning of period	167,353	70,314
Cash and cash equivalents at end of period	$137,284	$ 84,676

See notes to unaudited consolidated financial statements.

BLACKBOARD INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended June 30, 2010 and 2011

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 and Organization

Blackboard Inc. (the "Company") is a leading provider of enterprise software applications and related services to the education industry. The Company's clients include colleges, universities, schools and other education providers, textbook publishers and student-focused merchants who serve these education providers and their students, and corporate and government clients. The Company's software applications are delivered in six product lines: *Blackboard Learn*™; *Blackboard Transact*™; *Blackboard Connect*™; *Blackboard Mobile*™; *Blackboard Collaborate*™; and *Blackboard Analytics*™. The Company also offers application hosting for clients who prefer to outsource the management of their *Blackboard Learn* systems, and the *Blackboard Student Services*℠ offering, which includes student lifecycle management and IT support services. In addition, the Company offers a variety of professional services, including strategic consulting, project management, custom application development and training.

Proposed Merger with an Affiliate of Providence Equity Partners L.L.C.

On June 30, 2011, the Company, Bulldog Holdings, LLC, a Delaware limited liability company ("Parent"), and Bulldog Acquisition Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent ("Acquisition Sub"), entered into an Agreement and Plan of Merger (the "merger agreement") pursuant to which Acquisition Sub will, upon the terms and subject to the conditions thereof, merge with and into Blackboard (the "merger"), with Blackboard surviving the merger as a wholly owned subsidiary of Parent. Parent and Acquisition Sub are affiliates of Providence Equity Partners L.L.C. The Company's stockholders must adopt the merger agreement for the merger to occur.

Upon the merger becoming effective (the "Effective Time"), each share of the Company's common stock issued and outstanding immediately prior to the Effective Time will be converted into the right to receive $45.00 in cash, without interest (the "Per Share Consideration"), on the terms and subject to the conditions set forth in the merger agreement, excluding shares that are: (i) held by the Company or any wholly owned subsidiary of the Company (or held in the Company's treasury); (ii) held by Parent, Acquisition Sub or any other direct or indirect wholly owned subsidiary of Parent; or (iii) held by any stockholders of the Company who properly exercise their appraisal rights under Delaware law.

The completion of the merger is subject to various customary closing conditions, including (i) the adoption of the merger agreement by the stockholders of the Company entitled to vote thereon, (ii) no court having issued an injunction that prohibits the consummation of the merger and no court or governmental entity having enacted a law, rule or regulation that prohibits the consummation of the merger and (iii) the expiration or termination of the waiting period applicable to the consummation of the merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The transaction is expected to close during the second half of 2011.

2. Significant Accounting Policies

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 and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the full fiscal year. The consolidated balance sheet at December 31, 2010 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, 2009 and 2010 and for each of the three years in the period ended December 31, 2010 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2011.

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.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

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.

Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability. The Company evaluates the fair value of certain assets and liabilities using the following fair value hierarchy which ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value:

Level 1 — quoted prices in active markets for identical assets and liabilities

Level 2 — inputs other than Level 1 quoted prices that are directly or indirectly observable

Level 3 — unobservable inputs that are not corroborated by market data

The Company evaluates assets and liabilities subject to fair value measurements on a recurring and nonrecurring basis to determine the appropriate level to classify them for each reporting period. This determination requires significant judgments to be made by the Company. The following tables set forth the Company's assets and

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liabilities that were measured at fair value as of December 31, 2010 and June 30, 2011, by level within the fair value hierarchy (in thousands):

	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents(1)	$ 40,009	$ 40,009	$ —	$ —
Liabilities:				
Convertible senior notes(2)	$ 169,538	$ 169,538	$ —	$ —

	June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents(1)	$ 31,020	$ 31,020	$ —	$ —
Liabilities:				
Convertible senior notes(2)	$ 165,000	$ 165,000	$ —	$ —

(1) Cash equivalents consist of money market funds with original maturity dates of less than three months for which the fair value is based on quoted market prices.

(2) The fair value of the Company's convertible senior notes is based on the quoted market price.

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets and goodwill. These items are recognized at fair value when they are considered to be impaired. During the three and six months ended June 30, 2010 and 2011, there were no fair value adjustments for assets and liabilities measured on a non-recurring basis.

The Company discloses 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 accounts receivable, accounts payable, accrued expenses and amounts outstanding under the revolving credit facility.

Revenue Recognition and Deferred Revenue

The Company's revenues are derived from two sources: product sales and professional services sales. Product revenues include software license fees, subscription fees from customers accessing its on-demand application services, student support services, hardware, premium support and maintenance, and hosting revenues. Professional services revenues include training and consulting services. The Company's software does not require significant modification and customization services. Where services are not essential to the functionality of the software, the Company begins 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.

The Company does not have vendor-specific objective evidence ("VSOE") of fair value for support and maintenance and hosting separate from software for the majority of its products. Accordingly, when licenses are sold in conjunction with the Company's support and maintenance and hosting, license revenue is recognized over the term of the service period. When licenses of certain offerings are sold in conjunction with support and maintenance and hosting where the Company does have VSOE, the Company recognizes the license revenue upon

delivery of the license and recognizes the support and maintenance and hosting revenues over the term of the service period.

Software and hosting set-up fees are recognized ratably over the term of the agreements.

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.

Product revenues and cost of product revenues related to hardware and software sales executed or significantly modified after December 31, 2009 in the *Blackboard Transact* product line are generally recognized upfront upon delivery of the product to the customer. Product revenues in the *Blackboard Transact* product line generally consist of hardware, software and support. Generally, the consideration allocated to the hardware and software deliverables is determined using a best estimate of selling price, which the Company estimates based on an analysis of market data and the Company's internal cost to deliver each element. Generally, the consideration allocated to the support deliverable is based on third party evidence. The effect of changes in either selling price or the method or assumptions used to determine selling price for a specific deliverable could have a material effect on the allocation of the overall consideration of an arrangement. For hardware and software sales executed before December 31, 2009, in the absence of VSOE, all revenue from such sales was recognized ratably over the term of the applicable maintenance service period.

The Company's sales arrangements may include professional services sold separately under professional services agreements that include training and consulting services. Revenues from these arrangements are accounted for separately from the license revenue because they meet the criteria for separate accounting. The more significant factors considered in determining whether revenues should be accounted for separately include the nature of the professional services, such as consideration of whether the professional services are essential to the functionality of the licensed product, degree of risk, availability of professional services from other vendors and timing of payments. Professional services that are sold separately from license revenue are recognized as the professional services are performed on a time-and-materials basis.

The Company does 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 revenues can be recognized. Deferred revenues represent the excess of amounts invoiced over amounts recognized as revenues. Non-specified upgrades of the Company's product are provided 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 as a separate element. The effect of accounting for these contingencies included in revenue arrangements has not historically been material.

Cost of Revenues and Deferred Cost of Revenues

Cost of revenues includes all direct materials, direct labor, direct shipping and handling costs, telecommunications costs related to the *Blackboard Connect* product, and those indirect costs related to revenue such as indirect labor, materials and supplies, equipment rent, and amortization of software developed internally and software license rights. Cost of product revenues excludes amortization of acquired technology intangibles resulting from acquisitions, which is included as amortization of intangibles acquired in acquisitions. Amortization expense related to acquired technology was $2.8 million and $1.1 million for the three months ended June 30, 2010 and 2011, respectively, and $5.3 million and $2.6 million for the six months ended June 30, 2010 and 2011, respectively.

Deferred cost of revenues represents third-party support costs and the cost of certain software that has been purchased and sold in conjunction with the Company's products. These costs are recognized as cost of revenues ratably over the same period that deferred revenue is recognized as revenues. The Company does not have transactions in which the deferred cost of revenues exceed deferred revenues.

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BLACKBOARD INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Basic and Diluted Net Income (Loss) per Common Share

Basic net income (loss) per common share excludes dilution for potential common stock issuances and is computed by dividing net income (loss) by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) 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 table provides a reconciliation of the numerators and denominators used in computing basic and diluted net income (loss) per common share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
	(In thousands, except share and per share amounts)			
Net income (loss)	$ 4,360	$ (4,060)	$ 9,396	$ (7,416)
Weighted average shares outstanding, basic	34,128,218	35,030,028	33,798,698	34,895,971
Dilutive effect of:				
Options to purchase common stock	641,100	—	831,090	—
Weighted average shares outstanding, diluted	34,769,318	35,030,028	34,629,788	34,895,971
Basic net income (loss) per common share	$ 0.13	$ (0.12)	$ 0.28	$ (0.21)
Diluted net income (loss) per common share	$ 0.13	$ (0.12)	$ 0.27	$ (0.21)

The dilutive effect of restricted stock and options to purchase an aggregate of 2,008,325 and 1,835,750 shares were not included in the computations of diluted net income per common share for the three and six months ended June 30, 2010, respectively, as their effect would be anti-dilutive. The dilutive effect of restricted stock and options to purchase an aggregate of 4,753,444 shares were not included in the computations of diluted net loss per common share for each of the three and six months ended June 30, 2011, as their effect would be anti-dilutive. In addition, the dilutive effect of the 2,544,333 shares of common stock issuable upon conversion at the base conversion price of the Company's convertible promissory notes were not included in the computation of diluted net income (loss) per common share for each of the three and six months ended June 30, 2010 and 2011, as their effect would be anti-dilutive.

Comprehensive Net Income (Loss)

Comprehensive net income (loss) includes net income (loss), combined with unrealized gains and losses not included in earnings and reflected as a separate component of stockholders' equity. For the Company, such items consist of foreign currency translation gains and losses, which was a gain of $0.2 million and $1.3 million for the three and six months ended June 30, 2011, representing the difference between net loss and comprehensive net loss for the period. There were no differences between net income and comprehensive net income for the three and six months ended June 30, 2010.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") amended the accounting standards related to fair value measurements to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The

amended guidance changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and early adoption is not permitted. The Company does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

In June 2011, the FASB amended the accounting standards for the presentation of comprehensive income. The amended guidance requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of equity. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and early adoption is permitted. The Company does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

3. Mergers and Acquisitions

txttools Limited Acquisition

During the three months ended March 31, 2011, the Company acquired the outstanding equity of txttools Limited (“txttools”) pursuant to the Share Purchase Agreement, for £3.85 million in cash, or approximately $6.1 million at the time of closing, net of cash acquired. Transaction costs of approximately $0.1 million are reflected in general and administrative expenses in the consolidated statements of operations.

txttools is a provider of mass notification solutions in the United Kingdom and Ireland for educational and government organizations that allow clients to record, schedule, send and track voice, email, text and short message service (SMS) communications to their constituents. The Company believes the acquisition of txttools supports the Company’s long-term strategic direction and the demands for innovative technology in the education industry. Management believes that the acquisition of txttools will help the Company meet the growing demands of its clients in the United Kingdom and Ireland, including the ability to send mass communications and notifications via various means.

