SERVICEMASTER CO
Form DEFA14A
June 19, 2007

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o Definitive Proxy Statement
x Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

THE SERVICEMASTER COMPANY
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(4) Date Filed:

June 13, 2007

Questions and Answers Relating to Merger Agreement

This Q&A is an update of the March 19, 2007 Q&A that was prepared after ServiceMaster announced its entry into an agreement to be acquired by an investment group led by Clayton, Dubilier & Rice, Inc. (CD&R). The entry into the merger agreement culminated the process announced in November 2006 that ServiceMaster was exploring strategic alternatives. The primary purpose of this Q&A is to update the information contained in the March 19, 2007 Q&A which addressed some employment and compensation related questions you may have as a result of ServiceMaster s entry into the agreement with Clayton, Dubilier & Rice.

Entry into Merger Agreement

1. **Why did ServiceMaster enter into the merger agreement?** Senior management of ServiceMaster prepared a three-year strategic plan that was presented to the Board of Directors in November 2006. The Board endorsed the strategic plan, but was also interested in exploring all possibilities for maximizing stockholder value. With the strategic plan prepared, the Board had a basis to evaluate any proposal by a third party. With the assistance of management and financial advisors, the Board conducted a thorough review of strategic alternatives available to ServiceMaster. Ultimately, the Board concluded that the merger transaction proposed by an investment group led by Clayton, Dubilier & Rice is in the best interests of our stockholders.

2. **Who is Clayton, Dubilier & Rice?** Clayton, Dubilier & Rice is a leading private equity investment firm that has earned consistent, superior investment returns using an integrated operational and financial approach to building and growing portfolio businesses. Since its founding in 1978, Clayton, Dubilier & Rice has managed investments of over $8 billion in 39 U.S. and European businesses with revenues exceeding $40 billion, representing an aggregate transaction value of over $40 billion. Clayton, Dubilier & Rice s portfolio includes Rexel, a leading global electrical supplies distributor, VWR International, a global leader in the distribution of scientific supplies, and Culligan, a leading global provider of water treatment products and services, among others.

3. **What did Clayton, Dubilier & Rice agree to pay our stockholders?** If the merger is approved by our stockholders and other closing conditions are satisfied, our stockholders will receive $15.625 in cash for each outstanding ServiceMaster share.

4. **Why is Clayton, Dubilier & Rice interested in buying ServiceMaster?** Clayton, Dubilier & Rice believes ServiceMaster is an outstanding company with

strong cash flows, great brands and a solid track record of delivering great service to home and business owners nationwide. Clayton, Dubilier & Rice wants to work with the ServiceMaster team and invest in key strategic initiatives that will accelerate growth in each of our business units, while maintaining a strong emphasis on the core values that are the foundation of our company.

5. **Does this mean ServiceMaster has been sold?** The merger will not occur until after our stockholders have approved the proposed merger transaction, certain governmental approvals are obtained, and other conditions to the merger are satisfied. Until these conditions are satisfied or waived and the merger occurs, ServiceMaster will continue to operate in the ordinary course. We will hold a special meeting of our stockholders on June 28, 2007 to vote on the proposed merger. We currently expect to complete the merger early in the third quarter.

6. **Where can I get more information about the proposed acquisition of ServiceMaster?** A proxy statement relating to the special meeting of our stockholders has been filed with the Securities and Exchange Commission. In addition, a copy of the proxy statement has been mailed to all of our stockholders. The proxy statement contains important information about the proposed merger, including a description of the merger agreement. We encourage all employees, regardless of whether an employee is a stockholder, to read the proxy statement. Our website at www.svm-news.com includes a link to the proxy statement.

7. **If the merger is completed, will ServiceMaster still be a public company?** Yes and no. Our common stock would no longer be publicly traded because the equity of ServiceMaster will be held by the investment group led by Clayton, Dubilier & Rice. We expect, however, that ServiceMaster will continue to file quarterly and annual reports with the Securities and Exchange Commission as a result of our publicly registered debt. In this regard, ServiceMaster would still be subject to many of the laws that apply to public companies.

Effect on Memphis Headquarters

8. **What is going to happen to the Memphis headquarters?** Our headquarters are in Memphis, and there are no plans to change location.

General Effect of Merger Transaction on Compensation and Benefits

9. **What happens to my compensation and benefits now that ServiceMaster has agreed to be acquired?** The merger agreement provides that from the effective time of the merger until December 31, 2007, ServiceMaster will provide each employee with (i) base compensation that is not less than the base compensation paid immediately prior to the merger, (ii) bonus opportunities and incentive compensation awards that are no less favorable in the aggregate than the

opportunities and awards immediately prior to the merger and (iii) all other benefits provided to the employee immediately prior to the merger.

10. **Will my compensation and benefits change prior to the completion of the merger?** Since the entry into the merger agreement on March 18, 2007, ServiceMaster has continued to operate essentially in the ordinary course. For example, the consolidation of our Downers Grove office into our Memphis headquarters has continued without interruption and benefit plans have continued to operate. There is no plan to change our basic compensation and benefit plans, including health care coverage, prior to the merger. Moreover, as noted above, the merger agreement provides for the continuation of our compensation and benefit plans through December 31, 2007.

11. **What happens after December 31, 2007 to my compensation and benefits?** First, please note that we ordinarily review our compensation and benefit plans each year. While it is too early to say or predict what will happen if the merger is completed, we expect Clayton, Dubilier & Rice to review all aspects of our businesses, including our compensation and benefit plans. The main point to keep in mind is that Clayton, Dubilier & Rice has agreed to purchase ServiceMaster and its businesses because we are a healthy company with first-rate brands. Clayton, Dubilier & Rice has every reason to preserve and enhance its investment in ServiceMaster.

Stock Options, Stock Appreciation Rights and Restricted Stock

12. **If ServiceMaster s common stock will no longer be publicly traded after the merger, what happens to my stock options?** The merger agreement provides that ServiceMaster will use its reasonable efforts to ensure that each stock option, regardless of whether it is exercisable upon completion of the merger, will be cancelled by ServiceMaster and in consideration of the cancellation the holder of the stock option will receive a cash payment equal to the positive spread (if any) between the $15.625 per share merger price and the exercise price of the stock option, times the number of shares subject to the stock option. This amount (if any) will be subject to all applicable federal, state and local taxes required to be withheld.

13. **What happens to my stock appreciation rights after the merger?** Stock appreciation rights are treated the same way as stock options. Each stock appreciation right, regardless of whether it is exercisable upon completion of the merger, will be cancelled by ServiceMaster and in consideration of the cancellation the holder of the stock appreciation right will receive a cash payment equal to the positive spread (if any) between the $15.625 per share merger price and the base price of the stock appreciation right, times the number of shares subject to the stock appreciation right. This amount (if any) will be subject to all applicable federal, state and local taxes required to be withheld.

14. **What happens to my restricted stock after the merger?** Upon completion of the merger, the restrictions on your shares of restricted stock will lapse and each share will be cancelled and converted into the right to receive in cash, without interest, $15.625 per share. Under Delaware law, if a stockholder complies with all the provisions of Delaware law concerning the right of a stockholder to require an appraisal of the stockholder s shares, then those shares would not be converted into the right to receive $15.625 per share. The letter of transmittal that a stockholder receives after completion of the merger will provide details on the ability of a stockholder to exercise appraisal rights.

15. **Do I need to do anything prior to the merger with my stock options, stock appreciation rights or restricted stock?** No. If the merger is completed, you will receive a communication from ServiceMaster regarding the treatment of any stock options, stock appreciation rights or restricted stock you may hold. You do not need to contact anyone prior to the merger since ServiceMaster maintains a list of each holder of stock options, stock appreciation rights and restricted stock.

16. **What happens to my stock options if my employment is terminated prior to the merger?** If your employment terminates prior to the completion of the merger, your stock options will be treated one of two ways. First, if you meet the definition of retirement on your separation date (i.e., you have completed 15 years of service, or are 63 years old (for grants prior to February 13, 2004) or have a combined age and completed years of service of at least 65 (for grants on or after February 13, 2004)), your stock options will continue after your separation date. In this case, stock options will remain exercisable and will also continue to vest as set forth in each stock option agreement. In other words, stock options will not be affected. In addition, upon completion of the merger, any outstanding stock options would be treated as described above. Second, if you do not meet the definition of retirement on your separation date, you will have six months after your termination of employment to exercise any stock options that are exercisable on your separation date. In this case, stock options will not continue to vest after your separation date and any stock options that are not exercisable on your separation date will be cancelled. Some stock options provide for a period of less than six months to exercise after employment has been terminated and you should review each stock option agreement. In addition, if the merger is completed, any outstanding stock options on the date of the merger will be treated as described above.

