

Blackboard

Enterprise Software

April 30, 2010

Company Description: Blackboard is a leader in the educational software space, providing software that drives classroom learning & engagement, builds internal communities, and provides mass notification to students & staff. The company delivers its software through a ratably recurring subscription-based model.

Initiating Coverage with a Buy Rating and \$51 Price Target (BBB - \$44.01) BUY

Key Points

- Strong operating model drives above-average operating margins and additional margin expansion
- Well executed acquisition strategy driving revenue growth
- Market leading position of well-known brand
- Valuation compelling

Strong operating model drives above-average operating margins and additional margin expansion. Blackboard's operating model generates predictable operating leverage when combined with the company's ratably recurring revenue streams. The company posted proforma operating margins of 21.4% in 2009 and we estimate these margins will expand 250 bps in FY10 to 23.9% as the company realizes additional leverage from its recent acquisitions and growth in the company's mobile product line. We believe the company's long term operating margins should normalize in the range of 25% - 26%.

Well executed acquisition strategy driving revenue growth. Blackboard has executed an acquisition strategy that has both complimented existing product lines and acquired new customers in existing product verticals. We believe these acquisitions have been well-timed since they have fueled the company's new growth streams as the saturated in the company's core educational CMS segment has offered little new Greenfield growth opportunities recently.

Market leading position of well-known brand. Blackboard currently enjoys one of the most well-known brands in educational software. As of September 2009, 63% of all U.S. post-secondary institutions use the company's core CMS solution and 1 in 5 public school students receive alerts and notifications on the company's mass communication software *Blackboard Connect*. As a result, Blackboard has been able to leverage this brand and its current customer relationships to upsell newly acquired products like its Blackboard Mobile offering.

Valuation compelling. We believe Blackboard's remains undervalued given its growth rate and its market dominant position relative to other software companies with ratably recurring revenue models. Blackboard's current valuation is below the median valuation of comparable software companies when employing EV/Rev and P/E valuation methods. We believe companies like Blackboard with higher cash flow margins—CFO/Revenue—than companies like Salesforce.com(NASDAQ:CRM Not Rated) and Taleo(NASDAQ:TLEO BUY Rated) combined with "category killer" software products like CRM and Concur(NASDAQ:CNOR Not Rated) should receive premium valuations versus their peers.

INVESTMENT THESIS

We are initiating coverage of Blackboard (BBB) with a BUY rating and a \$51 price target. Blackboard is the market leader in the educational software industry holding a dominant position within the Course Management Systems (CMS) software space. While growth in the CMS segment has slowed considerably over the past couple years due to market maturization, Blackboard continues to execute on an aggressive acquisition strategy to move the company into newer greenfield growth opportunities within the educational software and services industry. We believe the combination of consistently strong revenue growth combined with expanding margins, strong brand recognition, and a valuation below the median valuation of peers creates an attractive opportunity for investors.

Financial Summary

Rev(mil)	2008A	2009A	2010E
Mar	\$68.5A	\$86.4A	\$100.5E
June	\$75.5A	\$92.1A	\$106.2E
Sept	\$83.1A	\$98.4A	\$116.1E
Dec	\$85.0A	\$100.0A	\$114.8E
FY	\$312.1A	\$377.0A	\$437.7E
P/Sales	4.7x	3.9x	3.3x

EPS	2008A	2009A	2010E
Mar	\$0.13A	\$0.27A	\$0.38E
Jun	\$0.29A	\$0.27A	\$0.38E
Sept	\$0.32A	\$0.40A	\$0.53E
Dec	\$0.35A	\$0.49A	\$0.51E
FY	\$1.13A	\$1.44A	\$1.80E
P/E	38.9x	30.6x	24.5x

Price:	\$44.01
52-Week Range:	\$46.50 - \$27.16
Target:	\$51
Rating:	Buy
Shares Outstanding:	33.3 mil
Mkt. Capitalization:	\$1,458 mil
Ave. Volume:	516,000
Instit. Ownership:	89%
BV / Share:	\$10.13
Debt / Tot. Cap.:	10%
Est. LT EPS Growth:	25%

Initiating Coverage

Thesis

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Valuation

We derive our \$51 price target for Blackboard using an EV/Revenue valuation methodology as we believe this methodology allows for consistent comparison across companies with ratably recurring revenue models. These companies have historically traded at 2 – 6x forward-year revenue multiples and believe Blackboard—with its market leading position and strong fundamentals in a slow growing market—should be trading inline to its current peer group that has a median multiple of 3.8x FY10 revenue estimates. At 3.8x our FY10 Revenue estimate of \$437.7M, we arrive at an Enterprise Value of \$1.66B. After adding \$11.2M in net cash, we believe the company should have a market value of \$1,174M, or \$51 per share. Our \$51 price target is also 28x our FY EPS estimate of \$1.80. We note that Blackboard shares are currently trading at 3.3x our \$437.7M FY10 revenue estimate and 24.5x our \$1.80 EPS estimate.

Investment Positives

Strong model drives above-average operating margins and additional margin expansion. Blackboard's operating model generates predictable operating leverage when combined with the company's ratably recurring revenue streams. The company posted proforma operating margins of 21.4% in 2009 and we estimate these margins will expand 250 bps in FY10 to 23.9% as the company realizes additional leverage from its recent acquisitions and growth in the company's mobile product line. We believe the company's long term operating margins should normalize in the range of 25% - 26%.

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Investment Risks

Open source vendors pose risk to core Course Management System software. Blackboard has enjoyed a dominant position within the educational Course Management System space since its 2006 acquisition of WebCT, but this position has slowly come under pressure from open source alternatives Moodle and Sakai. While we do not believe these open source alternatives are appropriate for many of Blackboard's existing customers for several reasons, we do recognize that these alternatives have become popular with larger educational institutions.