The Company has accounted for the merger under the acquisition method of accounting. Of the total estimated purchase price of $6.2 million, a preliminary estimate of $1.3 million was allocated to net tangible liabilities assumed, and $5.1 million was allocated to definite-lived intangible assets acquired. Definite-lived intangible assets of $5.1 million consist of the value assigned to txttools’ customer relationships of $4.5 million and developed and core technology of $0.6 million. The Company will amortize the value of txttools’ customer relationships over seven years and the developed and core technology over three years. Approximately $2.4 million has been allocated to goodwill and is not deductible for tax purposes. Goodwill represents factors including expected synergies from combining operations. The results of operations of txttools during the three and six months ended June 30, 2011 were not material to the Company’s consolidated financial statements.

Saf-T-Net, Inc. Merger

On March 19, 2010, the Company completed its merger with Saf-T-Net, Inc. (“Saf-T-Net”) pursuant to the Agreement and Plan of Merger dated March 7, 2010. Pursuant to the Agreement and Plan of Merger, the Company paid merger consideration of $34.4 million. The effective cash portion of the purchase price of Saf-T-Net before transaction costs of approximately $0.5 million was $34.2 million, net of Saf-T-Net’s March 19, 2010 cash balance of $0.2 million. The transaction costs are reflected in general and administrative expenses in the consolidated statements of operations.

Saf-T-Net was the provider of AlertNow, a leading messaging and mass notification solution for the K-12 marketplace. The Company believes the merger with Saf-T-Net supports the Company’s long-term strategic direction and the demands for innovative technology in the education industry. The Company believes that the

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merger with Saf-T-Net will help the Company meet the growing demands of its clients, including the ability to send mass communications via various means.

The Company accounted for the merger under the acquisition method of accounting. Of the total purchase price of $34.4 million, $6.9 million has been allocated to net tangible liabilities acquired, and $15.7 million has been allocated to definite-lived intangible assets acquired. Definite-lived intangible assets consist of the value assigned to Saf-T-Net's customer relationships of $12.7 million, developed and core technology of $2.3 million, and trademarks of $0.7 million. The Company amortizes the value of Saf-T-Net's customer relationships over seven years and the developed and core technology and trademarks, each over three years. Approximately $25.6 million has been allocated to goodwill and is not deductible for tax purposes. Goodwill represents factors including expected synergies from combining operations and is the excess of the purchase price of an acquired business over the fair value of the net tangible and intangible assets acquired. The Company included the financial results of Saf-T-Net in its consolidated financial statements beginning March 20, 2010.

4. Stock-Based Compensation

Stock Incentive Plans

As of June 30, 2011, approximately 3.5 million shares of common stock were available for future grants under the Company's Amended and Restated 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. Awards granted under the 2004 Plan generally vest over a four year period and have an eight year expiration period.

The compensation cost that has been recognized in the unaudited consolidated statements of operations for the Company's stock incentive plans was $10.0 million and $11.0 million for the six months ended June 30, 2010 and 2011, respectively. The total excess tax benefits recognized for stock-based compensation arrangements was $2.8 million and $0.2 million for the six months ended June 30, 2010 and 2011, respectively and are classified as a financing cash inflow with a corresponding operating cash outflow. For stock subject to graded vesting, the Company uses the straight-line method for allocating compensation expense by period.

Stock Options

A summary of stock option activity under the Company's stock incentive plans as of June 30, 2011, and changes during the six months then ended are as follows (aggregate intrinsic value in thousands):

	Number of Shares	Weighted Average Price/Share	Aggregate Intrinsic Value
Exercisable at December 31, 2010	1,970,085	$ 31.40	
Outstanding at December 31, 2010	4,147,810	33.23	
Granted	983,650	36.15	
Exercised	(305,197)	31.04	$ 4,218
Cancelled	(192,819)	35.58	
Outstanding at June 30, 2011	4,633,444	33.89	44,138
Exercisable at June 30, 2011	2,266,225	$ 32.51	$ 24,751

The weighted average remaining contractual lives for all options outstanding under the Company's stock incentive plans at June 30, 2010 and 2011 were 5.8 and 5.6 years, respectively. The weighted average remaining contractual lives for exercisable stock options at June 30, 2010 and 2011 were 4.9 and 4.4 years, respectively. As of June 30, 2011, there was approximately $30.1 million of total unrecognized compensation cost related to outstanding but unvested stock options. The cost is expected to be recognized through June 2015 with a weighted average recognition period of approximately 1.4 years.

BLACKBOARD INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company recognizes compensation expense for share-based awards based on estimated fair values on the date of grant. The weighted average fair value of the options at the date of grant for the six months ended June 30, 2010 and 2011 was $15.95 and $13.58, respectively. The fair value of options that vested was $8.9 million during each of the six months ended June 30, 2010 and 2011. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for stock options granted during the three and six months ended June 30, 2010 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Dividend yield	0%	0%	0%	0%
Expected volatility	44.2%	42.1%	45.0%	41.4%
Risk-free interest rate	2.2%	1.8%	2.3%	2.1%
Expected life of options	4.6 years	4.6 years	4.7 years	4.6 years
Forfeiture rate	12.3%	12.0%	12.3%	12.1%

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. The Company uses the daily historical volatility of its stock price over the expected life of the options to calculate the expected volatility.

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

Expected life of the options — The period of time that the equity grants are expected to remain outstanding. For grants that have been exercised, the Company uses actual exercise data to estimate option exercise timing. For grants that have not been exercised, the Company generally uses the midpoint between the end of the vesting period and the contractual life of the grant to estimate option exercise timing. Options granted during the three and six months ended June 30, 2010 and 2011 have a maximum term of eight years.

Forfeiture rate — The estimated percentage of equity grants 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, level of employee receiving the equity grant and vesting terms and revises the rate if subsequent information, such as the passage of time, indicates that the actual number of options 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 options likely to vest is recognized in compensation cost in the period of the change.

Restricted Stock and Restricted Stock Units

Restricted stock is a stock award subject to a risk of forfeiture that entitles the holder to receive shares of the Company's common stock as the award vests over time. A restricted stock unit is a stock award that entitles the holder to receive shares of the Company's common stock after a vesting requirement is satisfied. The Company estimates the fair value of each restricted stock award and restricted stock unit award using the intrinsic value method which is based on the closing price of the common stock on the date of grant. The Company recognizes compensation expense for restricted stock and restricted stock unit awards over the vesting period on a straight-line basis.

As of June 30, 2011, there was approximately $22.4 million of total unrecognized compensation cost related to outstanding but unvested restricted stock and restricted stock unit awards. The cost is expected to be recognized through December 2015 with a weighted average recognition period of approximately 1.9 years.

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BLACKBOARD INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of restricted stock and restricted stock unit activity under the Company's stock incentive plans as of June 30, 2011, and changes during the six months then ended are as follows (aggregate intrinsic value in thousands):

	Number of Shares	Weighted Average Fair Value/Share	Aggregate Intrinsic Value
Unvested at December 31, 2010	707,604	$ 37.15	
Granted	204,970	36.35	
Vested and issued	(97,075)	32.99	
Cancelled	(55,110)	37.92	
Unvested at June 30, 2011	760,389	$ 37.41	$ 32,993

5. Goodwill and Intangible Assets

Goodwill and intangible assets consist of the following:

	December 31, 2010	June 30, 2011	Weighted-Average Amortization Period
	(In thousands)		(In years)
Goodwill	$ 478,728	$ 481,935	
Acquired technology	$ 79,354	$ 80,011	3.0
Accumulated amortization	(69,236)	(71,629)	
Acquired technology, net	10,118	8,382	
Contracts and customer lists	194,234	199,051	5.7
Accumulated amortization	(96,052)	(109,501)	
Contracts and customer lists, net	98,182	89,550	
Trademarks and domain names	6,232	6,263	2.8
Accumulated amortization	(2,609)	(3,336)	
Trademarks and domain names, net	3,623	2,927	
Patents and related costs	5,601	5,601	10.5
Accumulated amortization	(875)	(1,132)	
Patents and related costs, net	4,726	4,469	
Intangible assets, net	$ 116,649	$ 105,328	

Intangible assets from acquisitions are amortized over three to ten years. Amortization expense related to intangible assets was approximately $18.3 million and $16.8 million for the six months ended June 30, 2010 and 2011, respectively. Amortization expense for the years ending December 31, 2011, 2012, 2013, 2014 and 2015 is expected to be approximately $31.8 million, $27.8 million, $18.2 million, $11.6 million and $9.7 million, respectively.

6. Credit Facilities and Notes Payable

Convertible Senior Notes

In June 2007, the Company issued and sold $165.0 million aggregate principal amount of 3.25% Convertible Senior Notes due 2027 (the "Notes") in a public offering. The Notes bore interest at a rate of 3.25% per year on the

principal amount, accruing from June 20, 2007. Interest was payable semi-annually on January 1 and July 1. The Company made interest payments of $2.7 million on each of July 1, 2010 and July 1, 2011. The Notes were scheduled to mature on July 1, 2027, subject to earlier conversion, redemption or repurchase.

If a make-whole fundamental change, as defined in the Notes, had occurred prior to July 1, 2011, the Company could have been required in certain circumstances to increase the applicable conversion rate for any Notes converted in connection with such fundamental change by a specified number of shares of the Company's common stock.

The Notes were not redeemable prior to July 1, 2011. On July 1, 2011, the holders of the Notes required the Company to repurchase substantially all of the Notes, in accordance with their terms, at a redemption price, payable in cash, of 100% of the principal amount of the Notes plus accrued and unpaid interest. The Company redeemed, in whole, the remaining outstanding Notes on August 1, 2011.

The liability and equity components of the Notes were separately accounted for in a manner that reflected the Company's nonconvertible debt borrowing rate because their terms included partial cash settlement. The Company amortized the resulting debt discount over the period the convertible debt was expected to be outstanding as additional non-cash interest expense. The Company determined that its nonconvertible borrowing rate at the time the Notes were issued was 6.9%. Accordingly, the Company estimated the fair value of the liability (debt) component as $144.1 million upon issuance of the Notes. The excess of the proceeds received over the estimated fair value of the liability component totaling $20.9 million was allocated to the conversion (equity) component. The carrying amount of the equity component of the Notes was $2.6 million at December 31, 2010 and was fully amortized at June 30, 2011. The carrying amount of the equity component of the Notes was recorded as a debt discount and was netted against the remaining principal amount outstanding on the unaudited consolidated balance sheets.