17. **What happens to my stock appreciation rights if my employment is terminated prior to the merger?** Stock appreciation rights are treated the same as stock options.

18. **What happens to my restricted stock if my employment is terminated prior to the merger?** If your employment terminates prior to completion of the merger, unvested restricted stock will be forfeited.

2007 Bonuses and Long-Term Incentives

19. **Is there an annual bonus plan in 2007?** Yes. The Compensation and Leadership Development Committee of our Board of Directors approved a 2007 annual bonus plan. If you are eligible to participate in the 2007 annual bonus plan, your threshold, target and maximum bonus targets should have already been communicated to you by your supervisor. In addition, your supervisor should already communicated non-individual performance goals and targets applicable to you, and your supervisor should have already worked with you to determine any individual performance goals you may have to earn a 2007 annual bonus. Any earned bonus would typically be paid in February or March 2008.

20. **Is there a corporate performance plan in 2007?** Yes. The Compensation and Leadership Development Committee of our Board of Directors also approved a 2007 corporate performance plan. If you are eligible to participate in the 2007 corporate performance plan, your threshold, target and maximum bonus targets should have already been communicated to you by your supervisor. The performance goal under this plan is ServiceMaster 2007 pre-tax income. Your supervisor should have already communicated the 2007 performance target relating to ServiceMaster pre-tax income. Any earned bonus would typically be paid in February or March 2008.

21. **Are there equity awards in 2007?** No. Due to ServiceMaster s entry into the merger agreement, no equity awards were or will be granted in 2007. Instead, the Compensation and Leadership Development Committee of our Board of Directors approved a 2007 long-term incentive plan that is payable in cash, if earned after the three-year performance period ending December 31, 2009. If you are eligible (generally director level and above) to participate in the 2007 long-term incentive plan, you should have received a unit award agreement evidencing your participation units in the plan.

Employee Stock Purchase Plan

22. **What happens to the employee stock purchase plan?** In anticipation of the merger, payroll deductions under the employee stock purchase plan were suspended after April 30, 2007 and purchases of stock were suspended after the May 2007 (approximately May 4, 2007) purchase date. If the merger is completed, the plan will terminate. For any employee who terminates employment, his or her participation in the employee stock purchase plan will end on the last day of employment. If you have any questions regarding the employee stock purchase plan, please contact Computershare at 1-888-834-0744.

401(k) Plan and Deferred Compensation Plan

23. **What happens to the 401(k) plan?** Clayton, Dubilier & Rice has agreed to continue the ServiceMaster 401(k) plan through December 31, 2007 and to make

a company matching contribution for 2007 employee contributions at a rate and with vesting terms no less favorable to employees than the company matching contribution made for the 2006 plan year. In addition, for years after 2007, and to the extent employees become eligible to participate in a 401(k) plan maintained by CD&R or its subsidiaries, CD&R has agreed to take into account your elective deferrals and compensation received from ServiceMaster for purposes of determining the amount of annual employer matching, profit sharing and other employer contributions allocated for such plan year.

24. **How do I get the 2007 company match for the 401(k) plan?** All employees who make contributions in 2007 and who stay through December 31, 2007 (or who terminate employment prior to December 31, 2007 due to death, disability or retirement) would receive the company match for 2007 when the match is paid, typically in February 2008. If you have any questions regarding the 401(k) plan, please contact the T. Rowe Price Service Center at 1-800-922-9945.

25. **I have a ServiceMaster common stock account balance in the 401(k) plan. What happens to that balance because of the merger?** If the merger is completed, the shares of ServiceMaster common stock held in your 401(k) plan account will convert to cash at the $15.625 per share merger price. This cash amount will then be invested in the T. Rowe Price Summit Cash Reserves fund (or another fund designated by ServiceMaster). You may transfer this amount to another investment fund by contacting the T. Rowe Price Service Center at 1-800-922-9945. Upon completion of the merger, you would no longer have the right to receive a distribution from the 401(k) plan in ServiceMaster common stock. Please note that under the 401(k) plan you may change your investment elections at any time.

26. **What happens to the deferred compensation plan?** Similar to the 401(k) plan, Clayton, Dubilier & Rice has agreed to continue the ServiceMaster deferred compensation plan through December 31, 2007 and to make a company matching contribution for 2007 employee contributions at a rate and with vesting terms no less favorable to employees than the company matching contribution made for the 2006 plan year. In addition, for years after 2007, and to the extent employees become eligible to participate in a deferred compensation plan maintained by Clayton, Dubilier & Rice or its subsidiaries, Clayton, Dubilier & Rice has agreed to take into account your elective deferrals and compensation received from ServiceMaster for purposes of determining the amount of annual employer matching, profit sharing and other employer contributions allocated for such plan year.

27. **How do I get the 2007 company match for the deferred compensation plan?** Similar to the 401(k) plan, all employees who make contributions in 2007 and who stay through December 31, 2007 (or who terminate employment prior to December 31, 2007 due to death, disability or retirement) would receive the company match for 2007 when the match is paid, typically in February 2008. If

you have any questions regarding the deferred compensation plan, please contact the T. Rowe Price Service Center at 1-800-922-9945.

28. **I have a ServiceMaster common stock account balance in the ServiceMaster deferred compensation plan. What happens to that balance because of the merger?** Each account that is deemed to be invested in ServiceMaster common stock at the time of the merger will be deemed to have a value equal to $15.625 for each share of ServiceMaster common stock deemed to be in the account. After the completion of the merger, this account balance will then be deemed invested in the T. Rowe Price Summit Cash Reserves fund (or another fund designated by ServiceMaster). Upon completion of the merger, you will no longer have the right to receive a distribution in ServiceMaster common stock. Please note that under the deferred compensation plan you may change your investment elections quarterly.

29. **Will I be able to change my distribution elections for my deferred compensation plan balances?** Clayton, Dubilier & Rice has agreed to allow ServiceMaster to determine whether to amend the deferred compensation plan prior to completion of the merger to permit participants in the plan to change the date(s) on which their account balances are to be distributed. Any such action must be taken in compliance with the Internal Revenue Code. If such an amendment is made prior to completion of the merger, a communication to plan participants will be made. Even if no amendment is made prior to completion of the merger, Internal Revenue Service rules allow a participant to change distribution elections. These elections, however, cannot become effective until 12 months after the participant submits the new distribution election form, cannot change the timing of any payment already scheduled to be paid within 12 months and must extend the payment date by at least five years.

30. **Can CD&R change my distribution elections for my deferred compensation balances?** Clayton, Dubilier & Rice has agreed not to accelerate the time at which benefits are paid under the deferred compensation plan without the participant s consent.

31. **What other questions about the 401(k) plan or deferred compensation plan should I be thinking about?** If you have any questions regarding the 401(k) plan or deferred compensation plan, please contact the T. Rowe Price Service Center at 1-800-922-9945.

Medical Plan and Prescription Drug, Dental, Vision and Health Care Reimbursement Account

32. **What happens to my medical coverage?** As we have noted previously, Clayton, Dubilier & Rice has agreed to continue the ServiceMaster health care coverage plan through December 31, 2007. Health care coverage includes medical and prescription drug, dental, vision and health care reimbursement account.

33. **What happens if CD&R changes our health care coverage?** First, please note that in the ordinary course our health care coverage options change each year as we seek the best available and affordable plan for our employees. Our Human Resources department is making plans for 2008 health care coverage. That being said, Clayton, Dubilier & Rice has agreed to waive all limitations as to preexisting conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to employees and former employees under any new welfare or fringe benefit plan, including health care coverage (except for any limitations or waiting periods that are in effect and not satisfied prior to completion of the merger). In addition, CD&R has agreed to give credit to each employee and former employee under any new welfare plan for any co-payments, deductibles and out-of-pocket expenditures paid by the employee or former employee.