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Low state and local tax receipts pressure educational budgets. The recent recessionary economic environment and high rates of unemployment have caused a decline in tax receipts for most state and local governments, causing these governments to reduce or freeze budget allocations to K-12 and post-secondary institutions. While much of the software Blackboard provides is considered critical and required by its customers, we believe the potential impact of reduced tax receipts could limit new product sales or push a select few current customers to open source alternatives.

Company Overview

Blackboard is a leading provider of software and services developed primarily for the education industry. Blackboard was co-founded as a consulting company in 1997 by current CEO Michael Chasen and current board chairman Matthew Pittinsky, leveraging their collective experience in KPMG's Higher Education practice. The company changed strategic direction in 1998, becoming primarily a software company through its acquisition of CourseInfo. CourseInfo developed an online learning system which became the underpinnings of Blackboard's core software product—*Blackboard Learn*. Blackboard has since expanded its product and services offerings into campus commerce software, campus notification software, and software for mobile devices. The company is headquartered in Washington, D.C., and has roughly 1,183 employees as of December 31, 2009.

Blackboard has raised \$216M through two rounds of public financing. The company raised \$51M through its Initial Public Offering in June 2004 and raised another \$165M in a June 2007 convertible debt offering that matures in 2027. We note that the company's convertible debt offering allows for early retirement starting July 1, 2011.

Blackboard has utilized an aggressive, yet focused, acquisition strategy to enhance corporate growth. Exhibit #1 below details the company's acquisitions. The company has employed this acquisition strategy to both grow existing marketshare within the course management software industry and to add ancillary software and services focused on the educational industry.

Exhibit #1: Blackboard Acquisition History

Date	Acquisition	Price
April 1998	CourseInfo	N/A
March 2000	MadDuck	\$2.1M
November 2000	Campus Wide Access Solutions	\$29.5M
January 2002	Prometheus	\$9M
February 2003	Student Advantage	\$4.5M
October 2005	WebCT	\$180M
January 2008	NTI Group	\$182M
May 2009	Angel Learning	\$95M
July 2009	TerriblyClever	\$3.5M
March 2010	Saf-T-Net	<u>\$33M</u>
	Total	\$538.6M

Source: Company Reports, various news services

We believe the company has executed its acquisitions strategy well. Specifically, we believe the company's acquisition of the NTI Group and TerriblyClever were well timed and have been, or will be, significant growth drivers for Blackboard in the near-term. Both acquisitions not only added or expanded current products but also added new customer relationships to cross sell existing products into. Given the relative maturity of the company's primary software product, we expect the company to continue executing the aggressive acquisition strategy.

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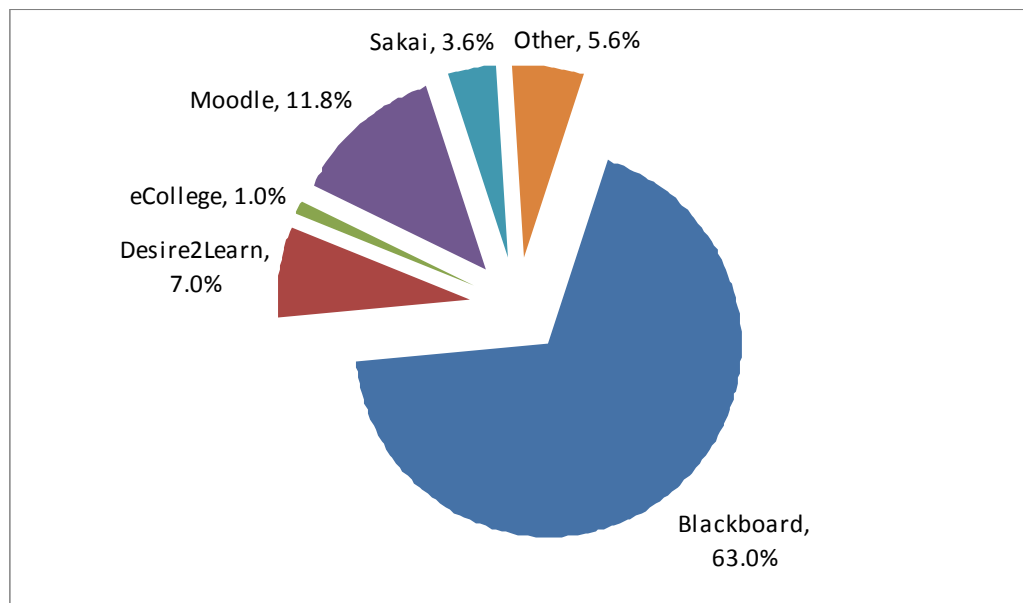
Market Overview

Blackboard's products compete primarily in three markets: Course Management System (CMS), commerce transaction software, and mass notification systems. The common theme across the company's product is they are specifically developed and targeted for a common customer base, primarily the education industry. While Blackboard does target its products outside of this customer base to some extent (i.e. the company does sell its CMS as an e-Learning solution to business customers), we focus on the education industry since these customers comprise an overwhelming majority of the company's target and existing customer base.

Course Management Software

The CMS market is quite mature, presenting little in terms of new greenfield growth opportunities. The Campus Computing Project—a well-known consulting company in the post-secondary educational technology space—estimates well over 90% of all post-secondary institutions currently report a campus standard for CMS. We believe the maturity in this market can be seen through many different factors including a relatively low number of impactful competitors (four primary competitors) and through the consolidation of the larger vendors in the space. Exhibit #2 below shows the marketshare for each of the primary competitors in the post-secondary CMS market.

