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

FORM 10-Q

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

For the quarterly period ended March 31, 2021

or

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

For the transition period from __________to __________.

Commission file number: **000-50600**

blackbaud®

Blackbaud, Inc.

(Exact name of registrant as specified in its charter)

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

65 Fairchild Street
Charleston, South Carolina 29492
(Address of principal executive offices, including zip code)

(843) 216-6200
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on which Registered
Common Stock, $0.001 Par Value	**BLKB**	**Nasdaq Global Select Market**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☑ No ☐

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

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of the registrant's Common Stock outstanding as of April 28, 2021 was 48,818,991.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the documents incorporated herein by reference, contains forward-looking statements that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These "forward-looking statements" are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements consist of, among other things, specific and overall impacts of the COVID-19 global pandemic on our financial condition and results of operations and on the markets and communities in which we and our customers and partners operate, trend analyses, statements regarding future events, future financial performance, our anticipated growth, the effect of general economic and market conditions, our business strategy and our plan to build and grow our business, our operating results, our ability to successfully integrate acquired businesses and technologies, the effect of foreign currency exchange rate and interest rate fluctuations on our financial results, the impact of expensing stock-based compensation, the sufficiency of our capital resources, our ability to meet our ongoing debt and obligations as they become due, cybersecurity and data protection risks, and potential litigation involving us, all of which are based on current expectations, estimates, and forecasts, and the beliefs and assumptions of our management. Words such as “believes,” “seeks,” “expects,” “may,” “might,” “should,” “intends,” “could,” “would,” “likely,” “will,” “targets,” “plans,” “anticipates,” “aims,” “projects,” “estimates” or any variations of such words and similar expressions are also intended to identify such forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict. Accordingly, they should not be viewed as assurances of future performance, and actual results may differ materially and adversely from those expressed in any forward-looking statements.

Important factors that could cause actual results to differ materially from our expectations expressed in forward-looking statements include, but are not limited to, those summarized under “Part II, Item 1A. Risk factors” and elsewhere in this report, in our Annual Report on Form 10-K for the year ended December 31, 2020 and in our other SEC filings. Forward-looking statements represent our management's beliefs and assumptions only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update or revise any forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statement, whether as a result of new information, future events or otherwise.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Blackbaud, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(dollars in thousands)		March 31, 2021		December 31, 2020
Assets				
Current assets:				
Cash and cash equivalents	$	27,753	$	35,750
Restricted cash		255,158		609,219
Accounts receivable, net of allowance of $10,361 and $10,292 at March 31, 2021 and December 31, 2020, respectively		83,333		95,404
Customer funds receivable		945		321
Prepaid expenses and other current assets		98,095		78,366
Total current assets		465,284		819,060
Property and equipment, net		105,124		105,177
Operating lease right-of-use assets		20,055		22,671
Software development costs, net		113,624		111,827
Goodwill		637,113		635,854
Intangible assets, net		269,118		277,506
Other assets		74,022		72,639
Total assets	$	1,684,340	$	2,044,734
Liabilities and stockholders' equity				
Current liabilities:				
Trade accounts payable	$	35,274	$	27,836
Accrued expenses and other current liabilities		53,013		52,228
Due to customers		254,947		608,264
Debt, current portion		12,875		12,840
Deferred revenue, current portion		290,025		312,236
Total current liabilities		646,134		1,013,404
Debt, net of current portion		537,924		518,193
Deferred tax liability		54,444		54,086
Deferred revenue, net of current portion		4,495		4,678
Operating lease liabilities, net of current portion		15,744		17,357
Other liabilities		9,439		10,866
Total liabilities		1,268,180		1,618,584
Commitments and contingencies (see Note 9)				
Stockholders' equity:				
Preferred stock; 20,000,000 shares authorized, none outstanding		—		—
Common stock, $0.001 par value; 180,000,000 shares authorized, 61,595,276 and 60,904,638 shares issued at March 31, 2021 and December 31, 2020, respectively		62		61
Additional paid-in capital		574,958		544,963
Treasury stock, at cost; 12,760,956 and 12,054,268 shares at March 31, 2021 and December 31, 2020, respectively		(399,583)		(353,091)
Accumulated other comprehensive income (loss)		4,163		(2,497)
Retained earnings		236,560		236,714
Total stockholders' equity		416,160		426,150
Total liabilities and stockholders' equity	$	1,684,340	$	2,044,734

The accompanying notes are an integral part of these condensed consolidated financial statements.