34. **What happens if my employment is terminated?** Any employee who terminates employment, whether before or after completion of the merger, and who has health care coverage at his or her separation date, is eligible for continuation of health care coverage, typically for up to 18 months after termination of employment. The employee would receive a continuation notice and an election notice to elect continuation coverage. In this event, you would have the same rights as active participants during the 18-month continuation period, including the ability to make changes during the annual enrollment period and also in the event of a qualified life status change.

Vacation Days, Sick Days and Service Credit

35. **What happens to my vacation days?** The merger agreement provides that from the effective time of the merger until December 31, 2007, ServiceMaster will provide each employee coverage under vacation and sick leave policies that are not less favorable than the ServiceMaster vacation and sick leave policies immediately prior to completion of the merger.

36. **How are vacation days earned by an employee?** We have vacation policies that vary across our business support center and business units. For the business support center and our Memphis and Downers Grove-based employees, vacation days are earned based upon full months of employment as follows: (a) 1.00 days of vacation for each full month of employment beginning the first day of the month after six months of employment (up to 10 days maximum for a full year through your first five years of employment), (b) 1.25 days of vacation for each full month of employment beginning January 1st of the year following your 5th anniversary and (c) 1.66 days of vacation for each full month of employment beginning January 1st of the year following your 15th anniversary. Upon completion of the merger, you will continue to be credited with any unused vacation you have earned through the date of the merger.

37. **What is our sick leave policy?** We have sick leave policies that vary across our business support center and our business units. Please check your employee handbook or ask your Human Resources manager for information on the sick leave policy applicable to you.

38. **After the merger will I continue to receive credit for my years of service to ServiceMaster and its businesses?** Yes. Clayton, Dubilier & Rice has agreed to give credit to all employees for service with ServiceMaster and its subsidiaries prior to the merger. This means, for example, that if you have five years of service and company matching contributions are made to the 401(k) plan or deferred compensation plan after completion of the merger, you will be vested in those contributions.

Closure of the Downers Grove Office

39. **Will ServiceMaster still close the Downers Grove office even though ServiceMaster has agreed to be acquired?** At this time, yes. Right now we expect the merger to be completed early in the third quarter. The Downers Grove office is scheduled to be closed by November 2007. We have no reason to believe that Clayton, Dubilier & Rice would change the decision to close the Downers Grove office. Senior leadership and our Board of Directors continue to believe the transfer of departments, functions and positions will improve the speed and effectiveness of communications and decision-making. It still makes sense to house those teams at our Memphis campus, where we have the largest investment and concentration of employees and operations, regardless of whether the merger is completed.

Separation Agreements, Change in Control Severance Agreements and Severance Guidelines

40. **I entered into a separation agreement with ServiceMaster as a result of the decision to close the Downers Grove office. I am wondering what happens to my separation agreement now that ServiceMaster has entered into a merger agreement?** If you have signed and returned a separation agreement, that agreement is enforceable. Clayton, Dubilier & Rice has agreed to honor all employment agreements, consulting agreements, retention agreements, bonus agreements, severance and separation agreements, relocation agreements, retirement agreements, non-competition agreements and collective bargaining agreements with or applicable to current and former directors, officers and employees.

41. **I am a party to a change in control severance agreement with ServiceMaster. I am wondering what happens under that agreement now that ServiceMaster has entered into a merger agreement?** If you have signed and returned a change in control severance agreement, that agreement is enforceable. A change in control severance agreement is designed to provide the employee with certain

payments and benefits in the event the employee s employment is terminated after a change in control of ServiceMaster. The merger transaction as currently contemplated under the merger agreement would result in a change in control of ServiceMaster occurring upon the completion of the merger. Any rights to payments and benefits under a change in control severance agreement, however, depend upon whether the employee s employment has been terminated after a change in control for a reason other than a Nonqualifying Termination of employment. The termination of an employee s employment is based on the facts and circumstances of each employee. Therefore, it is not possible to predict whether a particular employee would receive any payments or benefits. Please note Clayton, Dubilier & Rice has agreed to honor all employment agreements, consulting agreements, retention agreements, bonus agreements, severance and separation agreements, relocation agreements, retirement agreements, non-competition agreements and collective bargaining agreements with or applicable to current and former directors, officers and employees.

42. **Is CD&R going to terminate my employment?** Clayton, Dubilier & Rice has agreed to purchase ServiceMaster and its businesses because we are a healthy company with first-rate brands. Clayton, Dubilier & Rice has every reason to preserve and enhance its investment in ServiceMaster, including making sure that all employment decisions are made thoughtfully and carefully. Please note that Clayton, Dubilier & Rice is a financial buyer that does not bring its own service or support structure to our businesses. The work we do now must still be done. That being said, Clayton, Dubilier & Rice will have its own view on how to conduct our businesses so it is too early to say or predict whether an individual s employment will be affected.

43. **What happens if I am terminated?** Clayton, Dubilier & Rice has agreed to maintain for one year after the completion of the merger severance guidelines that are at least as favorable to employees as the severance guidelines currently in place. At this time, this Q&A does not address the consequences of a termination of employment under our various compensation and benefit plans, nor does this Q&A describe services such as outplacement, because we are not aware of any plan to terminate employees. If you have any questions regarding a particular plan or benefit, please contact your Human Resources manager.

Notice Regarding Filing of Proxy Statement

ServiceMaster will file with the Securities and Exchange Commission (the SEC), and furnish to its stockholders, a proxy statement soliciting proxies for the meeting of its stockholders to be called with respect to the acquisition of ServiceMaster by an investment group led by Clayton, Dubilier & Rice, Inc.

SERVICEMASTER STOCKHOLDERS ARE ADVISED TO READ THE PROXY STATEMENT WHEN IT IS FINALIZED AND DISTRIBUTED TO THEM BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION.

ServiceMaster stockholders and other interested parties will be able to obtain, without charge, a copy of the proxy statement (when available) and other relevant documents filed with the SEC from the SEC s website at http://www.sec.gov. ServiceMaster stockholders and other interested parties will also be able to obtain, without charge, a copy of the proxy statement (when available) and other relevant documents by directing a request by mail or telephone to The ServiceMaster Company, 3250 Lacey Road, Suite 600, Downers Grove, Illinois 60515, Attention: Corporate Secretary, telephone: 630-663-2000, or from ServiceMaster s website, www.svm.com.

ServiceMaster and certain of its directors, executive officers and other members of management and employees may, under SEC rules, be deemed to be participants in the solicitation of proxies from stockholders of ServiceMaster with respect to the proposed acquisition. Information regarding the persons who may be considered participants in the solicitation of proxies will be set forth in ServiceMaster s proxy statement relating to the proposed acquisition when it is filed with the SEC. Information regarding certain of these persons and their beneficial ownership of ServiceMaster common stock as of March 8, 2006 is also set forth in ServiceMaster s proxy statement for its 2006 Annual Meeting of Stockholders, which was filed with the SEC on March 20, 2006.

Statements about the expected timing, completion and effects of the proposed acquisition of ServiceMaster by an investment group led by Clayton, Dubilier & Rice, Inc. and all other statements in this press release other than historical facts constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on these forward-looking statements, each of which is qualified in its entirety by reference to the following cautionary statements. Forward-looking statements speak only as of the date hereof and are based on current expectations and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. ServiceMaster may not be able to complete the proposed merger because of a number of factors, including, among other things, the failure to obtain stockholder approval, the failure of financing or the failure to satisfy other closing conditions. Other risks and uncertainties that may affect forward-looking statements are described in the reports filed by ServiceMaster with the SEC under the Securities Exchange Act of 1934, as amended, including without limitation ServiceMaster s Annual Report on Form 10-K for the year ended December 31, 2006.

integrated into our products. These technologies might not continue to be available to us on commercially reasonable terms or at all. Our inability to obtain any of these licenses could delay product development until equivalent technology can be identified, licensed and integrated. This inability in turn would harm our business and operating results. Our use of third-party technologies exposes us to increased risks, including, but not limited to, risks associated with the integration of new technology into our products, the diversion of our resources from development of our own proprietary technology and our inability to generate revenue from licensed technology sufficient to offset associated acquisition and maintenance costs.

If the security of our software, in particular our hosted Internet solutions products, is breached, our business and reputation could suffer.