Exhibit #2: 2009 Post-Secondary Course Management System Marketshare

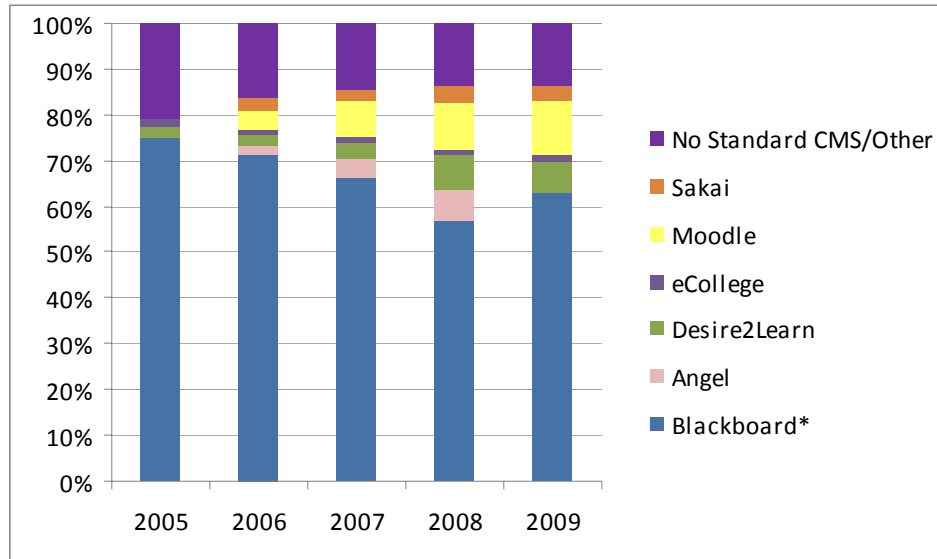


Source: Campus Computing Project, 2009

The CMS market has experienced a slight shift over the past four years, moving slightly away from commercial CMS products to opensource options Moodle and Sakai. As the above exhibit details, Blackboard clearly has a dominant position within the post-secondary CMS market with over 60% of the institutions using a Blackboard product as of late 2009. However, exhibit #3 below shows accelerating adoption rates for these opensource vendors since 2006.

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Exhibit #3: Post-Secondary Course Management System Marketshare, 2005 - 2009



*2009 Blackboard data includes Angel Learning marketshare, post acquisition

Source: Campus Computing Project

Customers in this space we spoke with stated cost and flexibility to be the two main reasons for moving from a commercial vendor to an opensource vendor. However, these customers stated the total cost of ownership of an opensource option did not significantly differ from a commercial vendor once hardware, support, development, and implementation costs were properly accounted for. While customers are able to take advantage of some cost savings, the opensource options do create challenges supporting the customized environment, which some of the customers we spoke with felt could be problematic.

In terms of the K-12 CMS marketshare, we have anecdotal information to believe the K-12 market is more competitive than the post-secondary market. Our research shows that although the number of vendors in the K-12 segment is larger, Blackboard, Desire2Learn, Moodle, and Sakai all have established products in the space.

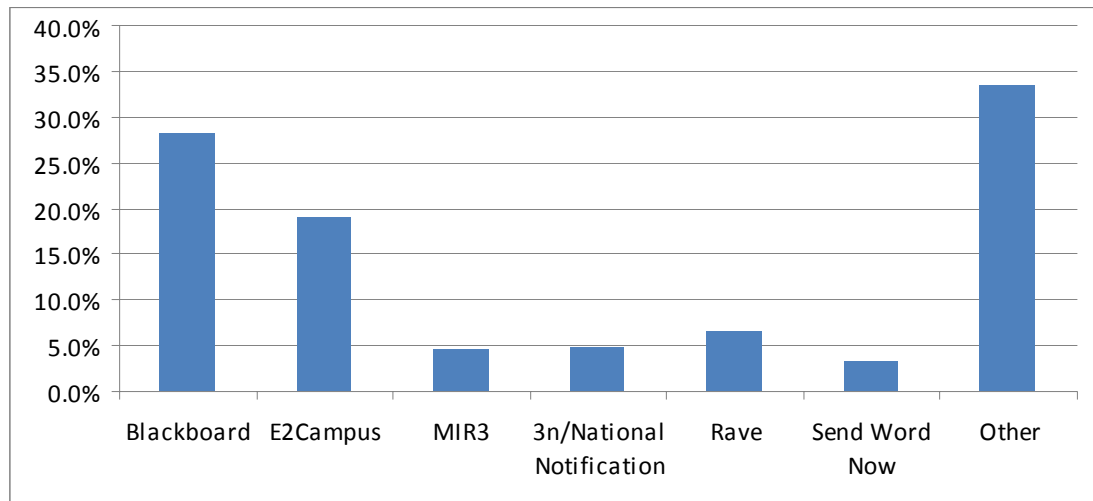
Mass Notification Software

Blackboard's primary customer base for its mass notification software, *Blackboard Connect*, is the educational industry. However the company does sell this product to corporate institutions along with government entities. We estimate the market size for the education industry to be roughly 75 million total students in the United States according to the US Department of Education. With current pricing in the \$2 – \$4 range per student, we estimate the total US educational market size to be roughly \$225M, not including licensing costs for applicable staff and faculty members.

Blackboard currently serves 1 in 5 public school students and 1 in 6 students, staff, and faculty, according to the company, or roughly 14 million total recipients. Exhibit #4 details the approximate marketshare of the main mass notification software competitors in the post-secondary market.

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Exhibit #4: Post-Secondary Mass Notification Software Marketshare, 2009



Source: Campus Computing Project, 2009

A relatively new application for mass notification software is within different government agencies, particularly in local governments. This software has many applicable uses including Amber Alerts for missing/kidnapped children, weather emergencies, or other disaster related events. While we believe Blackboard has limited exposure to this market segment for mass notification software, the company did recently announce that 150 different Texas municipalities utilize the company's software for notifications. Using the same formula as for the educational industry with roughly 300 million current US residents leads us to believe the market size via local and state governments to be roughly \$1B.