Blackbaud, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(dollars in thousands, except per share amounts)	Three months ended March 31, 2021	2020
Revenue		
Recurring	$ 206,750	$ 204,867
One-time services and other	12,441	18,754
Total revenue	219,191	223,621
Cost of revenue		
Cost of recurring	88,865	89,551
Cost of one-time services and other	14,520	15,314
Total cost of revenue	103,385	104,865
Gross profit	115,806	118,756
Operating expenses		
Sales, marketing and customer success	48,793	58,735
Research and development	29,179	24,977
General and administrative	30,587	25,855
Amortization	549	741
Restructuring	54	24
Total operating expenses	109,162	110,332
Income from operations	6,644	8,424
Interest expense	(5,114)	(4,159)
Other (expense) income, net	(1,010)	1,070
Income before provision for income taxes	520	5,335
Income tax provision	684	696
Net (loss) income	$ (164)	$ 4,639
Earnings (loss) per share		
Basic	$ —	$ 0.10
Diluted	$ —	$ 0.10
Common shares and equivalents outstanding		
Basic weighted average shares	47,363,197	48,036,300
Diluted weighted average shares	47,363,197	48,455,751
Other comprehensive income (loss)		
Foreign currency translation adjustment	2,511	(5,728)
Unrealized gain (loss) on derivative instruments, net of tax	4,149	(3,122)
Total other comprehensive income (loss)	6,660	(8,850)
Comprehensive income (loss)	$ 6,496	$ (4,211)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Blackbaud, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(dollars in thousands)	Three months ended March 31, 2021	2020
Cash flows from operating activities		
Net (loss) income	$ (164)	$ 4,639
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,461	21,804
Provision for credit losses and sales returns	2,141	2,488
Stock-based compensation expense	30,005	13,580
Deferred taxes	(1,142)	954
Amortization of deferred financing costs and discount	506	188
Other non-cash adjustments	(32)	102
Changes in operating assets and liabilities, net of acquisition and disposal of businesses:		
Accounts receivable	10,407	(3,876)
Prepaid expenses and other assets	(17,426)	(5,303)
Trade accounts payable	7,550	(4,021)
Accrued expenses and other liabilities	549	(31,694)
Deferred revenue	(22,752)	(23,364)
Net cash provided by (used in) operating activities	30,103	(24,503)
Cash flows from investing activities		
Purchase of property and equipment	(3,470)	(2,867)
Capitalized software development costs	(9,302)	(10,937)
Net cash used in investing activities	(12,772)	(13,804)
Cash flows from financing activities		
Proceeds from issuance of debt	80,700	144,700
Payments on debt	(59,667)	(86,075)
Employee taxes paid for withheld shares upon equity award settlement	(18,426)	(19,782)
Proceeds from exercise of stock options	—	1
Change in due to customers	(353,597)	(311,095)
Change in customer funds receivable	(563)	(733)
Purchase of treasury stock	(28,066)	—
Dividend payments to stockholders	—	(5,960)
Net cash used in financing activities	(379,619)	(278,944)
Effect of exchange rate on cash, cash equivalents and restricted cash	230	(2,822)
Net decrease in cash, cash equivalents and restricted cash	(362,058)	(320,073)
Cash, cash equivalents and restricted cash, beginning of period	644,969	577,295
Cash, cash equivalents and restricted cash, end of period	$ 282,911	$ 257,222

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown above in the condensed consolidated statements of cash flows:

(dollars in thousands)	March 31, 2021	December 31, 2020
Cash and cash equivalents	$ 27,753	$ 35,750
Restricted cash	255,158	609,219
Total cash, cash equivalents and restricted cash in the statement of cash flows	$ 282,911	$ 644,969

The accompanying notes are an integral part of these condensed consolidated financial statements.

Blackbaud, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

(dollars in thousands)	Common stock Shares	Common stock Amount	Additional paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders' equity
Balance at December 31, 2020	60,904,638	$ 61	$ 544,963	$ (353,091)	$ (2,497)	$ 236,714	$ 426,150
Net loss	—	—	—	—	—	(164)	(164)
Purchase of 465,821 treasury shares under stock repurchase program	—	—	—	(28,066)	—	—	(28,066)
Vesting of restricted stock units	206,418	—	—	—	—	—	—
Employee taxes paid for 240,867 withheld shares upon equity award settlement	—	—	—	(18,426)	—	—	(18,426)
Stock-based compensation	—	—	29,995	—	—	10	30,005
Restricted stock grants	519,009	1	—	—	—	—	1
Restricted stock cancellations	(34,789)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	6,660	—	6,660
Balance at March 31, 2021	61,595,276	$ 62	$ 574,958	$ (399,583)	$ 4,163	$ 236,560	$ 416,160

(dollars in thousands)	Common stock Shares	Common stock Amount	Additional paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders' equity
Balance at December 31, 2019	60,206,091	$ 60	$ 457,804	$ (290,665)	$ (5,290)	$ 234,855	$ 396,764
Net income	—	—	—	—	—	4,639	4,639
Payment of dividends ($0.12 per share)	—	—	—	—	—	(5,960)	(5,960)
Exercise of stock options and vesting of restricted stock units	210,057	—	1	—	—	—	1
Employee taxes paid for 245,358 withheld shares upon equity award settlement	—	—	—	(19,782)	—	—	(19,782)
Stock-based compensation	—	—	13,539	—	—	41	13,580
Restricted stock grants	563,947	1	—	—	—	—	1
Restricted stock cancellations	(47,456)	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	(8,850)	—	(8,850)
Balance at March 31, 2020	60,932,639	$ 61	$ 471,344	$ (310,447)	$ (14,140)	$ 233,575	$ 380,393

The accompanying notes are an integral part of these condensed consolidated financial statements.

Blackbaud, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization

We are the world's leading cloud software company powering social good. Serving the entire social good community—nonprofits, higher education institutions, K–12 schools, healthcare organizations, faith communities, arts and cultural organizations, foundations, companies and individual change agents—we connect and empower organizations to increase their impact through cloud software, services, expertise and data intelligence. Our portfolio is tailored to the unique needs of vertical markets, with solutions for fundraising and CRM, marketing, advocacy, peer-to-peer fundraising, corporate social responsibility, school management, ticketing, grantmaking, financial management, payment processing and analytics. Serving the industry for nearly four decades, we are headquartered in Charleston, South Carolina, and have operations in the United States, Australia, Canada, Costa Rica and the United Kingdom.

2. Basis of Presentation

Unaudited condensed consolidated interim financial statements

The accompanying condensed consolidated interim financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim financial reporting. These consolidated statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to state fairly the consolidated balance sheets, consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of stockholders' equity, for the periods presented in accordance with accounting principles generally accepted in the United States ("U.S.") ("GAAP"). The consolidated balance sheet at December 31, 2020 has been derived from the audited consolidated financial statements at that date. Operating results and cash flows for the three months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2021, or any other future period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations for interim reporting of the SEC. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2020, and other forms filed with the SEC from time to time.