Fundamental to the use of our products is the secure collection, storage and transmission of confidential donor and end user information. Third parties may attempt to breach our security or that of our customers and their databases. We might be liable to our customers for any breach in such security, and any breach could harm our customers, our business and our reputation. Any imposition of liability, particularly liability that is not covered by insurance or is in excess of insurance coverage, could harm our reputation and our business and operating results. Also, computers, including those that utilize our software, are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays or loss of data. We might be required to expend significant capital and other

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resources to protect further against security breaches or to rectify problems caused by any security breach.

If we are unable to detect and prevent unauthorized use of credit cards and bank account numbers and safeguard confidential donor data, we could be subject to financial liability, our reputation could be harmed and customers may be reluctant to use our products and services.

We rely on third-party and internally-developed encryption and authentication technology to provide secure transmission of confidential information over the Internet, including customer credit card and bank account numbers, and protect confidential donor data. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments could result in a compromise or breach of the technology we use to protect sensitive transaction data. If any such compromise of our security, or the security of our customers, were to occur, it could result in misappropriation of proprietary information or interruptions in operations and have an adverse impact on our reputation or the reputation of our customers. If we are unable to detect and prevent unauthorized use of credit cards and bank account numbers or protect confidential donor data, our business could suffer.

We currently do not have any issued patents, but we rely upon trademark, copyright, patent and trade secret laws to protect our proprietary rights, which might not provide us with adequate protection.

Our success and ability to compete depend to a significant degree upon the protection of our software and other proprietary technology rights. We might not be successful in protecting our proprietary technology, and our proprietary rights might not provide us with a meaningful competitive advantage. To protect our proprietary technology, we rely on a combination of patent, trademark, copyright and trade secret laws, as well as nondisclosure agreements, each of which affords only limited protection. We currently do not have patents issued for any of our proprietary technology and we only recently filed patent applications relating to a number of our products. Moreover, we have no patent protection for The Raiser s Edge, which is one of our core products. Any inability to protect our intellectual property rights could seriously harm our business, operating results and financial condition. It is possible that:

- our pending patent applications may not result in the issuance of patents;
- any patents issued to us may not be timely or broad enough to protect our proprietary rights;
- any issued patent could be successfully challenged by one or more third parties, which could result in our loss of the right to prevent others from exploiting the inventions claimed in those patents; and
- current and future competitors may independently develop similar technologies, duplicate our products or design around any of our patents.

In addition, the laws of some foreign countries do not protect our proprietary rights in our products to the same extent as do the laws of the United States. Despite the measures taken by us, it may be possible for a third party to copy or otherwise obtain and use our proprietary technology and information without authorization. Policing unauthorized use of our products is difficult, and litigation could become necessary in the future to enforce our intellectual property rights. Any litigation could be time consuming and expensive to prosecute or resolve, result in substantial diversion of management attention and resources, and materially harm our business, financial condition and results of operations.

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If we do not successfully address the risks inherent in the expansion of our international operations, our business could suffer.

We currently have operations in the United Kingdom, Canada and Australia, and we intend to expand further into international markets. We have limited experience in international operations and may not be able to compete effectively in international markets. In 2004, our international offices generated revenues of approximately $20.9 million, an increase of 95% over 2003 international revenue of $10.7 million, itself an increase of 78% over international revenue of $6.0 million for 2002. In the three months ended June 30, 2005, our international revenue was $5.7 million. Expansion of our international operations will require a significant amount of attention from our management and substantial financial resources and may require us to add qualified management in these markets. Our direct sales model requires us to attract, retain and manage qualified sales personnel capable of selling into markets outside the United States. In some cases, our costs of sales might increase if our customers require us to sell through local distributors. If we are unable to grow our international operations in a cost effective and timely manner, our business and operating results could be harmed. Doing business internationally involves additional risks that could harm our operating results, including:

- difficulties and costs of staffing and managing international operations;
- differing technology standards;
- difficulties in collecting accounts receivable and longer collection periods;
- political and economic instability;
- fluctuations in currency exchange rates;
- imposition of currency exchange controls;
- potentially adverse tax consequences;
- reduced protection for intellectual property rights in certain countries;
- dependence on local vendors;
- protectionist laws and business practices that favor local competition;
- compliance with multiple conflicting and changing governmental laws and regulations;
- seasonal reductions in business activity specific to certain markets;
- longer sales cycles;
- restrictions on repatriation of earnings;
- differing labor regulations;
- restrictive privacy regulations in different countries, particularly in the European Union;
- restrictions on the export of technologies such as data security and encryption; and
- import and export restrictions and tariffs.

Future acquisitions could prove difficult to integrate, disrupt our business, dilute stockholder value and strain our resources.

We intend to acquire companies, services and technologies that we feel could complement or expand our business, augment our market coverage, enhance our technical capabilities, provide us with important customer contacts or otherwise offer growth opportunities. Acquisitions and investments involve numerous risks, including:

- difficulties in integrating operations, technologies, services, accounting and personnel;
- difficulties in supporting and transitioning customers of our acquired companies;
- diversion of financial and management resources from existing operations;
- risks of entering new sectors of the nonprofit industry;

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potential loss of key employees; and
inability to generate sufficient revenue to offset acquisition or investment costs.

Acquisitions also frequently result in recording of goodwill and other intangible assets, which are subject to potential impairments in the future that could harm our operating results. In addition, if we finance acquisitions by issuing equity securities or securities convertible into equity securities, our existing stockholders would be diluted, which, in turn, could affect the market price of our stock. Moreover, we could finance any acquisition with debt, resulting in higher leverage and interest costs. As a result, if we fail to evaluate and execute acquisitions or investments properly, we might not achieve the anticipated benefits of any such acquisition, and we may incur costs in excess of what we anticipate.

Claims that we infringe upon third parties intellectual property rights could be costly to defend or settle.

Litigation regarding intellectual property rights is common in the software industry. We expect that software products and services may be increasingly subject to third-party infringement claims as the number of competitors in our industry segment grows and the functionality of products in different industry segments overlaps. We may from time to time encounter disputes over rights and obligations concerning intellectual property. Although we believe that our intellectual property rights are sufficient to allow us to market our software without incurring liability to third parties, third parties may bring claims of infringement against us. Such claims may be with or without merit. Any litigation to defend against claims of infringement or invalidity could result in substantial costs and diversion of resources. Furthermore, a party making such a claim could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from selling our software. Our business, operating results and financial condition could be harmed if any of these events occurred.

In addition, we have agreed, and will likely agree in the future, to indemnify certain of our customers against certain claims that our software infringes upon the intellectual property rights of others. We could incur substantial costs in defending ourselves and our customers against infringement claims. In the event of a claim of infringement, we and our customers might be required to obtain one or more licenses from third parties. We, or our customers, might be unable to obtain necessary licenses from third parties at a reasonable cost, if at all. Defense of any lawsuit or failure to obtain any such required licenses could harm our business, operating results and financial condition.

If we become subject to product or general liability or errors and omissions claims, they could be time-consuming and costly.

Errors, defects or other performance problems in our software, as well as the negligence or misconduct of our consultants, could result in financial or other damages to our customers. They could seek damages from us for losses associated with these errors, defects or other performance problems. If successful, these claims could have a material adverse effect on our business. Although we possess product liability insurance and errors and omissions insurance, there is no guarantee that our insurance would be enough to cover the full amount of any loss we might suffer. Our license and service agreements typically contain provisions designed to limit our exposure to product liability claims, but existing or future laws or unfavorable judicial decisions could negate these limitation of liability provisions. A claim brought against us, even if unsuccessful, could be time-consuming and costly to defend and could harm our reputation.

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If we were found subject to or in violation of any laws or regulations governing privacy or electronic fund transfers, we could be subject to liability or forced to change our business practices.

It is possible that the payment processing component of our web-based software is subject to various governmental regulations. Pending legislation at the state and federal levels could also restrict further our information gathering and disclosure practices. Existing and potential future privacy laws might limit our ability to develop new products and services that make use of data we gather from various sources. For example, our custom modeling and analytical services, including ProspectPoint and WealthPoint, rely heavily on securing and making use of data we gather from various sources and privacy laws could jeopardize our ability to market and profit from those services. The provisions of these laws and related regulations are complicated, and we do not have extensive experience with these laws and related regulations. Even technical violations of these laws can result in penalties that are assessed for each non-compliant transaction. In addition, we might be subject to the privacy provisions of the Health Insurance Portability and Accountability Act of 1996 and the Gramm-Leach-Bliley Act and related regulations. If we or our customers were found to be subject to and in violation of any of these laws or other privacy laws or regulations, our business would suffer and we and/or our customers would likely have to change our business practices. In addition, these laws and regulations could impose significant costs on us and our customers and make it more difficult for donors to make online donations.