Educational e-Commerce Software

The e-Commerce software market that Blackboard competes is difficult to quantify, in our opinion. While consulting company B2C Partners estimates total U.S. corporate e-Commerce software spend at roughly \$415M in 2009, this data does not include the cost of companies which in-source this software and no specific data regarding educational institutions. However, with roughly 2500 post-secondary institutions according to the U.S. Department of Education, we believe plenty of upside exists for Blackboard who currently licenses Blackboard Transact to 465 customers.

Blackboard – Products

Blackboard categorizes its educational software products into four main product groups: Blackboard Learn, Blackboard Transact, Blackboard Connect, and Blackboard Mobile. Blackboard Learn contains the company's core, flagship software products around delivery of coursework while the other modules help extend the total campus experience outside of the classroom.

Blackboard Learn

Blackboard Learn, Release 9.1, is the latest version of the company's core software product previously known as the Blackboard Academic Suite. Blackboard Learn is an on-premise software solution whose customers buy annual subscription licenses that are recognized ratably over the subscription period. The company also offers customers a hosted option where the company will host the solution in its data center. *Blackboard Learn* contains five modules designed to enhance students' overall learning and campus experiences predominately in the classroom. Customers can purchase modules separately or together in different combinations and they are available in all markets internationally.

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- **Course Delivery** – Blackboard’s Course Delivery module within *Blackboard Learn* is the software most associated with campus software. Course Delivery supports an online teaching and learning environment while allowing teachers to post documents such as syllabi and course materials for student use. Course Delivery also contains features such as integrated email and discussion forums.

Customers can purchase Course Delivery through a entry level Basic or Foundation license or purchase a more robust solution in the Enterprise level license. Exhibit #5 below details the company’s Basic and Enterprise level licenses pre-post-Angel acquisition and exhibit #6 details the combined licenses of Angel’s CMS software with Blackboard’s acquisition. The company’s strategy around its existing *Blackboard Learning – Basic* customers has been to upsell and move them to the company’s Enterprise version. As Exhibit #5 details, the company has been able to grow its Enterprise license base by roughly 200 over the two and one-half year period but has roughly 650 less basic customers for a total net loss of 453 licenses.

Exhibit #5: Blackboard Learning Licenses, Pre-Angel Acquisition

Quarterly License Information	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09
Blackboard Learning - basic	1,320	1,165	1,077	954	938	886	793	752	699	656
Blackboard Learning - Enterprise	<u>2,208</u>	<u>2,258</u>	<u>2,255</u>	<u>2,293</u>	<u>2,299</u>	<u>2,335</u>	<u>2,340</u>	<u>2,382</u>	<u>2,393</u>	<u>2,419</u>
Total Licenses	3,528	3,423	3,332	3,247	3,237	3,221	3,133	3,134	3,092	3,075

Source: Company reports

Exhibit #6 – Blackboard Learning Licenses, Post-Angel Acquisition

Quarterly License Information	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Blackboard Learning - basic	1,320	1,165	1,077	954	938	886	793	752	699	656	562	517
Blackboard Learning - Enterprise	2,208	2,258	2,255	2,293	2,299	2,335	2,340	2,382	2,393	2,419	2,843	2,839
Angel LMS					<u>339</u>	<u>370</u>	<u>391</u>	<u>402</u>	<u>416</u>	<u>422</u>	<u>0</u>	<u>0</u>
Total Blackboard Learning	3,528	3,423	3,332	3,247	3,576	3,591	3,524	3,536	3,508	3,497	3,405	3,356

Source: Company reports

- **Community Engagement** – Blackboard extends its classroom experience to an enterprise portal system in the company’s *Community Engagement* module. *Community Engagement* offers a customizable web-based portal that customers can use as a single access point for services such as email, administrative systems, and other third-party software. Community Engagement also has certain e-Commerce capabilities that interact with the *Blackboard Transact* module. Exhibit #7 below details the company’s *Community Engagement* license growth.

Exhibit #7: Blackboard Community Engagement Licenses

Quarterly License Information	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Blackboard Community	618	673	700	749	769	811	839	869	877	908	960	1,018

Source: Company reports

- **Content Management** – *Content Management* is Blackboard’s proprietary enterprise content management system which supports the management and control of electronic files for teaching, learning, and other campus or departmental needs. *Content Management* also supports advanced workflow capabilities. Exhibit #8 below details the company’s *Content Management* license growth.

Exhibit #8: Blackboard Content Management Licenses

Quarterly License Information	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Blackboard Content	310	375	382	431	451	466	485	495	510	529	592	637

Source: Company reports

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- Outcomes – Blackboard's *Outcomes* module enables the planning and measuring of student, teaching, and institutional outcomes. This module will assist teachers and administrators in documenting intended course or individual student outcomes along with offering various assessment tools to measure the intended outcomes. Exhibit #9 below details the company's *Outcomes* license growth.

Exhibit #9: *Blackboard Outcomes* Licenses

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Quarterly License Information												
Blackboard Outcomes	4	21	21	24	26	29	30	32	33	34	35	37

Source: Company reports

Blackboard Transact

Blackboard Transact, previously known as Blackboard Commerce Suite, is the company's software and hardware solution for campus commerce and security management. This solution typically ties into campus ID cards and students can use these cards to process on-line and off-line as well as on-campus and off-campus payment transactions. The company licenses all the software and hardware customers require to implement this solution including servers, stored-value cards, cards readers, etc. The software is fully compliant with Payment Card Industry (PCI) security standards. Exhibit #10 below details the company's *Transact* license growth.