In connection with obtaining the Notes, the Company incurred $4.5 million in debt issuance costs, of which $4.0 million was allocated to the liability component and $0.5 million was allocated to the equity component. The carrying amount of the liability component of the debt issuance costs was $0.1 million at December 31, 2010 and was fully amortized at June 30, 2011. The carrying amount of the liability component of the debt issuance costs was recorded as a debt discount and was netted against the remaining principal amount outstanding on the unaudited consolidated balance sheets.

The debt discount, which includes the equity component and the liability component of the debt issuance costs, was amortized as interest expense using the effective interest method through July 1, 2011, the first redemption date of the Notes. The Company recorded total interest expense of approximately $2.9 million and $2.5 million for the three months ended June 30, 2010 and 2011, respectively, which consisted of $1.3 million in interest expense at a rate of 3.25% per year for each of the three months ended June 30, 2010 and 2011 and $1.6 million and $1.2 million in amortization of the debt discount for the three months ended June 30, 2010 and 2011, respectively. The Company recorded total interest expense of approximately $5.8 million and $5.4 million for the six months ended June 30, 2010 and 2011, respectively, which consisted of $2.7 million in interest expense at a rate of 3.25% per year for each of the six months ended June 30, 2010 and 2011, and $3.1 million and $2.7 million in amortization of the debt discount for the six months ended June 30, 2010 and 2011, respectively.

The principal amount of the liability component of the Notes was $165.0 million at December 31, 2010 and June 30, 2011. The unamortized debt discount was $2.7 million at December 31, 2010 and was fully amortized at June 30, 2011. As the Notes were redeemed during the third quarter of 2011, the Company classified the net carrying amount of the liability component of the Notes of $162.3 million and $165.0 million as of December 31, 2010 and June 30, 2011, respectively, as part of current liabilities in the unaudited consolidated balance sheets.

The Company evaluated whether the Notes were considered to be indexed to the Company's own stock using a two-step approach to evaluate the Notes' contingent exercise and settlement provisions. The Company determined that the Notes' embedded conversion options were indexed to the Company's own stock and, therefore, did not require bifurcation and separate accounting.

BLACKBOARD INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Revolving Credit Facility

On August 4, 2010, the Company entered into a five-year senior secured revolving credit facility agreement with a syndicate of banks led by JPMorgan Chase Bank, N.A. as administrative agent, which is available until August 4, 2015 (the "Credit Agreement"). The Credit Agreement was amended on April 4, 2011 to increase the amount available for borrowing from the original amount of $175.0 million to an amount of up to $225.0 million. Borrowings under the Credit Agreement may be used for working capital needs and general corporate purposes, which may include share repurchases, outstanding debt repayment and acquisitions. Amounts outstanding under the Credit Agreement bear interest at a rate per annum equal to, at the election of the Company, (i) the Adjusted LIBO Rate, as defined in the Credit Agreement, plus a margin which will vary between 2.25% and 3.00% based on the Company's Leverage Ratio, as defined in the Credit Agreement, or (ii) an Alternate Base Rate, as defined in the Credit Agreement, plus a margin which will vary between 1.25% and 2.00% based on the Company's Leverage Ratio. Any overdue amounts under the Credit Agreement will bear interest at a rate per annum equal to 2% plus the rate otherwise applicable to such loan.

The Company is required to pay a commitment fee at a rate per annum which will vary between 0.30% and 0.50% based on the Company's Leverage Ratio on the average daily unused amount of the credit facility commitments during the period for which payment is made, payable quarterly in arrears. The Company records this fee in interest expense. The Company may optionally prepay loans or reduce the credit facility commitments at any time, without penalty.

In connection with obtaining the senior secured credit facility, the Company incurred $1.7 million in debt issuance costs in August 2010, which is amortized as interest expense over the term of the senior secured credit facility using the effective interest method. In connection with amending the senior secured credit facility, the Company incurred an additional $0.3 million in debt issuance costs in April 2011, which is amortized as interest expense over the remaining term of the senior secured credit facility using the effective interest method.

As of December 31, 2010, no amounts were outstanding under the credit facility. As of June 30, 2011, the credit facility had an outstanding principal balance of $46.0 million. On July 1, 2011, the Company borrowed an additional $150.0 million under the credit facility and used the proceeds to repurchase the Notes.

The Company recorded total interest expense related to the Credit Agreement of approximately $0.4 million and $0.7 million for the three and six months ended June 30, 2011, respectively.

Under the terms of the Credit Agreement and related loan documents, the loans and other obligations of the Company are guaranteed by the material domestic subsidiaries of the Company, and are secured by substantially all of the tangible and intangible assets of the Company and each material domestic subsidiary guarantor (including, without limitation, intellectual property and the capital stock of certain subsidiaries). In addition, the Credit Agreement contains customary affirmative and negative covenants applicable to the Company and its subsidiaries with respect to its operations and financial conditions, including a leverage ratio, a senior leverage ratio, an interest coverage ratio and a minimum liquidity covenant. The Company continues to be in full compliance with all covenants contained in the Credit Agreement.

7. Commitments and Contingencies

On July 7, 2011, a purported class action lawsuit relating to the transactions contemplated by the merger agreement was filed in the Delaware Chancery Court against the Company, the Board, Providence, Parent and Acquisition Sub entitled *Astor BK Realty v. Michael L. Chasen, et. al.* On July 8, 2011, a purported class action lawsuit relating to the transactions contemplated by the merger agreement was filed in the Superior Court for the District of Columbia against the Company, the Board, Providence, Parent and Acquisition Sub entitled *Leroy Pogodzinski v. Blackboard Inc. et. al.* On July 19, 2011, a purported class action lawsuit relating to the transactions contemplated by the merger agreement was filed in the Superior Court for the District of Columbia against the Company, the Board, Providence, Parent and Acquisition Sub entitled *Eve Wachsler v. Blackboard Inc. et. al.*

BLACKBOARD INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The lawsuits generally allege that the Board breached its fiduciary duties by, among other things, approving the transactions contemplated by the merger agreement, which allegedly were financially unfair to the Company and its stockholders, and agreeing to provisions in the merger agreement that will allegedly prevent the Board from considering other offers. The lawsuits further allege that certain defendants aided and abetted these breaches. The lawsuits seek unspecified damages and equitable relief, including an injunction halting the transaction or rescission of the transaction as applicable.

On July 27, 2011, plaintiffs in the *Pogodzinski* and *Wachsler* matters moved to consolidate the actions in Superior Court for the District of Columbia and for appointment of their respective counsel as co-lead counsel. On August 2, 2011, the *Pogodzinski* and *Wachsler* plaintiffs jointly filed an amended complaint which, in addition to the claims described above, asserts a claim for breach of fiduciary duty based on alleged misrepresentations and/or omissions of material facts in the Company's preliminary proxy statement filed with the Securities and Exchange Commission on July 22, 2011, relating to, among other things, the sale process conducted by the Board and the retention of, and analyses conducted by, the Company's financial advisor. The plaintiffs contemporaneously filed a motion for limited expedited discovery in connection with their anticipated motion for a preliminary injunction. The motion to consolidate and the motion to expedite are both currently pending before the Superior Court. The Company intends to vigorously defend these matters.

On August 2, 2011, all defendants filed motions to dismiss the Delaware action.

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

8. 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, for which revenue is recognized as services are performed, 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.

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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; a superintendant sending mass communications via voice, email and text messages to parents and students; 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, textbook publishers, student-focused merchants, and corporate and government clients.

We typically license our individual software applications either on a stand-alone basis or bundled as part of one of our six product lines: *Blackboard Learn*; *Blackboard Transact*; *Blackboard Connect*; *Blackboard Mobile*; *Blackboard Collaborate*; and *Blackboard Analytics*. We also offer application hosting for clients who prefer to outsource the management of their *Blackboard Learn* systems, and the *Blackboard Student Services*℠ offering, which includes student lifecycle management and IT support services. In addition, we offer a variety of professional services, including strategic consulting, project management, custom application development and training.

We offer *Blackboard Learn* in all of our markets, *Blackboard Transact* primarily to U.S. and Canadian postsecondary clients, *Blackboard Connect* to primarily U.S. K-12, postsecondary and government clients, *Blackboard Mobile* primarily to U.S. postsecondary and K-12 clients, *Blackboard Collaborate* primarily to U.S. and Canadian postsecondary and K-12 clients, *Blackboard Analytics* primarily to U.S. postsecondary clients, and *Blackboard Student Services* primarily to U.S. and Canadian postsecondary clients.

Proposed Merger with an Affiliate of Providence Equity Partners L.L.C.

On June 30, 2011, we entered into a merger agreement with an affiliate of Providence Equity Partners L.L.C. pursuant to which a merger subsidiary would merge with and into us, with us surviving as a wholly owned subsidiary of the acquiror.

Upon the merger becoming effective, subject to the terms and conditions set forth in the merger agreement, each share of our common stock would be converted into the right to receive $45.00 in cash.

The completion of the merger is subject to customary closing conditions, including the approval of the merger agreement by our stockholders. We expect the merger to close during the second half of 2011.

Redemption of Convertible Promissory Notes

We previously issued $165.0 million aggregate principal amount of 3.25% Convertible Senior Notes due 2027 (the "Notes") in a public offering. We made interest payments of $2.7 million on each of July 1, 2010 and July 1, 2011. The Notes were scheduled to mature on July 1, 2027, subject to earlier conversion, redemption or repurchase. The Notes were not redeemable prior to July 1, 2011, but in accordance with their terms, on July 1, 2011, the holders of the Notes required that we repurchase substantially all of the Notes at a redemption price, payable in cash, equal to 100% of their principal amount plus accrued and unpaid interest. We redeemed the remaining outstanding Notes on August 1, 2011.