Increasing government regulation could affect our business.

We are subject not only to regulations applicable to businesses generally but also to laws and regulations directly applicable to electronic commerce. Although there are currently few such laws and regulations, state, Federal and foreign governments may adopt laws and regulations applicable to our business. Any such legislation or regulation could dampen the growth of the Internet and decrease its acceptance. If such a decline occurs, companies may decide in the future not to use our products and services. Any new laws or regulations in the following areas could affect our business:

user privacy;

the pricing and taxation of goods and services offered over the Internet:

the content of websites;

copyrights;

consumer protection, including the potential application of do not call registry requirements on our customers and consumer backlash in general to direct marketing efforts of our customers;

the online distribution of specific material or content over the Internet; and

the characteristics and quality of products and services offered over the Internet.

Our operations might be affected by the occurrence of a natural disaster or other catastrophic event in Charleston, South Carolina.

We depend on our principal executive offices and other facilities in Charleston, South Carolina for the continued operation of our business. Although we have contingency plans in effect for natural disasters or other catastrophic events, these events, including terrorist attacks and natural disasters such as hurricanes, which historically have struck the Charleston area with some regularity, could disrupt our operations. Even though we carry business interruption

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insurance policies and typically have provisions in our contracts that protect us in certain events, we might suffer losses as a result of business interruptions that exceed the coverage available under our insurance policies or for which we do not have coverage. Any natural disaster or catastrophic event affecting us could have a significant negative impact on our operations.

Outstanding employee stock options subject to variable accounting and recent changes to accounting standards could cause us to record significant compensation expense or benefit and could significantly reduce or increase our GAAP earnings in future periods.

Prior to our initial public offering in July 2004, options to purchase approximately 6.6 million shares under two of our stock option plans were subject to variable accounting treatment. Options to purchase approximately 2.5 million shares continue to be subject to variable accounting treatment and there is volatility in our stock price which could affect operating results. Accordingly, we could record significant compensation expense at the end of future periods, particularly if our stock price increases significantly. For example, we recorded compensation expense attributable to these options of $27.5 million in 2003 and $18.4 million in 2004. We also recorded a compensation expense of $3.3 million in the three months ended June 30, 2005. Stock option compensation expense or benefit could significantly change our GAAP earnings in future periods, which could cause our stock price to be volatile in a way unrelated to our operating results, and, as a result, you could lose some or all of your investment. In addition, on December 16, 2004, the Financial Accounting Standards issued Board Statement No. 123 (revised 2004), Share-Based Payment. Statement 123(R) will require us to measure all employee stock-based compensation awards using a fair value method and record such expense in our consolidated financial statements. In addition, the adoption of Statement 123(R) will require additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. Statement 123(R) is effective beginning in 2006. We are still evaluating which transition method we will use to comply with Statement 123(R). The adoption of Statement 123(R) could have a material impact on our consolidated results of operations and cash flows.

The requirements of being a public company might strain our resources and distract management.

As a newly public company, we are subject to a number of additional requirements, including the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 and new Nasdaq rules promulgated in response to the Sarbanes-Oxley Act. These requirements might place a strain on our systems and resources. The Securities Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls for financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal controls over financial reporting, significant resources and management oversight will be required. As a result, our management s attention might be diverted from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our independent registered public accounting firm s audit of that assessment will require the commitment of significant financial and managerial resources. In addition, we might need to hire additional

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accounting and financial staff with appropriate public company experience and technical accounting knowledge and we might not be able to do so in a timely fashion.

Risks related to purchasing our shares

We cannot assure you that a market will continue for our common stock or what the market price of our common stock will be.

Before our initial public offering in July 2004, there was no public trading market for our common stock, and we cannot assure you that one will be sustained. If a market is not sustained, it might be difficult for you to sell your shares of common stock at an attractive price or at all. We cannot predict the prices at which our common stock will trade. The offering price for our common stock covered by this prospectus will be determined through our selling stockholders negotiations with potential purchasers and might not bear any relationship to the market price at which it will trade after this offering or to any other established criteria of the value of our business. In future quarters our operating results might be below the expectations of public market analysts and investors and, as a result of these and other factors, the price of our common stock might decline.

The price of our common stock might be volatile.

Our stock price has been volatile and might continue to be, making an investment in our company risky. Between July 26, 2004, when our common stock started trading on the Nasdaq National Market, and August 16, 2005, the price of a share of our common stock varied from $8.30 to $15.22.

In the three years prior to 2003, technology stocks listed on The Nasdaq National Market experienced high levels of volatility and significant declines in value from their historic highs. The trading price of our common stock might fluctuate substantially. The price of the common stock that will prevail in the market might be higher or lower than the price you pay, depending on many factors, some of which are beyond our control and might not be related to our operating performance. The fluctuations could cause you to lose part or all of your investment in our shares of common stock. Those factors that could cause fluctuations in the trading price of our common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of software and technology companies;
- actual or anticipated changes in our earnings or fluctuations in our operating results or in the expectations of securities analysts;
- the amount of dividends we pay, if any;
- the amount of stock we purchase under our stock repurchase program, if any;
- economic conditions and trends in general and in the nonprofit industry;
- major catastrophic events, including terrorist activities, which could reduce or divert funding to, and technology spending by, our core nonprofit customer base;
- changes in our pricing policies or the pricing policies of our customers;
- changes in the estimation of the future size and growth of our market; or
- departures of key personnel.

In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price, we might be the target of securities litigation in the

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future. Securities litigation could result in substantial costs and divert management s attention and resources from our business.

One of our stockholders holds a greater percentage of our stock than other stockholders and could limit your ability to influence the outcome of key transactions, including a change of control, which could adversely affect the market price of our stock.

As of the date of this prospectus, Hellman & Friedman Capital Partners III, L.P. and its affiliates beneficially owned 41.27% of our common stock, and assuming it sells all of its common stock registered under this prospectus, will beneficially own approximately 20.50% of our common stock. As a result, Hellman & Friedman will have greater control with respect to all matters submitted to our stockholders for approval than other stockholders, including the election and removal of directors and the approval of any merger, consolidation or sales of all or substantially all of our assets. These stockholders might make decisions that are adverse to your interests. In addition, Hellman & Friedman and certain of its transferees will not be governed by Section 203 of the Delaware General Corporation Law. This fact might make it easier for Hellman & Friedman or its transferees to acquire your shares at a lower price than would otherwise be the case. This provision and the concentration of ownership could have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

Future sales of our common stock might depress our stock price.

As of August 15, 2005, we had 41,813,199 shares of common stock outstanding. The 10,000,000 shares that may be sold by the selling stockholders under this prospectus will be freely tradable without restriction or further registration under federal securities laws unless purchased by our affiliates. If these or other stockholders sell substantial amounts of common stock in the public market, or if the market perceives that these sales may occur, the market price of our common stock might decline. We are unable to estimate the amount, timing or nature of future sales of outstanding common stock.

Investors in this offering will experience immediate and substantial dilution.

The public offering price of the common stock registered for resale by the selling stockholders under this prospectus is expected to be considerably more than the net tangible book value per share of our outstanding common stock. Accordingly, investors purchasing shares of common stock offered under this prospectus will pay a price per share that substantially exceeds, on a per share basis, the value of our assets after subtracting liabilities. Investors will suffer additional dilution to the extent outstanding stock options are exercised and to the extent we issue any restricted stock to our employees under our equity incentive plans.

We might need to raise capital, which might not be available.

We will not receive any of the proceeds from the sale of shares by the selling stockholders under this prospectus. Accordingly, the proceeds from any sales by the selling stockholders will not be available to us to pay dividends, repurchase shares of our outstanding common stock under our stock repurchase program, or finance our operations, capital expenditures or investment activities. We might need to raise funds to meet these or other needs, and we

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might not be able to obtain such financing on favorable terms, if at all. If we need capital and cannot raise it on acceptable terms, we might not be able to:

- develop enhancements and additional features for our products;
- develop new products and services;
- hire, train and retain employees;
- enhance our infrastructure;
- respond to competitive pressures or unanticipated requirements;
- pursue international expansion;
- pursue acquisition opportunities; or
- continue to fund our operations.