Exhibit #10: *Blackboard Transact* Licenses

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Quarterly License Information												
Blackboard Transact	420	429	439	438	440	444	455	455	451	460	466	465

Source: Company reports

The latest release of *Blackboard Transact* contains access-rights control capabilities allowing campus administration to control security and access to such things as doors and events. These additional features promote a simple and easy to use single card environment as this product can be an end-to-end solution for everything from payment in the cafeteria to the bookstore to controlling access in building and sporting events.

Blackboard Connect

Blackboard Connect is the company's mass notification and communication system that enables rapid distribution of information via many communication methods including voice, email, text and SMS messages. *Blackboard Connect* is a fully-hosted solution that contains offerings designed for each of its diverse target customer base in education, military, and government. *Blackboard Connect* was acquired by the company through its acquisition of NTI Group and has been Blackboards' fastest growing product segment since the Q1 2008 acquisition. Exhibit #11 below details the company's *Connect* license growth.

Exhibit #11: *Blackboard Connect* Licenses

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Quarterly License Information												
Blackboard Connect	1,191	1,372	1,689	1,902	2,051	2,242	2,450	2,584	2,572	2,655	2,694	2,697

Source: Company reports

Blackboard announced the acquisition of Saf-T-Net in March for \$33M to augment its *Blackboard Connect* offering. The Saf-T-Net acquisition brought the company roughly \$10M in additional revenue, a customer base of more than 2,000 predominately in the K-12 segment, and some features and functionality not previously available in the *Connect* offering. We like this acquisition as it not only extends the company's reach into the K-12 segment, but we expect the company's next version of mass notification software should contain the largest breath of functionality in its market.

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Blackboard Mobile

Blackboard Mobile is a mobile set of applications that extend the Blackboard experience to mobile devices outside of the standard computer-based web browsers. Blackboard Mobile has been developed with native applications designed for the Apple iPhone and certain Blackberrys, as well as mobile web-based version for mobile web-enabled devices. The Blackboard Mobile suite of applications was augmented by the company through its acquisition of Terriblyclever in 2009.

The *Blackboard Mobile* applications are customized for each customer to include institutional logo and images and can integrate with non-Blackboard Course Management Solutions. While the Blackboard Mobile applications are still relatively new, we believe overall demand for such mobile applications to be exceedingly high as adoption of smart-phone applications has hit a frenetic pace. As a result, we view this product segment to be the company's largest potential revenue growth driver over the next three to five years.

People – Management Team

Michael L. Chasen, Chief Executive Officer

Mr. Chasen co-founder Blackboard in 1997 and has served as its CEO since the company's founding. Mr. Chasen brought significant experience in educational consulting upon co-founding Blackboard having served as a member of the Higher Education Practice at KPMG Consulting. His KPMG experience included implementing a wide-range of software systems for higher educational institutions and for the U.S. Department of Education. Mr. Chasen holds an MBA from Georgetown University and an undergraduate degree in computer science from American University.

John Kinzer, Chief Financial Officer

Mr. Kinzer joined the company in 2001 and was promoted to CFO starting March 2010. Prior to his recent promotion, Mr. Kinzer served as senior vice president of finance. In particular, Mr. Kinzer has gained considerable experience dealing with mergers & acquisitions which is critical to Blackboard's current acquisition strategy. Mr. Kinzer has a Bachelors of Science in Accounting from Virginia Tech University.

Ray Henderson, President, Blackboard Learn

Mr. Henderson joined Blackboard through the company's acquisition of Angel Learning in 2009 and oversees all product development, client services & supports, and managed hosting functions. Mr. Henderson brings with him a significant amount of experience in educational technology development. Mr. Henderson led Angel Learning's product strategy, product development, and go-to-market efforts. Prior to his time at Angel Learning, Mr. Henderson served as president for digital product development at Pearson Education developing several industry leading online learning brands. Mr. Henderson holds degrees in philosophy and biology from Trinity University.

Financials

FY10 will be a slightly transitional year for Blackboard in terms of financial modeling as it adopts Accounting Standards Update 2009-13 and 2009-14 and also starts to pay higher cash taxes. While the adoption of the two Accounting Standards Updates will only affect the company's Transact product lines, it will result in a one-year benefit to revenue and earnings during 3Q but have no impact on net cash flows. FY10 will also mark the first complete year's impact from the company's 2009 acquisition of Angel Learning.

We expect the overall selling environment in FY10 to be better than 2009 for the company, but we remain cautious on educational spending budgets for the 2010-2011 school year. We believe high unemployment rates will continue to pressure state and local government tax receipts which could constrain budget expansion for publically funded educational institutions. The impact of these constrained budgets will be on new spending for the company's products during the 2010-2011 school year. As a result, we expect any significant increase in Blackboard's business to coincide more with 2011-2012 school year budgets which should benefit from increasing tax receipts as employment markets ease.

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1Q10

We expect Blackboard to generate 1Q10 revenues of \$100.5M, representing Y/Y growth of 16.3% and slightly behind consensus of \$100.7M but inline with management guidance of \$98.6M - \$102.6M. Our revenue estimate assumes organic revenue growth of 11.7% Y/Y excluding approximately \$4M of revenue in the quarter attributed to the company's acquisition of Angel Learning—adjusted for purchase accounting related to acquisition. We expect proforma operating margins to expand from 18.3% to 21.4% benefiting from the natural leverage in the company's operating model and from continued cost synergies resulting from the Angel Learning acquisition. Our proforma EPS estimate of \$0.38 represents 40% Y/Y growth.