Basis of consolidation

The condensed consolidated financial statements include the accounts of Blackbaud, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Reportable segment

We report our operating results and financial information in one operating and reportable segment. Our chief operating decision maker uses consolidated financial information to make operating decisions, assess financial performance and allocate resources. Our chief operating decision maker is our chief executive officer ("CEO").

Risks and uncertainties related to COVID-19

We are subject to risks and uncertainties as a result of the global COVID-19 pandemic. We believe that COVID-19 may continue to impact our vertical markets and geographies, but the significance and duration of the impact on our business cannot be determined at this time due to numerous uncertainties, including the duration of the outbreak, travel restrictions and business closures, the effectiveness of vaccination programs and other actions taken to contain the disease and other unforeseeable consequences.

Blackbaud, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, we reconsider and evaluate our estimates and assumptions, including those that impact revenue recognition, long-lived and intangible assets, income taxes, business combinations, stock-based compensation, capitalization of software development costs, our allowances for credit losses and sales returns, costs of obtaining contracts, valuation of derivative instruments and loss contingencies, among others. Changes in the facts or circumstances underlying these estimates, including due to COVID-19, could result in material changes and actual results could materially differ from these estimates.

Recently issued accounting pronouncements

There are no recently issued accounting pronouncements that we expect to have a material impact on our consolidated financial statements when adopted in the future.

Summary of significant accounting policies

There have been no new or material changes to our significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 23, 2021.

3. Goodwill and Other Intangible Assets

The change in goodwill during the three months ended March 31, 2021, consisted of the following:

(dollars in thousands)		Total
Balance at December 31, 2020	$	635,854
Effect of foreign currency translation		1,259
Balance at March 31, 2021	$	637,113

4. Earnings (Loss) Per Share

We compute basic earnings (loss) per share by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income available to common stockholders by the weighted average number of common shares and dilutive potential common shares outstanding during the period. Diluted earnings (loss) per share reflect the assumed exercise, settlement and vesting of all dilutive securities using the “treasury stock method” except when the effect is anti-dilutive. Potentially dilutive securities consist of shares issuable upon the exercise of stock options, settlement of stock appreciation rights and vesting of restricted stock awards and units. Diluted loss per share for the three months ended March 31, 2021 was the same as basic loss per share as there was a net loss in the period and inclusion of potentially dilutive securities was anti-dilutive.

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	Three months ended March 31,	
(dollars in thousands, except per share amounts)	2021	2020
Numerator:		
Net (loss) income	$ (164)	$ 4,639
Denominator:		
Weighted average common shares	47,363,197	48,036,300
Add effect of dilutive securities:		
Stock-based awards	—	419,451
Weighted average common shares assuming dilution	47,363,197	48,455,751
Earnings (loss) per share:		
Basic	$ —	$ 0.10
Diluted	$ —	$ 0.10
Anti-dilutive shares excluded from calculations of diluted earnings (loss) per share	1,360,378	1,170,289

5. Fair Value Measurements

We use a three-tier fair value hierarchy to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 - Quoted prices for identical assets or liabilities in active markets;
- Level 2 - Quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

Recurring fair value measurements

Assets and liabilities that are measured at fair value on a recurring basis consisted of the following, as of the dates indicated below:

	Fair value measurement using			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Fair value as of March 31, 2021				
Financial assets:				
Derivative instruments	$ —	$ 2,851	$ —	$ 2,851
Total financial assets	$ —	$ 2,851	$ —	$ 2,851
Financial liabilities:				
Derivative instruments	$ —	$ 1,431	$ —	$ 1,431
Total financial liabilities	$ —	$ 1,431	$ —	$ 1,431
Fair value as of December 31, 2020				
Financial liabilities:				
Derivative instruments	$ —	$ 4,159	$ —	$ 4,159
Total financial liabilities	$ —	$ 4,159	$ —	$ 4,159

Our derivative instruments within the scope of Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging*, are required to be recorded at fair value. Our derivative instruments that are recorded at fair value include interest rate swaps.

The fair value of our interest rate swaps was based on model-driven valuations using LIBOR rates, which are observable at commonly quoted intervals. Accordingly, our interest rate swaps are classified within Level 2 of the fair value hierarchy. The Financial Conduct Authority in the U.K. has stated that it plans to phase out LIBOR by the end of calendar year 2021. We do not currently anticipate a significant impact to our financial position or results of operations as a result of this action as we expect that our financial contracts currently indexed to LIBOR will either expire or be modified without significant financial impact before the phase out occurs.

We believe the carrying amounts of our cash and cash equivalents, restricted cash, accounts receivable, trade accounts payable, accrued expenses and other current liabilities and due to customers approximate their fair values at March 31, 2021 and December 31, 2020, due to the immediate or short-term maturity of these instruments.

We believe the carrying amount of our debt approximates its fair value at March 31, 2021 and December 31, 2020, as the debt bears interest rates that approximate market value. As LIBOR rates are observable at commonly quoted intervals, our debt under the 2020 Credit Facility (as defined below) is classified within Level 2 of the fair value hierarchy. Our fixed rate debt is also classified within Level 2 of the fair value hierarchy.

We did not transfer any assets or liabilities among the levels within the fair value hierarchy during the three months ended March 31, 2021. Additionally, we did not hold any Level 3 assets or liabilities during the three months ended March 31, 2021.