If any of the foregoing consequences occur, our stock price might fall and you might lose some or all of your investment.

Our certificate of incorporation authorizes our board of directors to issue new series of preferred stock that may have the effect of delaying or preventing a change of control, which could adversely affect the value of your shares.

Our certificate of incorporation provides that our board of directors is authorized to issue from time to time, without further stockholder approval, up to 20,000,000 shares of preferred stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each series, including the dividend rights, dividend rates, conversion rights, voting rights, rights of redemption, including sinking fund provisions, redemption price or prices, liquidation preferences and the number of shares constituting any series or designations of any series. Such shares of preferred stock could have preferences over our common stock with respect to dividends and liquidation rights. We may issue additional preferred stock in ways that might delay, defer or prevent a change of control of our company without further action by our stockholders. Such shares of preferred stock may be issued with voting rights that may adversely affect the voting power of the holders of our common stock by increasing the number of outstanding shares having voting rights, and by the creation of class or series voting rights.

Anti-takeover provisions under our charter documents and Delaware law could delay or prevent a change of control and could also limit the market price of our stock.

Our certificate of incorporation and our bylaws contain provisions that could delay or prevent a change of control of our company or changes in our board of directors that our stockholders might consider favorable, including the following:

- our board of directors is classified into three classes, each of which will serve for staggered three year terms; and
- we require advance notice for stockholder proposals, including nominations for the election of directors.

In addition, we are governed by the provisions of Section 203 of the Delaware General Corporate Law, which can prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock, although our certificate of incorporation excludes Hellman & Friedman Capital Partners III, L.P. and its affiliates and transferees from the application of these anti-takeover provisions. These and other provisions in our certificate of incorporation and our bylaws and Delaware law could make it more difficult for stockholders or potential acquirors to obtain control of our board of directors or initiate actions that are

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opposed by the then-current board of directors, including delaying or impeding a merger, tender offer, or proxy contest or other change of control transaction involving our company. Any delay or prevention of a change of control transaction or changes in our board of directors could prevent the consummation of a transaction in which our stockholders could receive a substantial premium over the then current market price for their shares.

Risks relating to our dividend policy and stock repurchase program

You might not receive any dividends, and the reduction or elimination of dividends might negatively affect the market price of our common stock.

Dividend payments are not guaranteed and are within the absolute discretion of our board of directors. You might not receive any dividends as a result of any of the following factors:

- we are not obligated to pay dividends;
- while our dividend policy contemplates the distribution of a portion of the excess cash generated by our business in respect of each of the fiscal quarters in 2005, our board of directors could modify or revoke the policy at any time and for any reason;
- even if the dividend policy is not modified or revoked, our board of directors could decide to reduce dividends or not to pay any dividends at all, at any time and for any reason;
- the amount of dividends distributed is subject to state law restrictions;
- our credit facility limits the amount of dividends we are permitted to pay; and
- our stockholders have no contractual or other legal right to dividends.

Our dividend policy is based upon our current assessment of the cash needs of our business and the environment in which it operates. That assessment could change due to, among other things, changes in our results of operations, cash requirements, financial condition, contractual restrictions, growth opportunities, acquisitions, competitive or technological developments, provisions of applicable law and other factors that our board of directors might deem relevant. The reduction or elimination of dividends might negatively affect the market price of our common stock.

Our dividend policy and stock repurchase program might limit our ability to pursue growth opportunities.

Our board of directors has adopted a dividend policy and a stock repurchase program which reflects an intention to distribute to our stockholders a portion of the cash generated by our business that exceeds our operating needs and capital expenditures as regular quarterly dividends. In developing the dividend policy and stock repurchase program, we have made assumptions for and judgments about 2005 as to our expected results of operations, anticipated levels of capital expenditures, income taxes and working capital. As a result of any payment made under the dividend policy or any purchases under our stock repurchase program, our ability to finance any material expansion of our business, including through acquisitions or increased capital spending, or to fund our operations might be more limited than if we had retained all of our cash flow from operations.

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Payment of dividends or the repurchase of shares of common stock might be restricted under our credit facility
We are subject to certain restrictions on payment of dividends and the repurchase of outstanding shares of common stock under our $30 million credit facility which, if triggered, might result in our modification or elimination of dividends, cancellation of our stock repurchase program or being in default under the credit facility. If we default under our credit facility, we might not have adequate access to capital to run our business or pursue growth opportunities.

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Forward-looking statements

This prospectus, including the documents incorporated by reference, contains forward-looking statements as defined in the Private Securities Litigation Reform Act. In some cases, you can identify forward-looking statements by terminology such as may, might, will, should, could, would, expect, plan, anticipate, believe, es predict, intend, potential or the negative of such terms or other similar expressions.

The forward-looking statements reflect our current expectations and views about future events and speak only as of the date the statements were made. The forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on the forward-looking statements.

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement, of which this prospectus is part, completely and with the understanding that our actual future results might be materially different from what we expect. We might not update the forward-looking statements, even though our situation might change in the future, unless we have obligations under U.S. federal securities laws to update and disclose material developments related to previously disclosed information. We qualify all of the forward-looking statements by these cautionary statements.

You should rely only on the information contained in this prospectus, including the documents incorporated by reference. We have not authorized anyone to provide you with information different from that contained in this prospectus, including the documents incorporated by reference. Offers to sell, and offers to buy, shares of our common stock are being made only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

No action is being taken in any jurisdiction outside the United States to permit a public offering of common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to those jurisdictions.

Blackbaud and The Raiser s Edge are registered trademarks of Blackbaud, Inc. This prospectus also includes references to registered service marks and trademarks of other entities.

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Use of proceeds

We will not receive any proceeds from the sale of the common stock by the selling stockholders. The selling stockholders will receive all net proceeds from any sales of shares of our common stock under this prospectus.

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Selling stockholders

The following table sets forth information regarding the beneficial ownership of our common stock as of August 15, 2005, by each selling stockholder.

Beneficial ownership of a security is determined in accordance with the rules and regulations of the SEC. Under these rules, a person is deemed to beneficially own a share of our common stock if that person has or shares voting power or investment power with respect to that share, or has the right to acquire beneficial ownership of that share within 60 days, including through the exercise of any option or other right or the conversion or any other security. Shares issuable under stock options are deemed outstanding for computing the percentage of the person holding options but are not outstanding for computing the percentage of any other person. The percentage of beneficial ownership shown in the following table is based upon 41,813,199 shares of capital stock outstanding as of August 15, 2005. The number and percentage of shares beneficially owned after the offering in the table below assumes that the selling stockholders sell all shares of common stock registered under this prospectus. The selling stockholders might not sell all or any of these shares.

Unless otherwise indicated, the address for each listed stockholder is: c/o Blackbaud, Inc., 2000 Daniel Island Drive, Charleston, South Carolina 29492-7541. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of capital stock. To our knowledge, at the time of the acquisition of the securities being registered under this prospectus the selling stockholders had no agreements, understandings or arrangements with any other persons, either directly or indirectly, to dispose of the securities acquired from us.

Name	Beneficial ownership prior to the offering	Shares registered to be sold	Beneficial ownership after the offering	Percentage of shares beneficially owned	
				Before the offering	After the offering
Hellman & Friedman Capital Partners III, L.P.(1)	15,753,848	7,928,292	7,825,556	37.68%	18.72%
H&F Orchard Partners III, L.P.(1)	1,157,940	582,746	575,194	2.77%	1.38%
H&F International Partners III, L.P.(1)	345,139	173,695	171,444	*	*
Robert J. Sywolski(2)	1,322,362	692,706	(4)	3.07%	
JMI Equity Fund IV, L.P.(3)	763,356	437,371	325,985	1.83%	*
JMI Euro Equity Fund IV, L.P.(3)	243,751	139,659	104,092	*	*
JMI Equity Fund IV (A1), L.P.(3)	60,450	34,636	25,814	*	*
JMI Equity Side Fund, L.P.(3)	30,153	10,895	19,258	*	*

* Less than 1%

(1) Hellman & Friedman Capital Partners III, L.P., H&F Orchard Partners III, L.P. and H&F International Partners III, L.P. are referred to as the H&F Funds . H&F Investors III is the sole general partner of the H&F Funds. Investment decisions for the H&F Funds with respect to the Blackbaud shares are made by the investment committee of H&F Investors III which is currently composed of Brian Powers, Warren Hellman, Thomas Steyer

and Matthew Barger, each of whom disclaims beneficial ownership in the Blackbaud shares except to the extent of his pecuniary interest therein. Membership of the investment committee is subject to change from time to time. The address for each of the H&F Funds is One Maritime Plaza, 12th Floor, San Francisco, California 94111.