FY'10

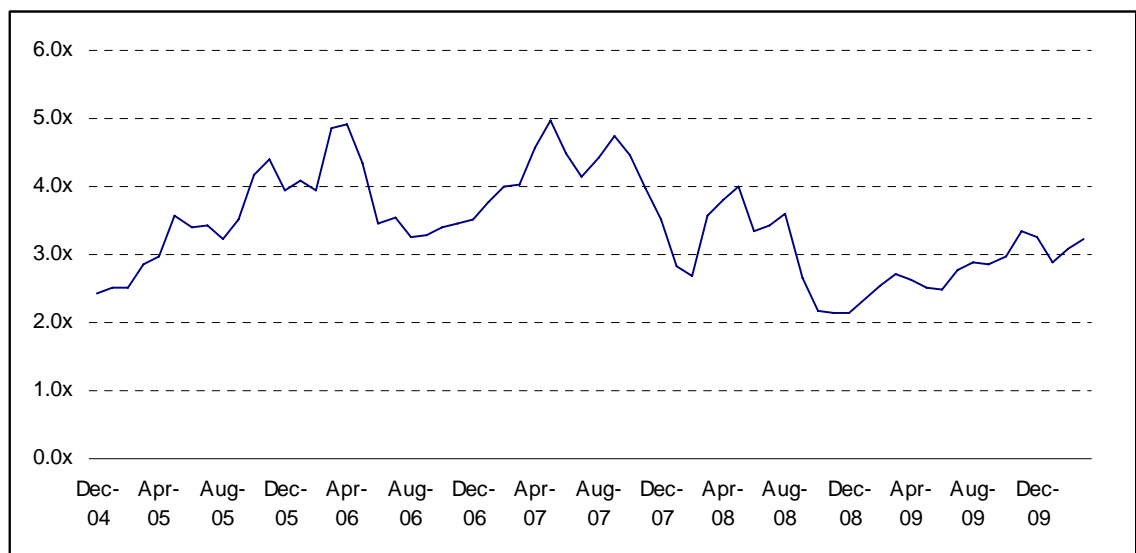
We expect BBBB to generate FY10 revenues of \$438.7M, growth of 16.1% Y/Y. Roughly \$46M of this \$60M in revenue growth is organic with the remaining \$14M attributed to the company's acquisitions of Angel Learning and Saf-T-Net. BBBB will realize a one-time revenue gain in 3Q resulting from the company implementation of ASU 2009-13 and -14. Even with this one-time gain in revenue, we expect gross margins to remain essentially flat Y/Y when combined with the loss of revenue recognized through purchase accounting of the company's acquisitions of Angel Learning and Saf-T-Net. We believe BBBB will be able to realize many additional cost synergies from these transactions in FY11 as operating expenses grow slower than revenue. This additional operating leverage will drive proforma gross margin expansion from 21.4% in FY09 to 23.95 in FY10. Our proforma EPS estimate of \$1.80 represents 25% Y/Y growth.

Historical Valuation

Our historical analysis of Blackboard's historical one-year forward valuation multiples (revenue, EPS) reveal the company's stock is trading at slightly below its median multiples and at near all-time highs in terms of stock price. We believe the stock's valuation has returned to a more-normal range with recent macro economic improvement. If our forecasts prove correct, we expect the stock to remain choppy in the near term, but have a more-general upward trajectory over the next 12 months.

Exhibit #12 details the stock's historical EV/Revenue valuation since its IPO in October 2004. Like much of the software industry over the past six years, Blackboard's stock has traded in a range of 2-6x forward one-year revenues but has experienced EV/Rev multiple compression in the 2.0-2.5x range during the recessionary period of 2008-2009.

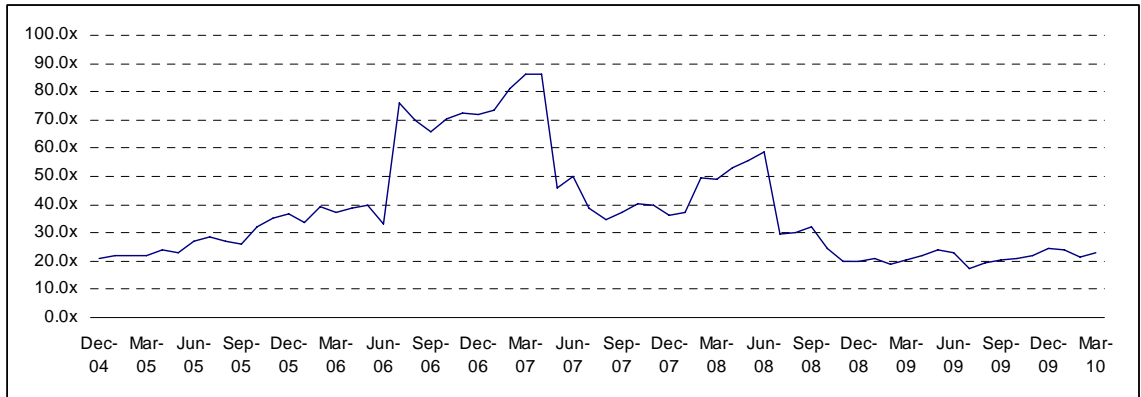
Exhibit #12: Blackboard's Historical One-Year Forward EV/Revenue Valuation



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Exhibit #13 details the stock's historical P/E valuation since its IPO in October 2004. The company's historical P/E valuation has not traded in a similar tight range as the historical EV/Revenue valuation. However, with an estimated long-term growth rate of 25%, we expect that the company's one-year forward P/E valuation to remain in the 25-30x range.