Financial Operations Overview

We have grown through internal growth and a number of strategic relationships and acquisitions. In 2008, we acquired The NTI Group, Inc., or NTI; in March 2010, we acquired Saf-T-Net, Inc., or Saf-T-Net; and in January 2011, we acquired txttools Limited, or txttools. The technology we acquired in these transactions provides the foundation for our *Blackboard Connect* platform, including the *AlertNow* service. In 2009, we acquired ANGEL Learning, Inc., or ANGEL, a leading developer of e-learning software to the U.S. education industry. Also in 2009, we acquired the business assets of Terriblyclever Design, LLC, or Terriblyclever, including the technology that is the foundation for our *Blackboard Mobile* platform. In August 2010, we acquired Elluminate Inc., or Elluminate, and Wimba Inc., or Wimba, to create our *Blackboard Collaborate* platform, and in December 2010, we acquired the business assets of iStrategy, LLC to create our new *Blackboard Analytics* platform. Also in December 2010, we acquired Presidium Inc., or Presidium, a company for which we held a warrant exercisable for 9.9% of the equity interest, to create our new *Blackboard Student Services* offering. We believe these acquisitions support our long-term strategic direction and the demands for innovative technology in the education industry, have helped us create stronger, more flexible technology in support of teaching, learning and student engagement, and accelerate the pace of innovation and interoperability in e-learning.

We generate revenues from sales and licensing of products and from professional services. Our product revenues consist principally of revenues from annual software licenses, subscription fees from customers accessing our on-demand application services, student support services and application hosting services. We typically sell our licenses, student support services and hosting services under annually renewable agreements, and our clients generally pay the annual fees at the beginning of the contract term. 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. We recognize revenues from these agreements ratably over the contractual term, which is typically 12 months. We initially record billings associated with licenses and hosting services as deferred revenues and then recognize them ratably into revenues over the contract term. We also generate product revenues from the sale of hardware, including third-party hardware and we generally recognize these revenues upon shipment of the products to our clients.

In addition to our products, we offer a variety of professional services, including training, implementation, installation and other consulting services such as strategic consulting, project management, and custom application development. We perform substantially all of our professional services on a time-and-materials basis. We recognize these revenues as the services are performed.

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 generally recognize these costs upon shipment of the products to our clients. Cost of product revenues also includes amortization of internally developed technology available for sale, telecommunications costs related to the *Blackboard Connect* product, all direct materials and shipping and handling costs, employee compensation, including bonuses, 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. We expense all of these costs as incurred. Cost of product revenues excludes amortization of acquired technology intangibles resulting from acquisitions, which is separately included on our consolidated statements of operations as amortization of intangibles acquired in acquisitions. Amortization expense related to acquired technology was $5.3 million and $2.6 million for the six months ended June 30, 2010 and 2011, respectively.

Cost of professional services revenues primarily includes the costs of compensation, including bonuses, 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. We expense all of these costs as incurred.

Research and development expenses include the costs of compensation, including bonuses, 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 used in these functions. We expense all of these costs 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. We expense all of these costs as incurred.

General and administrative expenses include the costs of compensation, including bonuses, 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. We expense all of these costs as incurred.

Amortization of intangibles includes the amortization of costs associated with products, acquired technology, customer lists, non-compete agreements and other identifiable intangible assets. We record these intangible assets at the time of our acquisitions and they 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, fair value measures, 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. For additional information that may bear on our result of operations, please see the sections captioned “Risk Factors” in our most recent annual and quarterly reports filed with the Securities and Exchange Commission. The following discussion of selected critical accounting policies supplements the information relating to our critical accounting policies described in Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2010.

Revenue recognition. We derive revenues from two sources: product sales and professional services sales. Product revenues include software license fees, subscription fees from customers accessing our on-demand application services, student support services, hardware, premium support and maintenance, and hosting revenues. Professional services revenues include revenues from training and consulting services. 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, known as VSOE, of fair value for our support and maintenance and hosting separate from our software for the majority of our products. Accordingly, when licenses are sold in conjunction with our support and maintenance and hosting, we recognize the license revenue over the term of the service period. When licenses of certain offerings are sold in conjunction with our support and maintenance and hosting where we do have VSOE, we recognize the license revenue upon delivery of the license and recognize the support and maintenance and hosting revenues over the term of the service period.

We recognize software and hosting set-up fees ratably over the term of the agreements.

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.

Product revenues and cost of product revenues related to hardware and software sales executed or significantly modified after December 31, 2009 in the *Blackboard Transact* product line are generally recognized upfront upon delivery of the product to the customer. Product revenues in the *Blackboard Transact* product line generally consist of hardware, software and support. Generally, the consideration allocated to the hardware and software deliverables is determined using a best estimate of selling price, which we estimate based on an analysis of market data and our internal cost to deliver each element. Generally, the consideration allocated to the support deliverable is based on third party evidence. The effect of changes in either selling price or the method or assumptions used to determine selling price for a specific deliverable could have a material effect on the allocation of the overall consideration of an arrangement. For hardware and software sales executed before December 31, 2009, in the absence of VSOE, all revenue from such sales was recognized ratably over the term of the applicable maintenance service period.

Our sales arrangements may include professional services sold separately under professional services agreements that include training and consulting services. We account for revenues from these arrangements separately from the license revenue because they meet the criteria for separate accounting. The more significant factors we consider in determining whether revenue should be accounted for separately include the nature of the professional services, such as consideration of whether the professional services are essential to the functionality of the licensed product, degree of risk, availability of professional services from other vendors and timing of payments. We recognize professional services revenues that are sold separately from license revenue as the professional services are performed on a time-and-materials basis.

We do not offer specified upgrades or incrementally significant discounts. We record advance payments 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. We account for any contingencies, such as rights of return, conditions of acceptance, warranties and price protection as a separate element. The effect of accounting for these contingencies included in revenue arrangements has not historically been material.

Recent Accounting Pronouncements In May 2011, the Financial Accounting Standards Board ("FASB") amended the accounting standards related to fair value measurements to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The amended guidance changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and early adoption is not permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In June 2011, the FASB amended the accounting standards for the presentation of comprehensive income. The amended guidance requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of equity. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and early adoption is

permitted. We do not believe the adoption of this guidance will have a material impact 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 sheets 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, we believe it is important to look at both revenues and deferred revenues.

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

- Recurring revenues include those product revenues that recur each year, assuming that clients renew their contracts. These revenues include revenues from the licensing of all of our software products, hosting arrangements, subscription fees from customers accessing our on-demand application services, student support services and enhanced support and maintenance contracts related to our software products, including certain professional services performed by our professional services groups.
- Non-recurring revenues include those product revenues that do not contractually recur. These revenues include certain hardware components of our *Blackboard Transact* products, certain third-party hardware and software sold to our clients in conjunction with our software licenses, professional services, fees from our off-campus payment merchant program and certain sales of licenses, as well as the supplies and commissions we earn from publishers related to digital course supplement downloads.

Many of our product revenues are recognized ratably over the contract term, which is typically one year. As a result, in the case of both recurring revenues and non-recurring revenues, an increase or decrease in the revenues in one period may be attributable primarily to increases or decreases in sales in prior periods. Unlike recurring revenues, which benefit both from new sales and from the renewal of previously existing sales, non-recurring 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.

Seasonality

Our operating results and cash flows normally fluctuate as a result of seasonal variations in our business, principally due to the timing of client budget cycles and student attendance at client facilities. Historically, we have had lower new sales in our first and fourth quarters than in the remainder of the year. Our expenses, however, do not generally vary significantly with these changes on a quarterly basis. Historically, we have performed a disproportionate amount of our professional services, for which revenue is recognized as the services are performed, in our second and third quarters each year. We expect quarterly fluctuations in operating results to continue as a result of the uneven seasonal demand for our licenses and services offerings.

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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 June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Revenues:				
Product	90%	92%	92%	92%
Professional services	10	8	8	8
Total revenues	100	100	100	100
Operating expenses:				
Cost of product revenues, excludes amortization of acquired technology included in amortization of intangibles resulting from acquisitions shown below	25	26	25	28
Cost of professional services revenues	5	5	5	5
Research and development	11	14	12	14
Sales and marketing	26	33	26	31
General and administrative	16	19	15	17
Amortization of intangibles resulting from acquisitions	9	6	8	7
Total operating expenses	92	103	91	102
Income (loss) from operations	8%	(3)%	9%	(2)%

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

Our total revenues for the three months ended June 30, 2011 were $124.2 million, representing an increase of $16.4 million, or 15%, as compared to $107.7 million for the three months ended June 30, 2010.

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

	Three Months Ended June 30,					
	2010			2011		
	Product Revenues	Professional Services Revenues	Total	Product Revenues	Professional Services Revenues	Total
	(Unaudited) (In millions)					
Recurring revenues	$ 83.9	$ 1.9	$ 85.8	$103.2	$ 2.5	$105.7
Non-recurring revenues	13.6	8.3	21.9	11.1	7.4	18.5
Total revenues	$ 97.5	$ 10.2	$107.7	$114.3	$ 9.9	$124.2

Product revenues. Our product revenues, including domestic and international, for the three months ended June 30, 2011 were $114.3 million, representing an increase of $16.8 million, or 17%, as compared to $97.5 million for the three months ended June 30, 2010. Recurring product revenues increased by $19.3 million, or 23%, for the three months ended June 30, 2011 as compared to the three months ended June 30, 2010. This increase in recurring revenues was primarily due to a $5.9 million increase due to the Elluminate and Wimba acquisitions that closed in August 2010 and the resulting launch of our *Blackboard Collaborate* platform and a $5.3 million increase resulting from the Presidium acquisition that closed in December 2010 and the resulting launch of our *Blackboard Student Services* offering. The remaining increase in recurring product revenues primarily resulted from an increase in *Blackboard Mobile* revenues of $4.6 million, a $3.0 million increase in managed hosting revenues and a $1.7 million increase in revenues for subscription fees from customers accessing our on-demand application services primarily related to *Blackboard Connect*.

The decrease in non-recurring product revenues primarily relates to lower revenues from *Blackboard Transact* due to the benefit recognized in the three months ended June 30, 2010 due to our early adoption on January 1, 2010 of the change in revenue recognition guidance under which more revenue is recognized upfront.

Of our total revenues, our total international revenues for the three months ended June 30, 2011 were $20.5 million, representing an increase of $0.8 million, or 4%, as compared to $19.7 million for the three months ended June 30, 2010. International revenues as a percentage of total revenues decreased to 17% for the three months ended June 30, 2011 from 18% for the three months ended June 30, 2010, primarily due to an increase in domestic revenues. International product revenues, which consist primarily of recurring product revenues, were $19.5 million for the three months ended June 30, 2011, representing an increase of $1.1 million, or 6%, as compared to $18.4 million for the three months ended June 30, 2010. The increase in international recurring product revenues was primarily due to an increase in international revenues from the Elluminate and Wimba acquisitions that closed in August 2010 and led to the launch of our *Blackboard Collaborate* platform.