(2) Includes 1,216,312 shares of common stock obtainable upon the exercise of stock options. Does not include shares held by JMI Associates IV, L.L.C., of which Mr. Sywolski is a member.

(3) JMI Equity Fund IV, L.P., JMI Euro Equity Fund IV, L.P. and JMI Equity Fund IV (A1), L.P. are referred to as the JMI Funds . JMI Associates IV, LLC is the sole general partner of the JMI Funds and JMI Side Associates, L.L.C. is the sole general partner

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of JMI Equity Side Fund, L.P. (JMI Side Fund). Investment decisions for the JMI Funds and JMI Side Fund with respect to the Blackbaud shares are made by the investment committees of JMI Associates IV, LLC which is currently composed of Paul V. Barber, Harry S. Gruner, Bradford D. Woloson, Charles E. Noell, III, Peter C. Arrowsmith and Robert Smith, and JMI Side Associates, L.L.C. which is made up of Paul V. Barber, Harry S. Gruner, Bradford D. Woloson and Charles E. Noell, all of whom disclaim beneficial ownership in the Blackbaud shares except to the extent of his pecuniary interest therein. Membership of the investment committee is subject to change from time to time. The address for each of the JMI Funds is 12680 High Bluff Drive, Suite 200, San Diego, California 92130.

(4) This share number assumes that Mr. Sywolski cancels all of his remaining options to purchase shares of common stock as payment, under a net exercise, for a portion of the exercise price of the options that would be necessary for Mr. Sywolski to exercise in order to sell the shares registered under this prospectus. We will receive no proceeds from the net exercise of these options.

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Plan of distribution

We are registering the shares of common stock for resale on behalf of the selling stockholders. As used herein, selling stockholders includes donees, pledgees, transferees or other successors in interest selling securities received from a selling stockholder after the date of this prospectus. We will receive no proceeds from any shares of our common stock sold hereunder.

Any selling stockholder may offer any of its securities at various times in one or more of the following transactions (which may include block transactions):

- in one or more exchanges or over-the-counter market transactions;
- in private transactions other than exchange or over-the-counter market transactions;
- through short sales, although neither Blackbaud nor any of the selling stockholders concedes that any such transactions would constitute a sale of the securities for purposes of the Securities Act;
- through underwriters, brokers or dealers (who may act as agent or principal) who may receive compensation in the form of underwriting discounts, concessions or commissions from the selling stockholders and/or the purchasers of securities, for whom they may act as agent or to whom they sell as principal, or both (which compensation as to a particular underwriter, dealer or agent might be in excess of customary commissions);
- in purchases by a broker or dealer as principal and resales by such broker or dealer for its account pursuant to this prospectus;
- directly to one or more purchasers;
- pursuant to a contract, instruction or plan of sale in compliance with Rule 10b5-1 promulgated under the Exchange Act;
- through agents;
- through distribution by a selling stockholder or its successor in interest to its members, partners or shareholders;
- in negotiated transactions;
- by pledge to secure debts and other obligations;
- any other method permitted pursuant to applicable law; or
- in a combination of any of the foregoing methods.

A selling stockholder also may resell all or a portion of its securities in open market transactions in reliance upon Rule 144 under the Securities Act, provided it meets the criteria and conforms to the requirements of Rule 144.

A selling stockholder may enter into hedging transactions with broker-dealers or other financial institutions. In connection with such transactions, broker-dealers or other financial institutions may engage in short sales of the securities in the course of hedging the positions they assume with a selling stockholder. A selling stockholder may also enter into options or other transactions with broker-dealers or other financial institutions which require the delivery to such broker-dealer or their financial institution of the securities offered hereby, which securities such broker-dealer or their financial institution may resell pursuant to this prospectus as supplemented or amended to reflect such transaction.

In effecting sales, brokers and dealers engaged by the selling stockholders may arrange for other brokers or dealers to participate in such sales. Brokers or dealers may receive commissions or discounts from the selling stockholders (or, if any such broker-dealer acts as agent for the purchaser of such shares, from such purchaser) in amounts to be negotiated which are not expected to exceed those customary in the types of transactions involved. Broker-dealers may agree with the selling stockholders to sell a specified number of such shares of common stock

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at a stipulated price per share, and, to the extent such broker-dealer is unable to do so acting as agent for a selling stockholder, to purchase as principal any unsold shares of common stock at the price required to fulfill the broker-dealer commitment to the selling stockholders. Broker-dealers who acquire shares of common stock as principal may thereafter resell such shares of common stock from time to time in transactions (which may involve block transactions and sales to and through other broker-dealers, including transactions of the nature described above) in the over-the-counter market or otherwise at prices and on terms then prevailing at the time of sale, at prices then related to the then-current market price or in negotiated transactions and, in connection with such resales, may pay to or receive from the purchasers of such shares commissions as described below.

A selling stockholder may offer and sell securities other than for cash. In such event, any required details of the transaction will be set forth in a prospectus supplement.

The selling stockholders and any underwriters, dealers or agents that participate in the distribution of securities may be deemed to be underwriters, and any profit on the sale of securities by them and any discounts, commissions or concessions received by any such underwriters, dealers or agents might be deemed to be underwriting discounts and commissions under the Securities Act. If we are advised that an underwriter has been engaged with respect to the sale of any securities offered hereby, or in the event of any other material change in the plan of distribution, we will cause appropriate amendments to the registration statement of which this prospectus forms a part to be filed with the SEC reflecting such engagement or other change. See Where You Can Find More Information .

At the time a particular offer of securities is made, to the extent required, a prospectus supplement will be provided by us and distributed by the relevant selling stockholder which will set forth the aggregate amount and type of the securities being offered and the terms of the offering, including the name or names of any underwriters, dealers or agents, any discounts, commissions and other items constituting compensation from the selling stockholders and any discount, commissions or concessions allowed or reallowed or paid to dealers.

The securities may be sold from time to time in one or more transactions at a fixed offering price, which may be changed, or at market prices prevailing at the time of the sale, at varying prices determined at the time of sale or at negotiated prices. Such prices will be determined individually by the selling stockholders or by agreement among two or more of the selling stockholders.

Under applicable rules and regulations under the Exchange Act, any person engaged in a distribution of securities may not simultaneously engage in market-making activities with respect to such securities for a period of nine business days prior to the commencement of such distribution and ending upon the completion of such distribution. In addition to and without limiting the foregoing, each selling stockholder will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including without limitation Regulation M, which provisions may limit the timing of purchases and sales of any of the securities by the selling stockholders. All of the foregoing may affect the marketability of the securities and the ability of any person or entity to engage in market-making activities with respect to the securities.

We will pay all expenses of the registration of the shares of common stock pursuant to the registration rights agreement, including, without limitation, SEC filing fees, expenses of compliance with state securities or blue sky laws and underwriting discounts and selling commissions, if any. We will indemnify the selling stockholders against liabilities, including

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some liabilities under the Securities Act, in accordance with the investor rights agreement, or the selling stockholders will be entitled to contribution. We may be indemnified by the selling stockholders against civil liabilities, including liabilities under the Securities Act, that arise from any written information furnished to us by the selling stockholder specifically for use in this prospectus, in accordance with the related investor rights agreement, or we may be entitled to contribution.

In order to comply with certain states securities laws, if applicable, the shares of common stock will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states the common stock may not be sold unless the common stock has been registered or qualified for sale in such state or an exemption from registration or qualification is available and is satisfied.

Once sold under the shelf registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

Legal matters

The validity of the issuance of our shares of common stock offered by this prospectus will be passed upon for us by Wyrick Robbins Yates & Ponton LLP, Raleigh, North Carolina.