Non-recurring fair value measurements

Assets and liabilities that are measured at fair value on a non-recurring basis include long-lived assets, intangible assets, goodwill and operating lease right-of-use ("ROU") assets. These assets are recognized at fair value during the period in which an acquisition is completed or at lease commencement, from updated estimates and assumptions during the measurement period, or when they are considered to be impaired. These non-recurring fair value measurements, primarily for long-lived assets, intangible assets acquired and operating lease ROU assets, are based on Level 3 unobservable inputs. In the event of an impairment, we determine the fair value of these assets other than goodwill using a discounted cash flow approach, which contains significant unobservable inputs and, therefore, is considered a Level 3 fair value measurement. The unobservable inputs in the analysis generally include future cash flow projections and a discount rate. For goodwill impairment testing, we estimate fair value using market-based methods including the use of market capitalization and consideration of a control premium.

There were no non-recurring fair value adjustments to our long-lived assets, intangible assets, goodwill and operating lease ROU assets during the three months ended March 31, 2021.

6. Consolidated Financial Statement Details

Restricted cash

(dollars in thousands)	March 31, 2021	December 31, 2020
Restricted cash due to customers	$ 254,002	$ 607,943
Real estate escrow balances	1,156	1,276
Total restricted cash	255,158	609,219

Prepaid expenses and other assets

(dollars in thousands)	March 31, 2021	December 31, 2020
Costs of obtaining contracts[(1)(2)]	$ 83,421	$ 84,914
Prepaid software maintenance and subscriptions[(3)]	33,113	24,471
Receivables for probable insurance recoveries[(4)]	15,723	6,288
Implementation costs for cloud computing arrangements, net[(5)(6)]	11,451	11,298
Unbilled accounts receivable	7,660	10,385
Prepaid insurance	6,397	1,426
Derivative instruments	2,851	—
Taxes, prepaid and receivable	1,486	1,891
Other assets	10,015	10,332
Total prepaid expenses and other assets	172,117	151,005
Less: Long-term portion	74,022	72,639
Prepaid expenses and other current assets	$ 98,095	$ 78,366

(1) Amortization expense from costs of obtaining contracts was $9.2 million and $9.5 million for the three months ended March 31, 2021 and 2020, respectively.
(2) The current portion of costs of obtaining contracts as of March 31, 2021 and December 31, 2020 was $31.6 million and $31.9 million, respectively.
(3) The current portion of prepaid software maintenance and subscriptions as of March 31, 2021 and December 31, 2020 was $28.0 million and $19.8 million, respectively.
(4) See discussion of the Security Incident at Note 9.
(5) These costs primarily relate to the multi-year implementations of our new global enterprise resource planning and customer relationship management systems.
(6) Amortization expense from capitalized cloud computing implementation costs was insignificant for the three months ended March 31, 2021 and 2020, respectively. Accumulated amortization for these costs was $1.6 million as of March 31, 2021 and $1.1 million as of December 31, 2020.

Blackbaud, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Accrued expenses and other liabilities

(dollars in thousands)	March 31, 2021	December 31, 2020
Taxes payable[1]	$ 16,458	$ 19,577
Accrued legal costs	12,055	4,808
Operating lease liabilities, current portion	7,191	9,359
Customer credit balances	5,891	5,874
Accrued commissions and salaries	5,524	5,010
Unrecognized tax benefit	3,546	3,351
Accrued health care costs	2,389	2,341
Accrued vacation costs	2,304	2,311
Derivative instruments	1,431	4,159
Other liabilities	5,663	6,304
Total accrued expenses and other liabilities	62,452	63,094
Less: Long-term portion	9,439	10,866
Accrued expenses and other current liabilities	$ 53,013	$ 52,228

(1) We deferred payments of the employer's portion of Social Security taxes during 2020 under the Coronavirus, Aid, Relief and Economic Security Act ("CARES Act"), half of which is due by the end of calendar year 2021 with the remainder due by the end of calendar year 2022.

Other (expense) income, net

(dollars in thousands)	Three months ended March 31, 2021	2020
Interest income	$ 152	$ 522
Other (expense) income, net	(1,162)	548
Other (expense) income, net	$ (1,010)	$ 1,070

7. Debt

The following table summarizes our debt balances and the related weighted average effective interest rates, which includes the effect of interest rate swap agreements.

(dollars in thousands)	Debt balance at March 31, 2021	Debt balance at December 31, 2020	Weighted average effective interest rate at March 31, 2021	Weighted average effective interest rate at December 31, 2020
Credit facility:				
Revolving credit loans	$ 93,425	$ 69,625	1.80 %	1.83 %
Term loans	397,500	400,000	3.13 %	3.12 %
Real estate loans	60,358	60,626	5.22 %	5.22 %
Other debt	2,232	3,926	5.00 %	5.00 %
Total debt	553,515	534,177	3.14 %	3.21 %
Less: Unamortized discount and debt issuance costs	2,716	3,144		
Less: Debt, current portion	12,875	12,840	2.67 %	2.61 %
Debt, net of current portion	$ 537,924	$ 518,193	3.15 %	3.22 %

2020 credit facility

In October 2020, we entered into a five-year $900.0 million senior credit facility (the "2020 Credit Facility"). At March 31, 2021, we were in compliance with our debt covenants under the 2020 Credit Facility.

Real estate loans

In August 2020, we completed the purchase of our global headquarters facility. As part of the purchase price, we assumed the Seller's obligations under two senior secured notes with an aggregate outstanding principal amount of $61.1 million (collectively, the "Real Estate Loans"). At March 31, 2021, we were in compliance with our debt covenants under the Real Estate Loans.