Professional services revenues. Our professional services revenues for the three months ended June 30, 2011 were $9.9 million, representing a decrease of $0.4 million, or 4%, as compared to $10.2 million for the three months ended June 30, 2010. The decrease in professional services revenues was primarily attributable to the timing of delivery and revenue recognition for certain service engagements. As a percentage of total revenues, professional services revenues were 10% and 8% for the three months ended June 30, 2010 and 2011, respectively.

Cost of product revenues. Our cost of product revenues for the three months ended June 30, 2011 was $32.5 million, representing an increase of $5.1 million, or 19%, as compared to $27.4 million for the three months ended June 30, 2010. The increase in cost of product revenues was primarily attributable to increased personnel-related costs due to higher average headcount during the three months ended June 30, 2011 as compared to the three months ended June 30, 2010, due to the inclusion of our 2010 and 2011 acquisitions. Cost of product revenues as a percentage of product revenues was 28% for each of the three months ended June 30, 2010 and 2011.

Cost of product revenues excludes amortization of acquired technology intangibles resulting from acquisitions, which is reported separately on our unaudited consolidated statements of operations. Amortization expense related to acquired technology was $2.8 million and $1.1 million for the three months ended June 30, 2010 and 2011, respectively. This decrease was attributable to the completion of the amortization of acquired technology acquired in our acquisition of NTI in 2008 and ANGEL in 2009, offset, in part, by the increase in amortization of acquired technology related to our 2010 and 2011 acquisitions. Cost of product revenues, including amortization of acquired technology, as a percentage of product revenues was 29% for the three months ended June 30, 2011 as compared to 31% for the three months ended June 30, 2010.

Cost of professional services revenues. Our cost of professional services revenues for the three months ended June 30, 2011 was $6.3 million, representing an increase of $0.9 million, or 17%, as compared to $5.4 million for the three months ended June 30, 2010. The increase in the cost of professional services revenues was primarily attributable to an increase in personnel-related costs associated with professional services revenues from new professional service engagements in current and prior periods, as well as increased costs associated with the inclusion of our 2010 and 2011 acquisitions. Cost of professional services revenues as a percentage of professional services revenues increased to 64% for the three months ended June 30, 2011 from 53% for the three months ended June 30, 2010 due to the timing of delivery and revenue recognition for certain service engagements.

Research and development expenses. Our research and development expenses for the three months ended June 30, 2011 were $16.9 million, representing an increase of $4.8 million, or 40%, as compared to $12.0 million for the three months ended June 30, 2010. This increase was primarily attributable to increased personnel-related costs due to higher average headcount during the three months ended June 30, 2011 as compared to the three months ended June 30, 2010, including increased personnel-related costs associated with the inclusion of our 2010 and 2011 acquisitions.

Sales and marketing expenses. Our sales and marketing expenses for the three months ended June 30, 2011 were $40.4 million, representing an increase of $12.5 million, or 45%, as compared to $27.9 million for the three months ended June 30, 2010. This increase was primarily attributable to increased personnel-related costs due to higher average headcount during the three months ended June 30, 2011 as compared to the three months ended

June 30, 2010, including increased personnel-related costs associated with the inclusion of our 2010 and 2011 acquisitions.

General and administrative expenses. Our general and administrative expenses for the three months ended June 30, 2011 were $24.3 million, representing an increase of $7.4 million, or 44%, as compared to $16.9 million for the three months ended June 30, 2010. This increase was primarily attributable to approximately $6.7 million in transition, integration and transaction-related costs incurred during the three months ended June 30, 2011, which includes costs associated with our proposed acquisition by Providence, as compared to approximately $1.0 million related to the transition, integration and transaction-related costs from our Saf-T-Net, Elluminate and Wimba acquisitions that were incurred during the three months ended June 30, 2010. The increase in general and administrative expenses was also attributable to increased personnel-related costs due to higher average headcount during the three months ended June 30, 2011 as compared to the three months ended June 30, 2010, including increased personnel-related costs associated with the inclusion of our 2010 and 2011 acquisitions.

Amortization of intangibles resulting from acquisitions. Our amortization of intangibles resulting from acquisitions for the three months ended June 30, 2011 were $7.6 million, representing a decrease of $1.7 million, or 18%, as compared to $9.4 million for the three months ended June 30, 2011. This decrease was attributable to the completion of the amortization of intangible assets acquired in connection with our acquisition of WebCT in 2006 and the completion of amortization of acquired technology acquired in our acquisition of NTI in 2008 and ANGEL in 2009 offset, in part, by the amortization of intangible assets acquired in our 2010 and 2011 acquisitions.

Net interest expense. Our net interest expense was $2.9 million for each of the three months ended June 30, 2010 and 2011. The three months ended June 30, 2011 includes $0.4 million in interest expense associated with our revolving credit facility with no comparable amount for the three months ended June 30, 2010. The remainder of our net interest expense during the three months ended June 30, 2010 and 2011 was primarily the interest expense incurred on our convertible senior notes.

Other expense. Our other expense for the three months ended June 30, 2011 was $0.2 million, representing a decrease of $0.2 million, as compared to other expense of $0.4 million for the three months ended June 30, 2010. This decrease was related to the remeasurement of our foreign subsidiaries' ledgers that are denominated in the respective subsidiary's local currency, into U.S. dollars.

(Provision for) benefit from income taxes. Our benefit from income taxes for the three months ended June 30, 2011 was $2.9 million, as compared to our provision for income taxes of $1.1 million for the three months ended June 30, 2010. This change was primarily due to our loss before benefit from income taxes for the three months ended June 30, 2011, as compared to income before provision for income taxes for the three months ended June 30, 2010.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Our total revenues for the six months ended June 30, 2011 were $242.9 million, representing an increase of $34.1 million, or 16%, as compared to $208.8 million for the six months ended June 30, 2010.

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

	Six Months Ended June 30,					
	2010			2011		
	Product Revenues	Professional Services Revenues	Total	Product Revenues	Professional Services Revenues	Total
	(In millions)					
Recurring revenues	$163.9	$ 3.8	$167.7	$203.6	$ 4.8	$208.4
Non-recurring revenues	27.3	13.8	41.1	20.1	14.4	34.5
Total revenues	$191.2	$ 17.6	$208.8	$223.7	$ 19.2	$242.9

Product revenues. Our product revenues, including domestic and international, for the six months ended June 30, 2011 were $223.7 million, representing an increase of $32.5 million, or 17%, as compared to $191.2 million for the six months ended June 30, 2010. Recurring product revenues increased by $39.7 million, or 24%, for the six

months ended June 30, 2011 as compared to the six months ended June 30, 2010. This increase in recurring revenues was primarily due to an $11.0 million increase due to the Elluminate and Wimba acquisitions that closed in August 2010 and the resulting launch of our *Blackboard Collaborate* platform and a $10.4 million increase resulting from the Presidium acquisition that closed in December 2010 and the resulting launch of our *Blackboard Student Services* offering. The remaining increase in recurring product revenues primarily resulted from an increase in *Blackboard Mobile* revenues of $8.9 million, a $5.9 million increase in managed hosting revenues and a $4.6 million increase in revenues for subscription fees from customers accessing our on-demand application services primarily related to *Blackboard Connect*.

The decrease in non-recurring product revenues primarily relates to lower revenues from *Blackboard Transact* due to the benefit recognized in the three months ended June 30, 2010 due to our early adoption on January 1, 2010 of the change in revenue recognition guidance under which more revenue is recognized upfront.

Of our total revenues, our total international revenues for the six months ended June 30, 2011 were $40.4 million, representing an increase of $2.7 million, or 7%, as compared to $37.6 million for the six months ended June 30, 2010. International revenues as a percentage of total revenues decreased to 17% for the six months ended June 30, 2011 from 18% for the six months ended June 30, 2010, primarily due to an increase in domestic revenues. International product revenues, which consist primarily of recurring product revenues, were $38.2 million for the six months ended June 30, 2011, representing an increase of $2.9 million, or 8%, as compared to $35.3 million for the six months ended June 30, 2010. The increase in international recurring product revenues was primarily due to an increase in international revenues from the Elluminate and Wimba acquisitions that closed in August 2010 and led to the launch of our *Blackboard Collaborate* platform.

Professional services revenues. Our professional services revenues for the six months ended June 30, 2011 were $19.2 million, representing an increase of $1.6 million, or 9%, as compared to $17.6 million for the six months ended June 30, 2010. The increase in professional services revenues was primarily attributable to the timing of delivery and revenue recognition for certain service engagements, as well as new professional services engagements resulting from our 2010 acquisitions. As a percentage of total revenues, professional services revenues was 8% for each of the six months ended June 30, 2010 and 2011.

Cost of product revenues. Our cost of product revenues for the six months ended June 30, 2011 was $67.0 million, representing an increase of $15.0 million, or 29%, as compared to $51.9 million for the six months ended June 30, 2010. The increase in cost of product revenues was primarily attributable to increased personnel-related costs due to higher average head count during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010, due to the inclusion of our 2010 and 2011 acquisitions. Cost of product revenues as a percentage of product revenues increased to 30% for the six months ended June 30, 2011 from 27% for the six months ended June 30, 2010.

Cost of product revenues excludes amortization of acquired technology intangibles resulting from acquisitions, which is reported separately on our unaudited consolidated statements of operations. Amortization expense related to acquired technology was $5.3 million and $2.6 million for the six months ended June 30, 2010 and 2011, respectively. This decrease was attributable to the completion of the amortization of acquired technology acquired in our acquisition of NTI in 2008 and ANGEL in 2009, offset, in part, by the increase in amortization of acquired technology related to our 2010 and 2011 acquisitions. Cost of product revenues, including amortization of acquired technology, as a percentage of product revenues was 31% for the six months ended June 30, 2011 as compared to 30% for the six months ended June 30, 2010.

Cost of professional services revenues. Our cost of professional services revenues for the six months ended June 30, 2011 was $13.0 million, representing an increase of $3.1 million, or 31%, as compared to $9.9 million for the six months ended June 30, 2010. The increase in the cost of professional services revenues was primarily attributable to an increase in personnel-related costs associated with professional services revenues from new professional service engagements in current and prior periods, as well as increased costs associated with the inclusion of our 2010 and 2011 acquisitions. Cost of professional services revenues as a percentage of professional services revenues increased to 67% for the six months ended June 30, 2011 from 56% for the six months ended June 30, 2010 due to the timing of delivery and revenue recognition for certain service engagements.