Exhibit #13: Blackboard's Historical One-Year Forward P/E Valuation



Blackboard Inc. (NASDAQ: BBBB)

Income Statement	2006	2007	2008	1Q09	2Q09	3Q09	4Q09	2009	1Q10E	2Q10E	3Q10E	4Q10E	2010E
Product Revenue	160,391	213,631	283,259	80,126	83,381	87,862	90,775	342,144	93,026	96,722	104,556	104,845	399,149
Q/Q Growth		3.5%	4.1%	5.4%	3.3%				2.5%	4.0%	8.1%	0.3%	
Y/Y Growth	33.2%	33.2%	32.6%	27.0%	21.9%	18.2%	17.2%	20.8%	16.1%	16.0%	19.0%	15.5%	16.7%
Professional Services	22,671	25,817	28,875	6,322	8,729	10,546	9,259	34,856	7,523	9,515	11,495	10,000	38,533
Q/Q Growth		-16.6%	38.1%	20.8%	-12.2%				-18.7%	26.5%	20.8%	-13.0%	
Y/Y Growth	48.4%	13.9%	11.8%	17.8%	21.7%	20.4%	22.1%	20.7%	19.0%	9.0%	9.0%	8.0%	10.5%
Total Revenue	183,062	239,448	312,134	86,448	92,110	98,408	100,034	377,000	100,549	106,237	116,051	114,845	437,682
Y/Y Growth	34.9%	30.8%	30.4%	26.2%	21.9%	18.4%	17.7%	20.8%	16.3%	15.3%	17.9%	14.8%	16.1%
Product Revenue	39,207	46,772	74,290	21,174	21,455	23,502	23,611	89,742	24,187	26,115	26,662	27,260	104,223
Gross Product Margins	75.6%	78.1%	73.8%	73.6%	74.3%	73.3%	74.0%	73.8%	74.0%	73.0%	74.5%	74.0%	73.9%
Professional Services	15,477	16,309	19,233	4,677	4,534	5,412	4,878	19,501	5,266	5,328	6,322	5,800	22,717
Gross Professional Services Margins	31.7%	36.8%	33.4%	26.0%	48.1%	48.7%	47.3%	44.1%	30.0%	44.0%	45.0%	42.0%	41.0%
Total Cost of Revenue	54,684	63,081	93,523	25,851	25,989	28,914	28,489	109,243	29,453	31,443	32,984	33,060	126,940
Gross Profit	128,378	176,367	218,611	60,597	66,121	69,494	71,545	267,757	71,096	74,793	83,067	81,785	310,742
Gross Margin	70.1%	73.7%	70.0%	70.1%	71.8%	70.6%	71.5%	71.0%	70.7%	70.4%	71.6%	71.2%	71.0%
Operating Expenses													
Sales & Marketing	55,389	61,674	85,094	22,359	24,230	23,169	23,266	93,024	24,132	25,497	25,763	26,070	101,462
% of revenue	30.3%	25.8%	27.3%	25.9%	26.3%	23.5%	23.3%	24.7%	24.0%	24.0%	22.2%	22.7%	23.2%
General & Administrative expenses	32,360	32,755	43,660	11,784	12,562	12,861	12,088	49,295	12,870	13,598	13,578	12,633	52,680
% of revenue	17.7%	13.7%	14.0%	13.6%	13.6%	13.1%	12.1%	13.1%	12.8%	12.8%	11.7%	11.0%	12.0%
Research & Development expenses	26,429	27,810	39,803	10,600	10,961	11,144	11,869	44,574	12,569	12,855	13,114	13,322	51,859
% of revenue	14.4%	11.6%	12.8%	12.3%	11.9%	11.3%	11.9%	11.8%	12.5%	12.1%	11.3%	11.6%	11.8%
Total Operating Expenses	114,178	122,239	168,557	44,743	47,753	47,174	47,223	186,893	49,571	51,950	52,455	52,025	206,000
Proforma Operating Income	14,200	54,128	50,054	15,854	18,368	22,320	24,322	80,864	21,526	22,844	30,612	29,761	104,742
Proforma Operating Margins	7.8%	22.6%	16.0%	18.3%	19.9%	22.7%	24.3%	21.4%	21.4%	21.5%	26.4%	25.9%	23.9%
GAAP & Non Cash Expenses	26,025	34,165	52,991	14,127	20,822	14,898	14,809	57,209	15,562	15,377	15,293	15,309	61,541
GAAP Operating Income	(11,825)	19,963	(2,937)	1,727	(2,454)	7,422	9,513	23,655	5,964	7,466	15,319	14,451	43,200
GAAP Operating Margin	-6.5%	8.3%	-0.9%	2.0%	-2.7%	7.5%	9.5%	6.3%	5.9%	7.0%	13.2%	12.6%	9.9%
Total Other Income/(expense)	(3,339)	482	3,639	(1,787)	(3,525)	(1,108)	(1,179)	(7,599)	(976)	(1,988)	(969)	(953)	(4,885)
Adjusted EBITDA	19,841	65,291	63,028	17,231	10,302	24,498	26,420	78,451	24,161	24,227	33,495	32,637	114,520
EBITDA Margin	10.8%	27.3%	20.2%	19.9%	11.2%	24.9%	26.4%	20.8%	24.0%	22.8%	28.9%	28.4%	26.2%
Proforma Income Before Taxes	10,861	54,610	53,693	14,067	14,843	21,212	23,143	73,265	20,550	20,856	29,643	28,807	99,856
Income Tax	1,047	16,280	18,812	5,462	6,109	7,892	6,470	25,933	7,398	7,508	10,671	10,371	35,948
Reported Tax Rate %	9.6%	29.8%	35.0%	38.8%	41.2%	37.2%	28.0%	35.4%	36.0%	36.0%	36.0%	36.0%	36.0%
Proforma Net Income (loss)	9,814	38,330	34,881	8,605	8,734	13,320	16,673	47,332	13,152	13,348	18,972	18,437	63,908
Proforma Net Margin	5.4%	16.0%	11.2%	10.0%	9.5%	13.5%	16.7%	12.6%	13.1%	12.6%	16.3%	16.1%	14.6%
GAAP Pre-Tax Income	(15,164)	20,445	(5,666)	(60)	(5,979)	6,314	8,334	8,609	4,988	5,479	14,350	13,498	38,315
Income Tax	(4,582)	7,581	(3,731)	(23)	(1,907)	2,007	620	697	1,796	1,972	5,166	4,859	13,793
Tax rate	30.2%	37.1%	65.8%	38.3%	31.9%	31.8%	7.4%	8.1%	36.0%	36.0%	36.0%	36.0%	36.0%
GAAP Net Income (loss)	(10,582)	12,864	(1,935)	(37)	(4,072)	4,307	7,714	7,912	3,192	3,506	9,184	8,639	24,522
GAAP Net Margin	-5.8%	5.4%	-0.6%	0.0%	-4.4%	4.4%	7.7%	2.1%	3.2%	3.3%	7.9%	7.5%	5.6%
Proforma EPS	0.34	1.28	1.13	0.27	0.27	0.40	0.49	1.44	0.38	0.38	0.53	0.51	1.80
Y/Y Growth	-65.3%	277.9%	-11.9%	99.3%	-7.2%	27.6%	39.4%	27.6%	40.6%	41.1%	31.5%	2.7%	24.7%
GAAP EPS	(0.37)	0.43	(0.06)	(0.00)	(0.13)	0.13	0.23	0.24	0.09	0.10	0.26	0.24	0.69
Y/Y Growth	-138.5%	-217.6%	-114.6%	-99.2%	2928.0%	374.3%	314.5%	-484.6%	-8038.7%	-175.6%	96.8%	4.0%	186.3%
Shares Outstanding (basic)	27,857	28,789	30,886	31,504	30,981	32,073	32,708	31,817	32,700	32,700	32,700	32,700	32,700
Shares Outstanding (diluted)	28,945	29,915	30,886	32,019	32,586	33,045	33,704	32,839	34,800	35,300	35,800	36,300	35,550
Deferred Revenue	120,270	129,525	184,792	145,208	159,120	207,008	192,659	192,659					
CFO	26,203	76,202	79,835	4,386	9,468	75,956	20,041	109,851					
Cash Balance	30,776	206,558	141,746	142,750	58,691	132,049	167,353	167,353					
Cash/Share	1.06	6.90	4.59	4.46	1.80	4.00	4.97	5.10					