Other debt

From time to time, we enter into third-party financing agreements for purchases of software and related services for our internal use. Generally, the agreements are non-interest-bearing notes requiring annual payments. Interest associated with the notes is imputed at the rate we would incur for amounts borrowed under our then-existing credit facility at the inception of the notes.

The following table summarizes our currently effective financing agreements as of March 31, 2021:

(dollars in thousands)	Term in Months	Number of Annual Payments	First Annual Payment Due	Original Loan Value
Effective dates of agreements:				
December 2019	51	4	January 2020	$ 2,150
January 2020	39	3	March 2020	3,470

As of March 31, 2021, the required annual maturities related to the 2020 Credit Facility, the Real Estate Loans and our other debt were as follows:

Years ending December 31, (dollars in thousands)	Annual maturities
2021 - remaining	$ 8,378
2022	12,985
2023	11,982
2024	11,609
2025	455,209
Thereafter	53,352
Total required maturities	$ 553,515

8. Derivative Instruments

Cash flow hedges

We generally use derivative instruments to manage our variable interest rate risk. We have entered into interest rate swap agreements, which effectively convert portions of our variable rate debt under the 2020 Credit Facility to a fixed rate for the term of the swap agreements. We designated each of the interest rate swap agreements as a cash flow hedge at the inception of the contracts.

Blackbaud, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

The terms and notional values of our derivative instruments were as follows as of March 31, 2021:

(dollars in thousands)	Term of derivative instrument		Notional value
Derivative instruments designated as hedging instruments:			
Interest rate swap	July 2017 - July 2021	$	150,000
Interest rate swap	February 2018 - June 2021		50,000
Interest rate swap	June 2019 - June 2021		75,000
Interest rate swap	November 2020 - October 2024		60,000
Interest rate swap	November 2020 - October 2024		60,000
		$	395,000
Forward-starting interest rate swap	June 2021 - October 2024		120,000
Forward-starting interest rate swap	July 2021 - October 2024		120,000
		$	240,000

The fair values of our derivative instruments were as follows as of:

	Asset derivatives					Liability derivatives				
(dollars in thousands)	Balance sheet location		March 31, 2021		December 31, 2020	Balance sheet location		March 31, 2021		December 31, 2020
Derivative instruments designated as hedging instruments:										
Interest rate swaps, current portion	Prepaid expenses and other current assets	$	—	$	—	Accrued expenses and other current liabilities	$	1,431	$	2,698
Interest rate swaps, long-term portion	Other assets		2,851		—	Other liabilities		—		1,461
Total derivative instruments designated as hedging instruments		$	2,851	$	—		$	1,431	$	4,159

The effects of derivative instruments in cash flow hedging relationships were as follows:

(dollars in thousands)		Gain (loss) recognized in accumulated other comprehensive loss as of March 31, 2021	Location of gain (loss) reclassified from accumulated other comprehensive loss into income		Gain (loss) reclassified from accumulated other comprehensive loss into income Three months ended March 31, 2021
Interest rate swaps	$	1,420	Interest expense	$	(1,373)
		March 31, 2020			Three months ended March 31, 2020
Interest rate swaps	$	(5,979)	Interest expense	$	(205)

Our policy requires that derivatives used for hedging purposes be designated and effective as a hedge of the identified risk exposure at the inception of the contract. Accumulated other comprehensive income (loss) includes unrealized gains or losses from the change in fair value measurement of our derivative instruments each reporting period and the related income tax expense or benefit. Changes in the fair value measurements of the derivative instruments and the related income tax expense or benefit are reflected as adjustments to accumulated other comprehensive income (loss) until the actual hedged expense is incurred or until the hedge is terminated at which point the unrealized gain (loss) is reclassified from accumulated other comprehensive income (loss) to current earnings. The estimated accumulated other comprehensive loss as of March 31, 2021 that is expected to be reclassified into earnings within the next twelve months is $2.2 million. There were no ineffective portions of our interest rate swap derivatives during the three months ended

March 31, 2021 and 2020. See Note 12 for a summary of the changes in accumulated other comprehensive income (loss) by component.

9. Commitments and Contingencies

Leases

We have operating leases for corporate offices, subleased offices and certain equipment and furniture. As of March 31, 2021, we had operating leases for office space that had not yet commenced with future rent payments of $3.5 million. These operating leases are expected to commence during 2021 with lease terms of 3 years.

The components of lease expense were as follows:

	Three months ended March 31,	
(dollars in thousands)	2021	2020
Operating lease cost(1)	$ 2,841	$ 6,311
Variable lease cost	699	1,258
Sublease income	(460)	(913)
Net lease cost	$ 3,080	$ 6,656

(1) Includes short-term lease costs, which were immaterial.

Other commitments

The term loans under the 2020 Credit Facility require periodic principal payments. The balance of the term loans and any amounts drawn on the revolving credit loans are due upon maturity of the 2020 Credit Facility in October 2025. The Real Estate Loans also require periodic principal payments and the balance of the Real Estate Loans are due upon maturity in April 2038.

We have contractual obligations for third-party technology used in our solutions and for other services we purchase as part of our normal operations. In certain cases, these arrangements require a minimum annual purchase commitment by us. As of March 31, 2021, the remaining aggregate minimum purchase commitment under these arrangements was approximately $79.0 million through 2024.

Solution and service indemnifications

In the ordinary course of business, we provide certain indemnifications of varying scope to customers against claims of intellectual property infringement made by third parties arising from the use of our solutions or services. If we determine that it is probable that a loss has been incurred related to solution or service indemnifications, any such loss that could be reasonably estimated would be recognized. We have not identified any losses and, accordingly, we have not recorded a liability related to these indemnifications.