Research and development expenses. Our research and development expenses for the six months ended June 30, 2011 were $33.4 million, representing an increase of $9.2 million, or 38%, as compared to $24.3 million for the six months ended June 30, 2010. This increase was primarily attributable to increased personnel-related costs due to higher average headcount during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010, including increased personnel-related costs associated with the inclusion of our 2010 and 2011 acquisitions.

Sales and marketing expenses. Our sales and marketing expenses for the six months ended June 30, 2011 were $75.0 million, representing an increase of $21.8 million, or 41%, as compared to $53.2 million for the six months ended June 30, 2010. This increase was primarily attributable to increased personnel-related costs due to higher average headcount during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010, including increased personnel-related costs associated with the inclusion of our 2010 and 2011 acquisitions.

General and administrative expenses. Our general and administrative expenses for the six months ended June 30, 2011 were $43.0 million, representing an increase of $11.4 million, or 36%, as compared to $31.6 million for the six months ended June 30, 2010. This increase was primarily attributable to approximately $7.7 million in transition, integration and transaction-related costs incurred during the six months ended June 30, 2011, which includes costs associated with our proposed acquisition by Providence, as compared to approximately $1.5 million related to the transition, integration and transaction-related costs from our Saf-T-Net, Elluminate and Wimba acquisitions that were incurred during the six months ended June 30, 2010. The increase in general and administrative expenses was also attributable to increased personnel-related costs due to higher average headcount during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010, including increased personnel-related costs associated with the inclusion of our 2010 and 2011 acquisitions.

Amortization of intangibles resulting from acquisitions. Our amortization of intangibles resulting from acquisitions for the six months ended June 30, 2011 were $16.8 million, representing a decrease of $1.5 million, or 8%, as compared to $18.3 million for the six months ended June 30, 2010. This decrease was attributable to the completion of the amortization of intangible assets acquired in connection with our acquisition of WebCT in 2006 and the completion of amortization of acquired technology acquired in our acquisition of NTI in 2008 and ANGEL in 2009 offset, in part, by the amortization of intangible assets acquired in our 2010 and 2011 acquisitions.

Net interest expense. Our net interest expense for the six months ended June 30, 2011 was $6.1 million, representing an increase of $0.3 million, or 6%, as compared to $5.7 million for the six months ended June 30, 2010. The six months ended June 30, 2011 includes $0.7 million in interest expense associated with our revolving credit facility with no comparable amount for the six months ended June 30, 2010. The remainder of our net interest expense during the six months ended June 30, 2010 and 2011 was primarily the interest expense incurred on our convertible senior notes, which does not vary significantly from period to period.

Other expense. Our other expense for the six months ended June 30, 2011 was $0.6 million, representing a decrease of $0.3 million, as compared to other expense of $0.9 million for the six months ended June 30, 2010. This decrease was related to the remeasurement of our foreign subsidiaries' ledgers that are denominated in the respective subsidiary's local currency, into U.S. dollars.

(Provision for) benefit from income taxes. Our benefit from income taxes for the six months ended June 30, 2011 was $4.5 million, as compared to our provision for income taxes of $3.6 million for the six months ended June 30, 2010. This change was primarily due to our loss before benefit from income taxes for the six months ended June 30, 2011, as compared to income before provision for income taxes for the six months ended June 30, 2010.

Liquidity and Capital Resources

Changes in Cash and Cash Equivalents

Our cash and cash equivalents were $84.7 million at June 30, 2011 as compared to $70.3 million at December 31, 2010. The increase in cash and cash equivalents was primarily due to amounts borrowed under the revolving credit facility, partially offset by cash used in operating and investing activities. Our cash and cash equivalents consist of highly liquid investments, which are readily convertible into cash and have original maturities of three months or less.

Net cash used in operating activities. Net cash used in operating activities was $20.3 million during the six months ended June 30, 2011 as compared to $3.6 million during the six months ended June 30, 2010. This decrease was primarily attributable to our net loss of $7.4 million for the six months ended June 30, 2011, as compared to net income of $9.4 million for the six months ended June 30, 2010. In addition, accounts receivable increased $65.2 million during the six months ended June 30, 2011, net of the impact of acquired receivables, due to the timing of certain client renewal invoicing and sales to new and existing clients during the current period, as well as timing of collections.

Net cash used in investing activities. Net cash used in investing activities was $20.7 million during the six months ended June 30, 2011 as compared to $52.9 million during the six months ended June 30, 2010. This decrease was primarily due to a $34.1 million decrease in cash expenditures for acquisitions during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. This decrease in cash used for acquisitions was slightly offset by an increase of $1.8 million in purchases of property and equipment during the six months ended June 30, 2011, as compared to the six months ended June 30, 2010. Purchases of property and equipment represented approximately 6% of total revenues for each of the six months ended June 30, 2010 and 2011.

Net cash provided by financing activities. Net cash provided by financing activities was $55.4 million during the six months ended June 30, 2011 as compared to $26.4 million during the six months ended June 30, 2010. This increase was primarily due to $46.0 million borrowed under the revolving credit facility during 2011. This increase was partially offset by a decrease of $14.1 million in proceeds from the exercise of stock options as well as a decrease of $2.6 million in excess tax benefits from stock-based compensation during the six months ended June 30, 2011, as compared to the six months ended June 30, 2010.

Notes Payable

In June 2007, we issued and sold $165.0 million aggregate principal amount of 3.25% Convertible Senior Notes due 2027 in a public offering. The Notes bore interest at a rate of 3.25% per year on the principal amount. Interest is payable semi-annually on January 1 and July 1. We made interest payments of $2.7 million on each of July 1, 2010 and July 1, 2011.

Holders of the Notes required us to repurchase substantially all of the Notes on July 1, 2011 and we redeemed, in whole, the remaining outstanding Notes on August 1, 2011. As of the date of this report, none of the Notes are outstanding.

Revolving Credit Facility

On August 4, 2010, we entered into a five-year senior secured revolving credit facility agreement with a syndicate of banks led by JPMorgan Chase Bank, N.A. as administrative agent, which is available until August 4, 2015 (the "Credit Agreement"). The Credit Agreement was amended on April 4, 2011 to increase the amount available for borrowing from the original amount of $175.0 million to an amount of up to $225.0 million. Borrowings under the Credit Agreement may be used for working capital needs and general corporate purposes, which may include share repurchases, outstanding debt repayment and acquisitions. Amounts outstanding under the Credit Agreement bear interest at a variable interest rate set forth in the Credit Agreement equal to, at our election, (i) the Adjusted LIBO Rate, as defined in the Credit Agreement, plus a margin which will vary between 2.25% and 3.00% based on our Leverage Ratio, as defined in the Credit Agreement, or (ii) an Alternate Base Rate, as defined in the Credit Agreement, plus a margin which will vary between 1.25% and 2.00% based on our Leverage Ratio. Any overdue amounts under the Credit Agreement will bear interest at a rate per annum equal to 2% plus the rate otherwise applicable to such amount.

We are required to pay a commitment fee of between 0.30% and 0.50% of the average unused amount of the credit facility during each quarter. We record this fee in interest expense.

In connection with obtaining the senior secured credit facility, we incurred $1.7 million in debt issuance costs in August 2010, which is amortized as interest expense over the term of the senior secured credit facility using the effective interest method. In connection with amending the senior secured credit facility, we incurred an additional

$0.3 million in debt issuance costs in April 2011, which is amortized as interest expense over the remaining term of the senior secured credit facility using the effective interest method.

As of December 31, 2010, no amounts were outstanding under the credit facility. As of June 30, 2011, the credit facility had an outstanding principal balance of $46.0 million. On July 1, 2011, we borrowed an additional $150.0 million under the credit facility and used the proceeds to repurchase the Notes.

We recorded total interest expense related to the Credit Agreement of approximately $0.4 million and $0.7 million for the three and six months ended June 30, 2011, respectively.

Under the terms of the Credit Agreement and related loan documents, our loans and other obligations are guaranteed by our material domestic subsidiaries, and are secured by substantially all of our tangible and intangible assets and those of each of our material domestic subsidiary guarantors. In addition, the Credit Agreement contains customary affirmative and negative covenants applicable to us and our subsidiaries with respect to our operations and financial conditions, including a leverage ratio, a senior leverage ratio, an interest coverage ratio and a minimum liquidity covenant. We are in full compliance with all covenants contained in the Credit Agreement.

Working Capital Needs

We believe that our existing cash and cash equivalents, together with future cash expected to be provided by operating activities and amounts that may be borrowed under our revolving credit facility, will be sufficient to meet our working capital and capital expenditure needs over at least 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.

Off-Balance Sheet Arrangements

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.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk.***

Interest income on our cash and cash equivalents is subject to interest rate fluctuations. For the three and six months ended June 30 2011, a ten percent change in interest rates would not have had a material effect on our interest income.

We have accounts on our foreign subsidiaries' ledgers which are maintained in the respective subsidiary's local currency and remeasured into the U.S. dollar for reporting of our consolidated results. As a result, we are exposed to fluctuations in the exchange rates of various currencies against the U.S. dollar and against the currencies of other countries in which we maintain foreign denominated balances, including the Canadian dollar, Euro, British pound, Japanese yen, Australian dollar and others. Because of such foreign currency exchange rate fluctuations, we recognized other expense of $0.4 million and $0.2 million during the three months ended June 30, 2010 and 2011, respectively, and we recognized other expense of $0.9 million and $0.6 million during the six months ended June 30, 2010 and 2011, respectively. For the three and six months ended June 30, 2011, a ten percent adverse change in the prevailing exchange rates as of June 30, 2011 would not have had a material effect on our consolidated results of operations or financial condition.

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 June 30, 2011. 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 June 30, 2011, 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 changes 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 June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

The description of the legal proceedings contained in Note 7 — Commitments and Contingencies — in the Notes to the Unaudited Consolidated Financial Statements is incorporated by reference herein.

In addition, we may be involved in various other legal proceedings from time to time incidental to the ordinary conduct of our business. We believe that any ultimate liability resulting from any such other litigation will not have a material adverse effect on our results of operations, financial position or cash flows.

Item 1A. *Risk Factors.*

We describe our business risk factors below. This description includes any material changes to and supersedes the description of the risk factors previously disclosed in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.

A. RISKS RELATED TO OUR PROPOSED MERGER WITH AN AFFILIATE OF PROVIDENCE EQUITY PARTNERS L.L.C.

There are risks and uncertainties associated with our proposed merger with an affiliate of Providence Equity Partners L.L.C.