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Source: Company Reports and Feltt & Company estimates
\$ in thousands except per share data

Analyst Certification

I, **Scott Berg**, certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation related to the specific recommendations expressed in this report.

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Buy: The stock is expected to have total return potential of at least 15%. Near term catalysts may not exist and the common stock needs further time to develop. Investors requiring time to build positions may consider current levels attractive.

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Sell: Expect a negative total return. Current positions may be used as a source of funds.

Ratings Distribution for Feltl and Company					4/30/2010
Rating	Number of Stocks	Percent of Total	----- Investment Banking -----		
			Number of Stocks	Percent of Rating category	
SB/Buy	36	69%	2	6%	
Hold	15	29%	0	0%	
Sell	1	2%	0	0%	
	52	100%	2	4%	

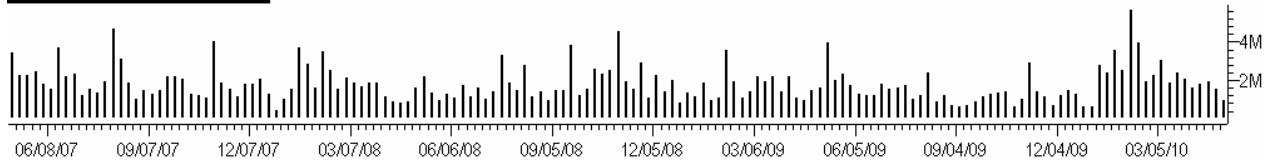
The above represents our ratings distribution on the stocks in the Feltl and Company research universe, together with the number in (and percentage of) each category for which Feltl and Company provided investment-banking services in the previous twelve months.

Weekly > BBBB BLACKBOARD INC C: 44.01 Chg

04/30/10 Buy
Target: \$51



> BBBB BLACKBOARD INC V: 0



Date	Nature of Report	Rating	Price Target
04/30/10	Initiation@\$44.01	Buy	\$51

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Valuation and Price Target Methodology:

We derive our \$51 price target for Blackboard using an EV/Revenue valuation methodology as we believe this methodology allows for consistent comparison across companies with ratably recurring revenue models. We believe that these companies like Blackboard have historically traded at 2 – 6x forward-year Revenue multiples and believe Blackboard—with its market leading position and strong fundamentals in a slow growing market—should be trading in line to its current peer group that has a median multiple of 3.8x FY10 revenue estimates. At 3.8x our FY10 Revenue estimate of \$437.7M, we arrive at an Enterprise Value of \$1.66B. After adding in \$11.2M in net cash the company currently has, we believe the company should have a market value of \$1,174M, or \$51 per share. Our \$51 price target is also 28x our FY EPS estimate of \$1.80.

Risks to Achievement of Estimates and Price Target:

- Current economic conditions have reduced educational and corporate IT spending budgets over the past 18 months. Should these conditions continue for an extended period or worsen, demand for the company's products will most likely be negatively impacted.

- Blackboard has a history of acquiring companies and may acquire additional companies. If not managed properly, these potential acquisitions may dilute or reduce Blackboard's profitability.
- Blackboard's annual subscription fee revenue model yields low switching costs to customers. As a result, customer retention rates may come under pressure should Blackboard lose its competitive positioning with the educational software space.

Other Disclosures:

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