Legal proceedings

We are subject to legal proceedings and claims that arise in the ordinary course of business, as well as certain other non-ordinary course proceedings, claims and inquiries, as described below. We make a provision for a loss contingency when it is both probable that a material liability has been incurred and the amount of the loss can be reasonably estimated. If only a range of estimated losses can be determined, we accrue an amount within the range that, in our judgment, reflects the most likely outcome; if none of the estimates within that range is a better estimate than any other amount, we accrue the low end of the range. For proceedings in which an unfavorable outcome is reasonably possible but not probable and an estimate of the loss or range of losses arising from the proceeding can be made, we disclose such an estimate, if material. If such a loss or range of losses is not reasonably estimable, we disclose that fact. We review any such loss contingency provisions at least quarterly and adjust them to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. We recognize insurance recoveries, if any, when they are probable of receipt. All associated legal costs are expensed as incurred.

Legal proceedings are inherently unpredictable. However, we believe that we have valid defenses with respect to the legal matters pending or threatened against us and intend to defend ourselves vigorously against all claims asserted. We further believe that the amount or range of reasonably possible losses related to such pending or threatened legal proceedings will not have a material adverse effect on our business, operating results, cash flows, or financial condition should such litigation be resolved unfavorably. It is possible, nevertheless, that our consolidated financial position, results of operations or cash flows could be materially negatively affected in any particular period by an unfavorable resolution of one or more of such legal proceedings.

Security incident

As previously disclosed, we are subject to risks and uncertainties as a result of a ransomware attack against us in May 2020 in which a cybercriminal removed a copy of a subset of data from our self-hosted environment (the "Security Incident"). Based on the nature of the Security Incident, our research and third party (including law enforcement) investigation, we have no reason to believe that any data went beyond the cybercriminal, was or will be misused, or will be disseminated or otherwise made available publicly. Our investigation into the Security Incident by our cybersecurity team and third-party forensic advisors remains ongoing.

As a result of the Security Incident, we are currently subject to certain legal proceedings, claims, inquiries and investigations, as discussed below, and could be the subject of additional legal proceedings, claims, inquires and investigations in the future that might result in adverse judgments, settlements, fines, penalties, or other resolution. To limit our exposure to losses related to claims against us, including data breaches such as the Security Incident, we maintain $50 million of insurance above a $250 thousand deductible payable by us. As noted below, this coverage has reduced our financial exposure related to the Security Incident, and we will continue to seek recoveries under these insurance policies. Although it is possible that total losses related to the Security Incident will ultimately exceed the limits of our insurance coverage, we are currently unable to determine if or when that will be the case and, if so, the approximate amount or range of any such excess.

In the three months ended March 31, 2021, we recorded $12.8 million of expenses related to the Security Incident and offsetting probable insurance recoveries of $12.8 million. As of March 31, 2021, we have recorded cumulative expenses related to the Security Incident of $22.6 million and cumulative probable insurance recoveries of $22.1 million. Due to the time required to submit and process such insurance claims, we have not yet received all of the accrued insurance recoveries. Of the insurance recoveries recorded, $6.4 million had been paid as of March 31, 2021. Recorded expenses consisted primarily of payments to third-party service providers and consultants, including legal fees. We present expenses and insurance recoveries related to the Security Incident in general and administrative expense on our condensed consolidated statements of comprehensive income. We expect to continue to experience significant expenses related to our response to the Security Incident, resolution of legal proceedings, claims, inquiries and investigations discussed below, and our efforts to further enhance our security measures, which expenses may be material.

Based on our analysis of the factors described above, we have not recorded a liability related to the Security Incident as of March 31, 2021 because we are unable at this time to reasonably estimate the possible loss or range of loss.

Customer claims. To date, we have received approximately 630 claims for reimbursement of expenses from customers or their attorneys in the U.S., U.K. and Canada related to the Security Incident (none of which have as yet been filed in court or in arbitration). Possible exposure could result from our customers' costs and expenses associated with notifying their own customers of the Security Incident and taking steps to assure that personal information has not been compromised as a result of the Security Incident. We are in the process of analyzing individual customer contracts into which we have entered, the specific claims made and applicable law.

Customer constituent class actions. Presently, we are a defendant in 30 putative consumer class action cases [27 in U.S. federal courts (some of which have been consolidated under multi district litigation to a single federal court), 1 in a U.S. state court and 2 in Canadian courts] alleging harm from the Security Incident. The plaintiffs in these cases, who purport to represent various classes of individual constituents of our customers, generally claim to have been harmed by alleged actions and/or omissions by us in connection with the Security Incident and assert a variety of common law and statutory claims seeking monetary damages, injunctive relief, costs and attorneys' fees, and other related relief.

Lawsuits that are putative class actions require a plaintiff to satisfy a number of procedural requirements before proceeding to trial. These requirements include, among others, demonstration to a court that the law proscribes in some manner our activities, the making of factual allegations sufficient to suggest that our activities exceeded the limits of the law and a determination by the court—known as class certification—that the law permits a group of individuals to pursue the case together as a class. If these procedural requirements are not met, the lawsuit cannot proceed as a class action and the plaintiff may lose the financial incentive to proceed with the case. Frequently, a court's determination as to these procedural requirements is subject to appeal to a higher court. As a result of these uncertainties, we may be unable to determine the probability of loss until, or after, a court has finally determined that a plaintiff has satisfied the applicable class action procedural requirements.