On June 30, 2011, we entered into a merger agreement with an affiliate of Providence Equity Partners L.L.C. pursuant to which a merger subsidiary will merge with and into Blackboard, with Blackboard surviving the merger as a wholly owned subsidiary of the acquiror.

There are a number of risks and uncertainties relating to the merger. The merger may not be consummated or may not be consummated in the timeframe or manner currently anticipated, as a result of a variety of factors, including but not limited to the failure to satisfy one or more of the closing conditions set forth in the merger agreement or the acquiror’s failure to obtain sufficient financing to complete the merger. In addition, lawsuits have been filed, and additional lawsuits may be filed, against us and our directors in connection with the merger that, among other things, seek to enjoin the consummation of the merger. If the plaintiffs in any such lawsuit are successful in obtaining injunctive or other relief restraining, enjoining or otherwise prohibiting the consummation of the merger, such injunctive or other relief could prevent the merger from being consummated. In addition, there can be no assurance that the requisite stockholder or regulatory approvals required by the merger agreement will be obtained, that the other conditions to closing of the merger will be satisfied or waived or that other events will not intervene to delay or result in the termination of the merger agreement.

If the merger is not completed for any reason, our stockholders will not receive any payment for their shares pursuant to the merger agreement, and the price of our common stock may change to the extent that the current market price of our common stock reflects an assumption that the merger will be consummated. In addition, if the merger is not completed, we expect that our management will operate our business in a manner similar to that in which it is being operated today and that our stockholders will continue to be subject to the same risks and opportunities to which they currently are subject, including, among other things, the nature of the industry on which our business largely depends, and general industry, economic, regulatory and market conditions. Pending the closing of the merger, the merger agreement also restricts us from engaging in certain actions without the acquiror’s consent, which could prevent us from pursuing business opportunities that may arise prior to the closing of the merger. Any delay in closing or failure to close the merger could have an adverse effect on our operating results and business generally, our business relationships, including with our customers and employees, and our ability to pursue alternative strategic transactions or implement alternative business plans. If the merger agreement is not adopted by our stockholders, or if the merger is not consummated for any other reason, there can be no assurance that any other transaction acceptable to us will be offered or that our business, prospects or results of operations will not be adversely affected.

Our business could be adversely affected as a result of uncertainty related to the merger.

The announcement and pendency of the merger may be disruptive to our business relationships and business generally, which could have an adverse impact on our financial condition and results of operations. For example:

- the attention of our management may be directed to transaction-related considerations and may be diverted from the day-to-day operations of our business;
- our employees may experience uncertainty about their future roles with us, which might impair our ability to attract and retain key personnel and other employees; and
- customers or other business partners may experience uncertainty about our future and may choose to delay purchases or renewals with us, seek alternative relationships with third parties or seek to alter their business relationships with us.

In addition, we have incurred, and will continue to incur, substantial costs, expenses and fees related to the merger, including expenses in connection with the retention of legal, accounting and financial advisors and consultants and the costs of defending against lawsuits filed against us and our directors in connection with the merger, and many of these costs, expenses and fees must be paid regardless of whether the merger is completed. In addition, upon termination of the merger agreement under specified circumstances, we may be required to pay the acquiror a termination fee of up to $49.1 million. If the merger is not consummated due to a breach of the merger agreement by the acquiror, our remedy may be limited to receipt of a termination fee of approximately $106.4 million, and under some circumstances, we would not be entitled to receive any termination fee.

If we are unable to effectively manage these risks, our business, financial condition or results of operations may be adversely affected.

B. RISKS RELATED TO ECONOMIC CONDITIONS

Current challenging economic conditions may adversely affect our business.

Challenging economic conditions related to the protracted worldwide economic downturn that began in 2008 may affect our sales and renewals of our products and services, and could negatively affect our revenues and our ability to maintain or grow our business. In addition, instability in the financial markets associated with the economic downturn has resulted in a tightening of credit markets, which could impair the ability of our customers to obtain credit to finance purchases of our products or impair our ability to obtain credit to finance investments in our business. Our client base is diverse and each client or potential client faces a unique set of risks. These risks include, for example, the availability of public funds and the possibility of state and local budget cuts, reduced enrollment or lower revenues, any of which could lead to a reduction in overall spending, including information technology spending, by our current and potential clients and a corresponding decline in demand for our products and services. A prolonged economic disruption may result in a reduction in overall demand for educational software products and services, which could cause a decline in both new sales and renewals of our existing products and difficulty in establishing a market for our new products and services. In addition, we have experienced some lengthening of sales cycles and, depending on the future economic climate, may see a continuation of this trend. Furthermore, our accounts receivable may increase and the relative aging of our receivables may deteriorate if our clients delay or are unable to make their payments due to the tightening of credit markets and the lack of available funding. A prolonged economic downturn may make it difficult for potential clients to buy our products and might compromise the ability of existing clients to renew their licenses.

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 would 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. In light of the severe economic downturn experienced in the United States and globally since 2008, many of our clients have experienced and may continue to experience budgetary pressures, which may have a negative impact on sales of our products.

C. RISKS RELATED TO OUR PRODUCTS AND SERVICES

If the products we develop and acquire do not gain market acceptance, our revenues may decrease and we may not realize a return on such investments.

We make substantial investments to develop and improve our products and acquire products through mergers and acquisitions, and there can be no assurance that our investments will be successful. Our ability to grow our business will be compromised if we do not develop and acquire products and services that achieve broad market acceptance with our current and potential clients. We have recently released a new version, Release 9.1, of our *Blackboard Learn* platform which offers enhanced functionality over prior versions. If clients do not upgrade to the latest version of the *Blackboard Learn* platform, the functionality of their existing installed versions will not compare as favorably to competing products which may cause a reduction in renewal rates. Further, if the latest version of our software does not become widely adopted by clients, we may not be able to justify the investments we have made and our financial results will suffer.

We acquired the technology underlying our newest products and services, including the *Blackboard Mobile* product line, *Blackboard Collaborate*, *Blackboard Student Services*, and *Blackboard Analytics* through a number of strategic acquisitions. Our ability to grow our business will depend, in part, on client acceptance of these products. If we are not successful in gaining market acceptance of these products and services, our revenues may fall below our expectations.

If our products contain errors, new product releases are delayed or our services are disrupted, 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. We have frequent new product and functionality releases, and those releases may be delayed from their scheduled date due to a wide range of factors. Finally, our service offerings may be disrupted causing delays or interruptions in the services provided to our clients. In the past, we have encountered defects in our product releases, product development delays and interruptions in our service offerings. Despite our product testing, planning and other quality control efforts, we anticipate that our products and services may encounter undetected defects, release delays and service interruptions in the future. Significant errors in our products, delays in product releases or disruptions in the provision of our services 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, retrieve and utilize critical information, we may be subject to significant liability claims if our products do not work properly or if the provision of our services is disrupted. Such claims could result in significant expenses, disrupt sales and affect our reputation and that of our products. 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, and our insurance may not cover all or any of the claims. 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.

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 our products are rapidly changing, and barriers to entry 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 in general 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 Learn* platform are companies and open source projects that provide course management systems, such as Desire2Learn Inc., Jenzabar, Inc., Microsoft Corporation, International Business Machines Corporation, Oracle Corporation, Google Inc., Datatel, Inc., the Moodle open source project and associated authorized services firms, Pearson Education, Inc., the Sakai Foundation open source project and associated authorized services firms, and Instructure Inc.; learning content management systems, such as Giunti Labs S.r.I.; and education enterprise information portal technologies, such as SunGard Higher Education 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 open source software applications.

Our competitors for the *Blackboard Transact* platform include companies that provide transaction systems, security and access systems and off-campus merchant relationship programs such as CBORD and CardSmith. Our competitors for the *Blackboard Connect* service include a variety of companies or products such as SchoolMessenger that provide mass notification technologies including voice, email and text messaging communications. Our competitors for the *Blackboard Mobile* products include in-house IT departments that customize their own mobile presence and companies such as Datatel that provide customized mobile websites and applications. Our competitors for the *Blackboard Collaborate* platform include a variety of companies that provide software applications for synchronous learning and similar technology, including Cisco Systems and Adobe. Our competitors for the *Blackboard Student Services* offering include clients and potential clients who handle student support calls in-house and various companies, including PerceptIS, that provide IT help desk support and student management services to institutions of higher learning. Our competitors for the *Blackboard Analytics* platform include clients and potential clients who have in-house analytic capability and various companies, including several major ERP providers, that offer analytic and business intelligence reporting services to institutions of higher learning.

Many of our current and potential competitors are substantially larger than we are and have significantly greater financial, technical and marketing resources, and established, extensive direct and indirect sales and distribution channels. Similarly, our competitors may be acquired by larger and better-funded companies which have more resources than our competitors currently have. These larger companies 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.

Open source software 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. 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. As open source offerings become more prevalent, customers may defer or forego purchases of our products, which could reduce our sales to new clients, 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, which would hurt our profitability.

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 obtain sufficient quantities of the hardware products we sell in a timely manner, our sales could decline.

We rely on various third-party companies to provide us with hardware products that we sell to our clients. Such companies include manufacturers of third-party software products and manufacturers of *Blackboard Transact* hardware products to which we have outsourced our manufacturing operations. The failure to obtain sufficient quantities of the products we sell to our clients or any substantial delays or product quality problems associated with our obtaining such products could decrease our sales, reduce our operating margins and harm our financial performance.

Operational failures in our network infrastructure could disrupt our remote hosting and application services, could cause us to lose clients and sales to potential 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 services and other application services we provide to some of our clients. We provide remote hosting and other application services through computer hardware that is currently located in third-party co-location facilities in various locations in the United States, Canada, the Netherlands, Australia, the United Kingdom, and Norway. We do not control the operation of these co-location facilities. Lengthy interruptions in our hosting service or other application services 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 developed redundancies in some of our systems, 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 hosting or application service clients in the event of an extended loss of service at the co-location facilities. Though some of our co-location facilities are served by data backup redundancy at other facilities, they are not equipped to provide full disaster recovery to all of our hosting and application services 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 hosting and application services clients, we may be required to issue credits or pay penalties, current clients may terminate their contracts or elect not to renew them, and we may lose sales to potential clients. If we determine that we need additional hardware and systems, we may be required to make further investments in our network infrastructure, reducing our operating margins and diverting capital from other efforts.

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 cannot accurately predict future renewal rates. Our license renewal rates may fluctuate as a result of a number of factors, including changes in client satisfaction with our products and services, our ability to update our products to maintain their attractiveness in the market or budgetary constraints or changes in budget priorities faced by our clients. In addition, we often obtain renewable client contracts in acquisitions, and if we experience a decrease in the renewal rate from expected levels it could reduce revenues 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 would not necessarily be fully reflected in the revenues in that quarter, and would 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 generally are recognized over the applicable agreement term.