Experts

The consolidated financial statements incorporated in this prospectus by reference to the annual report on Form 10-K for the year ended December 31, 2004 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Where you can find more information

We have filed with the SEC a registration statement (file number 333-122122), originally on Form S-1, now amended to be on Form S-3, including exhibits, under the Securities Act of 1933 with respect to the shares of our common stock that might be sold under this prospectus. This prospectus does not contain all of the information set forth in the registration statement. For further information with respect to us and the shares that might be sold under this prospectus, reference is made to the registration statement and the exhibits attached to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete. We are subject to the information and reporting requirements of the Securities Exchange Act of 1934 and file annual, quarterly and current reports, proxy statements and other information with the SEC.

You may read and copy all or any portion of the registration statement or any of our annual, quarterly and current reports, proxy statements or other information that we file at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our SEC filings, including the registration statement, are also available to you on the SEC s web site *http://www.sec.gov*.

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Incorporation of documents by reference

The SEC allows us to incorporate into this prospectus information that we file with the SEC in other documents, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus. Any statement contained in a document which is incorporated by reference is automatically updated and superseded if such information is contained in this prospectus, or information that we later file with the SEC modifies and replaces such information. We incorporate by reference into this registration statement and prospectus the documents listed below and any future filings we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of the offering of the securities covered by this prospectus (other than any portion of such documents that are not deemed filed under the Exchange Act in accordance with the Exchange Act and applicable SEC rules):

- the annual report on Form 10-K for the year ended December 31, 2004, filed on March 14, 2005;
- the quarterly reports on Form 10-Q for the quarters ended March 31 and June 30, 2005, filed on May 13 and August 12, 2005, respectively;
- the current reports on Form 8-K filed on February 1 and August 11, 2005; and
- the description of our common stock contained in our registration statement on Form 8-A, filed on February 20, 2004, including any amendment or report filed for the purpose of updating such description.

We will furnish without charge to you, on written or oral request, a copy of any or all of the documents incorporated by reference, including exhibits to these documents. You should direct any requests for documents to Blackbaud, Inc., Attention: Corporate Secretary, 2000 Daniel Island Drive, Charleston, South Carolina 29492, (843) 216-6200.

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Part II
Information not required in prospectus

Item 16. ***Exhibits.***

See Exhibit Index beginning on page II-4 of this registration statement.

Item 17. ***Undertakings.***

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; and

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant s annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(e) The undersigned registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X are not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

(h) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to provisions described in Item 14 above or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the

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question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(i) The undersigned registrant also hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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Signatures

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this amendment to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Charleston, State of South Carolina, on this 17th day of August 2005.

Blackbaud, Inc.
By: /s/ Robert J. Sywolski

Robert J. Sywolski
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this amendment to Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Robert J. Sywolski Robert J. Sywolski	President, Chief Executive Officer and Director (Principal Executive Officer)	August 17, 2005
/s/ Timothy V. Williams* Timothy V. Williams	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	August 17, 2005
/s/ Paul V. Barber* Paul V. Barber	Director	August 17, 2005
/s/ Marco W. Hellman* Marco W. Hellman	Director	August 17, 2005
/s/ Dr. Sandra R. Hernández* Dr. Sandra R. Hernández	Director	August 17, 2005
/s/ Andrew M. Leitch* Andrew M. Leitch	Director	August 17, 2005
/s/ David R. Tunnell* David R. Tunnell	Director	August 17, 2005
*By: /s/ Robert J. Sywolski Robert J. Sywolski, Attorney-in-Fact		August 17, 2005

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Exhibit index

Exhibit Number	Description of Document	Filed In: Registrant s Form	Filed In: Dated	Filed In: Exhibit Number	Filed Herewith
2.1	Agreement and Plan of Merger and Reincorporation dated April 6, 2004	S-1	04/06/04	2.1	
3.1	Certificate of Incorporation of Blackbaud, Inc.	S-1	04/06/04	3.1	
3.2	By-laws of Blackbaud, Inc.	S-1	04/06/04	3.2	
4.1	Specimen Common Stock Certificate.	S-1	02/20/04	4.1	
5.1	Opinion of Wyrick Robbins Yates & Ponton LLP regarding the legality of the securities being registered.	S-1	01/18/05	5.1	
10.1	Investor Rights Agreement dated as of October 13, 1999 among Blackbaud, Inc. and certain of its stockholders.	S-1	02/20/04	10.1	
10.2	Employment and Noncompetition Agreement dated as of March 1, 2000 between Blackbaud, Inc. and Robert J. Sywolski	S-1	02/20/04	10.2	
10.3	Option Agreement dated as of March 8, 2000 between Blackbaud, Inc, and Robert J. Sywolski.	S-1	02/20/04	10.3	
10.4	Lease Agreement dated October 13, 1999 between Blackbaud, Inc., and Duck Pond Creek, LLC	S-1	02/20/04	10.4	
10.5	Trademark License and Promotional Agreement dated as of October 13, 1999 between Blackbaud, Inc. and Charleston Battery, Inc.	S-1	02/20/04	10.5	
10.6	Blackbaud, Inc. 1999 Stock Option Plan, as amended.	S-1	04/06/04	10.6	
10.7	Blackbaud, Inc. 2000 Stock Option Plan, as amended.	S-1	04/06/04	10.7	
10.8	Blackbaud, Inc. 2001 Stock Option Plan, as amended.	S-1	04/06/04	10.8	
10.9	Form of Software License Agreement.	S-1	02/20/04	10.9	
10.10	Form of Professional Services Agreement.	S-1	02/20/04	10.10	
10.11	Form of NetSolutions Services Agreement.	S-1	02/20/04	10.11	
10.12	Standard Terms and Conditions for Software Maintenance and Support	S-1	02/20/04	10.12	
10.13	Credit Agreement dated as of October 13, 1999 among Blackbaud, Inc., Bankers Trust Company, Fleet National Bank, First Union Securities, Inc. and the lenders party thereto.	S-1	04/06/04	10.13	
10.14	First Amendment to Credit Agreement dated as of December 6, 1999 among Blackbaud, Inc., Bankers Trust Company, Fleet Boston	S-1	04/06/04	10.14	

Corporation, First Union Securities, Inc., and
the lenders party thereto.

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Exhibit Number	Description of Document	Filed In: Registrant s Form	Dated	Exhibit Number	Filed Herewith
10.15	Second Agreement to Credit Agreement dated as of December 19, 2000 among Blackbaud, Inc., Bankers Trust Company, Fleet Boston Corporation, First Union Securities, Inc., and the lenders party thereto.	S-1	02/20/04	10.15	
10.16	Third Amendment to Credit Agreement dated as of May 16, 2001 among Blackbaud, Inc., Blackbaud, LLC, Bankers Trust Company, Fleet Boston Corporation, First Union Securities, Inc., and the lenders party thereto.	S-1	02/20/04	10.16	
10.17	Letter Agreement dated March 23, 2004 between the Company and certain of its stockholders relating to registration rights held by those stockholders.	S-1	04/06/04	10.17	
10.18	Employment and Noncompetition Agreement dated as of April 1, 2004 between Blackbaud, Inc. and Robert J. Sywolski.	S-1	06/16/04	10.18	
10.19*	Software Transition Agreement dated as of January 30, 2004 between Blackbaud, Inc. and United Way of America.	S-1	04/06/04	10.19	
10.20	Blackbaud, Inc. 2004 Stock Plan	S-1	04/06/04	10.20	
10.21	Commitment Letter for Arrangement of Senior Credit Facility dated June 1, 2004 from Wachovia Bank, N.A.	S-1	06/16/04	10.21	
10.22	Credit Agreement dated September 30, 2004 by and among Blackbaud, Inc., as borrower, the lenders referred to therein and Wachovia Bank, National Association.	8-K	10/05/04	10.22	
10.23	Guaranty Agreement dated September 30, 2004 by and among Blackbaud, LLC, as guarantor, in favor of Wachovia Bank, National Association.	8-K	10/05/04	10.23	
10.24	Form of Notice of Stock Option Grant and Stock Option Agreement under the Blackbaud, Inc. 2004 Stock Plan.	10-Q	11/12/04	10.24	
21.1	Subsidiaries of Blackbaud, Inc.	S-1	07/19/04	21.1	
23.1	Consent of Independent Registered Public Accounting Firm.				X
23.2	Consent of Wyrick Robbins Yates & Ponton LLP (included in Exhibit 5.1).	S-1	01/18/05	23.2	

* The registrant has received confidential treatment with respect to certain portions of this exhibit. Such portions have been omitted and have been filed separately with the SEC.