Furthermore, for putative class actions, it is often not possible to estimate the possible loss or a range of loss amounts, even where we have determined that a loss is reasonably possible. Generally, class actions involve a large number of people and raise complex legal and factual issues that result in uncertainty as to their outcome and, ultimately, making it difficult for us to estimate the amount of damages that a plaintiff might successfully prove. This analysis is further complicated by the fact that the plaintiffs lack contractual privity with us.

Governmental inquiries and investigations. To date, we have received a consolidated, multi-state Civil Investigative Demand issued on behalf of 47 state Attorneys General and the District of Columbia and a separate Civil Investigative Demand from the office of the Illinois Attorney General's Office relating to the Security Incident. In addition, we have received communications, inquires and requests from the U.S. Federal Trade Commission, the U.S. Securities and Exchange Commission, the U.S. Department of Health and Human Services, the Information Commissioner's Office in the United Kingdom (the "ICO") under the U.K. Data Protection Act 2018, the Office of the Australian Information Commissioner and the Office of the Privacy Commissioner of Canada. We are cooperating with these offices and responding to their inquiries, which include various requests for documents, policies, narratives and communications, as well as requests to interview or depose various Company-related personnel. As noted above, each of these separate governmental inquiries and investigations could result in adverse judgements, settlements, fines, penalties, or other resolution, the amount, scope and timing of which we are currently unable to predict, but could be material.

10. Income Taxes

Our income tax provision and effective income tax rates, including the effects of period-specific events, were:

	Three months ended March 31,	
(dollars in thousands)	2021	2020
Income tax provision	$ 684	$ 696
Effective income tax rate	131.5 %	13.0 %

The increase in our effective income tax rate for the three months ended March 31, 2021, when compared to the same period in 2020, was primarily attributable to higher 2021 discrete tax expense against lower pre-tax income. The 2020 effective income tax rate was positively impacted by benefits attributable to stock-based compensation. The 2021 effective income tax rate was negatively impacted by tax expense attributable to stock-based compensation against lower pre-tax income.

11. Stock-based Compensation

Stock-based compensation expense is allocated to cost of revenue and operating expenses on the condensed consolidated statements of comprehensive income based on where the associated employee's compensation is recorded. The following table summarizes stock-based compensation expense:

(dollars in thousands)	Three months ended March 31, 2021	2020
Included in cost of revenue:		
Cost of recurring	$ 2,411	$ 470
Cost of one-time services and other	2,947	395
Total included in cost of revenue	5,358	865
Included in operating expenses:		
Sales, marketing and customer success	5,428	2,478
Research and development	6,714	2,799
General and administrative	12,505	7,438
Total included in operating expenses	24,647	12,715
Total stock-based compensation expense	$ 30,005	$ 13,580

12. Stockholders' Equity

Stock repurchase program

In November 2020, our Board of Directors reauthorized and expanded a stock repurchase program that authorizes us to purchase up to $250.0 million of our outstanding shares of common stock. The program does not have an expiration date. Under the stock repurchase program, we are authorized to repurchase shares from time to time in accordance with applicable laws both on the open market, including under trading plans established pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, and in privately negotiated transactions. The timing and amount of repurchases depends on several factors, including market and business conditions, the trading price of our common stock and the nature of other investment opportunities. The repurchase program may be limited, suspended or discontinued at any time without prior notice. Under the 2020 Credit Facility, we have restrictions on our ability to repurchase shares of our common stock.

We account for purchases of treasury stock under the cost method. During the three months ended March 31, 2021, we purchased 465,821 shares for $28.1 million. The remaining amount available to purchase stock under the stock repurchase program was $180.9 million as of March 31, 2021.

Blackbaud, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Changes in accumulated other comprehensive income (loss) by component

The changes in accumulated other comprehensive income (loss) by component, consisted of the following:

	Three months ended March 31,	
(dollars in thousands)	2021	2020
Accumulated other comprehensive loss, beginning of period	$ (2,497)	$ (5,290)
By component:		
Gains and losses on cash flow hedges:		
Accumulated other comprehensive loss balance, beginning of period	$ (3,101)	$ (1,323)
Other comprehensive income (loss) before reclassifications, net of tax effects of $(1,100) and $1,154	3,130	(3,273)
Amounts reclassified from accumulated other comprehensive income (loss) to interest expense	1,376	205
Tax benefit included in provision for income taxes	(357)	(54)
Total amounts reclassified from accumulated other comprehensive income (loss)	1,019	151
Net current-period other comprehensive income (loss)	4,149	(3,122)
Accumulated other comprehensive income (loss) balance, end of period	$ 1,048	$ (4,445)
Foreign currency translation adjustment:		
Accumulated other comprehensive income (loss) balance, beginning of period	$ 604	$ (3,967)
Translation adjustments	2,511	(5,728)
Accumulated other comprehensive income (loss) balance, end of period	3,115	(9,695)
Accumulated other comprehensive income (loss), end of period	$ 4,163	$ (14,140)

13. Revenue Recognition

Transaction price allocated to the remaining performance obligations

As of March 31, 2021, approximately $776 million of revenue is expected to be recognized from remaining performance obligations. We expect to recognize revenue on approximately 60% of these remaining performance obligations over the next 12 months, with the remainder recognized thereafter.

We applied the practical expedient in ASC 606-10-50-14 and have excluded the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less (one-time services); and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed (transactional revenue).