Our operating margins may suffer if our lower margin revenues increase in proportion to total revenues as our products and services have different gross margins.

Because the revenues derived from each of our products and services typically have different levels of gross margins, an increase in the percentage of total revenues represented by lower margin products and services could have a detrimental impact on our overall gross margins, and could adversely affect our operating results. In addition, we sometimes subcontract professional services and hardware to third parties, which further reduces our gross margins on these revenue items. As a result, an increase in the percentage of these revenue items provided by third parties could lower our overall gross margins.

The length and unpredictability of the sales cycle for our products and services could delay new sales and cause our revenues and cash flows for any given quarter to fall short of our projections or market expectations.

The sales cycle between our initial contact with a potential client and the signing of a contract with that client typically ranges from 6 to 18 months. Potential clients often conduct extensive and lengthy evaluations before committing to our products and services and may require us to expend substantial time, effort and money educating them as to the value of our offerings. In addition, 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.

As a result of the length and variability of our sales cycle, we have only a limited ability to forecast the timing of sales. An increase in the length of our sales cycles, or an increase in the variability of the sales cycle across our products or our client base, could harm our business and financial results, and could cause our financial results to vary significantly from quarter to quarter. In light of the ongoing economic disruption in the U.S. and globally, we have experienced some lengthening of sales cycles and, depending on the future economic climate, may see a continuation of this trend. Our client base is diverse and each component faces a unique set of risks, including, for example, the possibility of state and local budget cuts for K-12 institutions or reduced enrollment in higher

education, which may affect our revenues and our ability to grow our business. If the economic downturn worsens or is prolonged, our clients and prospective clients may defer or cancel their purchases with us.

Our sales cycle with international postsecondary education providers and U.S. K-12 schools may be longer than our historical U.S. postsecondary sales cycle, which could increase costs and 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 international postsecondary or U.S. K-12 potential client's decision to use our products and services is more likely to 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, which would reduce our revenue opportunities and operating margins associated with these potential clients.

D. RISKS RELATED TO BUSINESS OPERATIONS AND FINANCING

Our recent acquisition transactions present many risks, and we may not realize the financial and strategic goals that were contemplated at the time of the transactions.

We have entered into a number of acquisition transactions as part of our growth strategy. We completed acquisitions of txttools in January 2011 and of Saf-T-Net, Elluminate, Wimba, Presidium, and the business assets of iStrategy in 2010. We have entered into these transactions with the expectation that each would result in long-term benefits, including improved revenue and profits and enhancements to our product portfolio and customer base. We may encounter risks in seeking to realize the benefits of these and other potential acquisition transactions, including:

- we may not realize the anticipated financial benefits if we are unable to sell the acquired products or services to our current or future customers, if a larger than predicted number of customers decline to renew their contracts, or if the acquired contracts do not allow us to recognize revenues on a timely basis;
- we may have difficulty incorporating the acquired technologies, products or services with our existing product lines and maintaining uniform standards, controls, procedures and policies;
- we may face contingencies related to product liability, intellectual property, financial disclosures, accounting practices or internal controls;
- we may have higher than anticipated costs in supporting and continuing development of the acquired company products and services and in servicing new and existing clients of a company we acquire;
- we may not be able to retain key employees from the companies we acquire;
- we may experience operational challenges due to the increased size and complexity of the combined company after our acquisitions; and
- we may lose anticipated tax benefits or have additional legal or tax exposures.

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.

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 past or future acquisitions, 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.

As has been the case with our historical acquisition transactions, future business combinations could involve the acquisition of significant tangible and intangible assets, which could require us to record ongoing amortization expense with respect to identified intangible assets acquired. In addition, we may need to record write-downs from future impairments of identified tangible and intangible assets and goodwill. These and other similar accounting charges would reduce any future earnings or increase any losses. In future acquisitions, we could also incur debt to pay for acquisitions or issue additional equity securities as consideration, either of which could cause our stockholders to suffer significant dilution. Additionally, our ability to utilize net operating loss carryforwards, if any, acquired in any acquisitions may be significantly limited or unusable by us under Section 382 or other sections of the Internal Revenue Code.

International expansion will subject our business to additional economic and operational risks that could increase our costs and make it difficult 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;
- longer or less predictable payment and sales cycles;
- difficulty in collecting accounts receivable;
- 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 of complying with a variety of foreign laws, regulations and trade standards; and
- unexpected changes in regulatory requirements.

As a result of these risks, we may not be able to achieve the expected benefits of our international strategy. If we are unsuccessful in this international expansion, we would be required to reevaluate our growth strategy, and we may have incurred substantial expenses and devoted significant management time and resources in pursuing international growth.

Our revolving credit facility could constrict our liquidity and adversely affect our ability to operate our business successfully and to obtain financing in the future.

We entered into a five-year senior secured revolving credit facility in August 2010, and in April 2011 we entered into an amendment to the Credit Agreement to increase the amount we are able to borrow under the facility from the original amount of $175.0 million to an amount of up to $225.0 million. As of the date of this report, there is $196.0 million outstanding under the credit facility.

The restrictive covenants contained in the Credit Agreement limit our ability to incur additional indebtedness, create liens, make investments, make restricted payments, and merge, consolidate, sell or acquire assets, among other things. In addition, we are required to comply with certain leverage and other financial maintenance tests. As we borrow amounts under this 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, increasing our vulnerability to industry downturns and competitive pressures. Any breach of our covenants set forth in the credit agreement, or our failure to satisfy our obligations with respect to these debt obligations could result in a default under the credit facility, which could result in acceleration of the debt and certain other financial obligations.

In addition, we will use a significant portion of our cash flow to pay interest and principal on our outstanding debt limiting the amount available for working capital, capital expenditures and other general corporate purposes. Lenders may be unwilling to lend additional amounts to us for future working capital needs, additional acquisitions or other purposes or may only be willing to provide funding on terms we would consider unacceptable. If our cash flow were inadequate to allow us to repay our debt, we might have to refinance our indebtedness or issue additional equity or other securities and may not be successful in those efforts or may not obtain terms favorable to us. Finally, our ability to finance working capital needs and general corporate purposes from the public and private markets, as well as the associated cost of funding, is dependent, in part, on our credit ratings, which may be adversely affected if we experience declining revenues.

We may be more vulnerable to adverse economic conditions than less leveraged competitors and thus less able to withstand competitive pressures. Any of these events could reduce our ability to generate cash available for investment or debt repayment or to make improvements or respond to events that would enhance profitability. We may incur significantly more debt in the future, which will increase each of the foregoing risks related to our indebtedness.

The investment of our cash balances is subject to risks that may cause losses and affect the liquidity of these investments.

We hold our cash in a variety of marketable investments which are generally investment grade, liquid, short-term securities and money market instruments denominated in U.S. dollars. If the carrying value of our investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, we will be required to write down the value of our investments, which would be reflected in our statement of operations for that period. With a continued unstable credit environment, we might incur significant realized, unrealized or impairment losses associated with these investments.

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 in connection with our recent acquisitions. 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. Departure of key officers and senior managers could hinder our future success. Our executive management team is critical to Blackboard’s management, strategy, culture, and technology. Key personnel have left our company over the years, including our former Chief Financial Officer during 2010, 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.

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E. RISKS RELATED TO INTELLECTUAL PROPERTY AND GOVERNMENT REGULATION

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 and offerings by persons who have not paid the required fees, 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 services, 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 and offerings 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 or services 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 have infringed 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 and services in our markets increases and the functionality of these products and services further overlaps, we believe that infringement claims may become more common. Any claims, regardless of their merit, could:

- be expensive and time consuming to defend;
- force us to stop offering our products or services that incorporate the challenged intellectual property;
- require us to redesign our products or services 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, or at all.

The nature of our business and our reliance on intellectual property and other proprietary information subjects us to the risks of litigation.

We are in an industry where litigation is common, including litigation related to copyright, patent, trademark and trade secret rights, and other types of claims. Litigation can be expensive and disruptive to normal business operations. The results of litigation are inherently uncertain and may result in adverse rulings or decisions. We may enter into settlements or be subject to judgments that may result in an obligation to pay significant monetary damages, prevent us from operating one or more elements of our business or otherwise hurt our operations.

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 our systems is of critical importance for our clients because they may 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. 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, could lead our present and potential clients to choose competing offerings, and could result in legal or regulatory action against us. Even if we do not encounter a security breach ourselves, a well-publicized breach of the consumer data security of another company could lead to a general public loss of confidence in the use of our products, which could significantly diminish the attractiveness of our products and services.

Government regulation of our products and services in the U.S. and abroad could cause us to incur significant compliance expenses or face legal action, which could make our business less efficient or even impossible.

The impact of existing laws and regulations potentially applicable to our products and services, including regulations relating to issues such as privacy, telecommunications, 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, local and foreign governments might attempt to regulate our products and services 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 our products and services.

We could be subject to current or future state and federal financial services regulation that 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 financial transaction processing products and financial service offerings could be subject to state and federal financial services regulation or industry-mandated requirements. The *Blackboard Transact* platform 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.

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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 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. Any such income tax liability may adversely affect our future cash flow, financial position and financial results.

Item 6. ***Exhibits.***

(a) Exhibits:

Exhibit No.	Description
2.1(1)	Agreement and Plan of Merger dated as of June 30, 2011, among Bulldog Holdings, LLC, Bulldog Acquisition Sub, Inc. and Blackboard Inc.
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101	The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed with the Securities and Exchange Commission on August 4, 2011, formatted in eXtensible Business Reporting Language: (i) Unaudited Consolidated Balance Sheets at June 30, 2011 and December 31, 2010, (ii) Unaudited Consolidated Statements of Operations for the Three and Six months ended June 30, 2011 and 2010, (iii) Unaudited Consolidated Statements of Cash Flows for the Six months ended June 30, 2011 and 2010 and (iv) Notes to Unaudited Consolidated Financial Statements.**

(1) Incorporated herein by reference to Registrant's Current Report on Form 8-K filed on July 1, 2011.

* These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the Registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

** As provided in Rule 406T of Regulation S-T, this exhibit shall not be deemed "filed" or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability under those sections.

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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.

By: /s/ John E. Kinzer

John E. Kinzer
Chief Financial Officer
(On behalf of the registrant and as Principal
Financial Officer)

Dated: August 4, 2011