Contract balances

Our contract assets as of March 31, 2021 and December 31, 2020 were insignificant. Our opening and closing balances of deferred revenue were as follows:

(in thousands)	March 31, 2021	December 31, 2020
Total deferred revenue	$ 294,520	$ 316,914

The decrease in deferred revenue during the three months ended March 31, 2021 was primarily due to a seasonal decrease in customer contract renewals. Historically, due to the timing of customer budget cycles, we have an increase in customer contract renewals at or near the beginning of our third quarter generally resulting in our lowest balance of deferred revenue at the end of our first quarter. The amount of revenue recognized during the three months ended March 31, 2021 that was included in the deferred revenue balance at the beginning of the period was approximately

$134 million. The amount of revenue recognized during the three months ended March 31, 2021 from performance obligations satisfied in prior periods was insignificant.

Disaggregation of revenue

We sell our cloud solutions and related services in three primary geographical markets: to customers in the United States, to customers in the United Kingdom and to customers located in other countries. The following table presents our revenue by geographic area based on the address of our customers:

(dollars in thousands)	Three months ended March 31, 2021	2020
United States	$ 185,327	$ 193,959
United Kingdom	22,305	15,825
Other countries	11,559	13,837
Total revenue	$ 219,191	$ 223,621

The General Markets Group ("GMG"), the Enterprise Markets Group ("EMG"), and the International Markets Group ("IMG") comprised our go-to-market organizations as of March 31, 2021. The following is a description of each market group as of that date:

- The GMG focuses on sales primarily to all K-12 private schools, faith communities and arts and cultural organizations, as well as emerging and mid-sized prospects in the U.S.;
- The EMG focuses on sales primarily to all healthcare and higher education institutions, corporations and foundations, as well as large and/or strategic prospects in the U.S.; and
- The IMG focuses on sales primarily to all prospects and customers outside of the U.S.

The following table presents our revenue by market group:

(dollars in thousands)	Three months ended March 31, 2021	2020
GMG	$ 93,339	$ 95,453
EMG	89,527	98,123
IMG	36,370	30,081
Other	(45)	(36)
Total revenue	$ 219,191	$ 223,621

The following table presents our recurring revenue by type:

(dollars in thousands)	Three months ended March 31, 2021	2020
Contractual recurring	$ 146,821	$ 147,744
Transactional recurring	59,929	57,123
Total recurring revenue	$ 206,750	$ 204,867

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. The following discussion and analysis presents financial information denominated in millions of dollars which can lead to differences from rounding when compared to similar information contained in the condensed consolidated financial statements and related notes which are primarily denominated in thousands of dollars.

Executive Summary

We are the world's leading cloud software company powering social good. Serving the entire social good community—nonprofits, higher education institutions, K–12 schools, healthcare organizations, faith communities, arts and cultural organizations, foundations, companies and individual change agents—we connect and empower organizations to increase their impact through cloud software, services, expertise and data intelligence. Our portfolio is tailored to the unique needs of vertical markets, with solutions for fundraising and CRM, marketing, advocacy, peer-to-peer fundraising, corporate social responsibility, school management, ticketing, grantmaking, financial management, payment processing and analytics. Serving the industry for nearly four decades, we are headquartered in Charleston, South Carolina, and have operations in the United States, Australia, Canada, Costa Rica and the United Kingdom.

Our revenue is primarily generated from the following sources: (i) charging for the use of our software solutions in cloud and hosted environments; (ii) providing payment and other transactional-type services; (iii) providing software maintenance and support services; and (iv) providing professional services, including implementation, consulting, training, analytic and other services.

COVID-19 Impact

The economic impact of COVID-19 on the social good industry remains uncertain. If our existing and prospective customers remain cautious in their purchase decisions, our operating environment may continue to be challenging for the remainder of 2021 and potentially beyond. Notwithstanding these conditions, we remain focused on continuing to execute our four-point strategy and strengthening our leadership position.

As expected and previously disclosed, our bookings shortfalls that began at the start of the pandemic in March 2020 are putting pressure on our contractual recurring revenue growth in the near-term. However, we are optimistic this pressure will abate as we progress through 2021. We had a solid bookings performance in the first quarter of 2021, which was favorable to our plan and our first quarter 2020 bookings performance.

Four-Point Strategy

1	**Expand Total Addressable Market**
2	**Lead with World Class Teams and Operations**
3	**Delight Customers with Innovative Cloud Solutions**
4	**Focus on Employees, Culture and ESG Initiatives**

1. *Expand Total Addressable Market ("TAM")*

   We remain active in the evaluation of opportunities to further expand our addressable market through acquisitions and internal product development. We have significant opportunities in front of us as we are less than 10% penetrated into a TAM of over $10 billion.

2. *Lead with World Class Teams and Operations*

   This strategy expands upon our previous strategies to drive sales effectiveness and improve operating efficiency to include improving overall company performance as measured by the Rule of 40 (see discussion of Non-GAAP Financial Measures below). We have a strong executive team that is delivering on our mission and executing on our strategy. We have talent across our company, at every level, who are aligned with these goals as well.

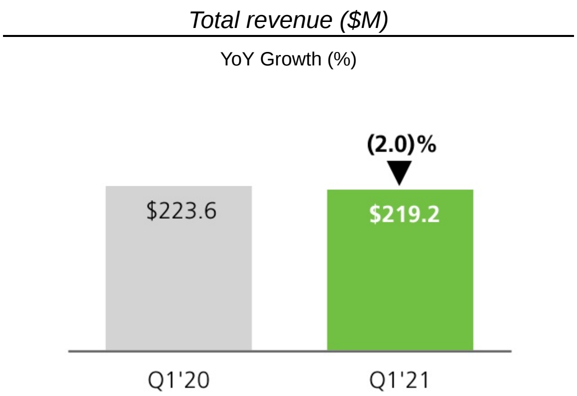
3. *Delight Customers with Innovative Cloud Solutions*

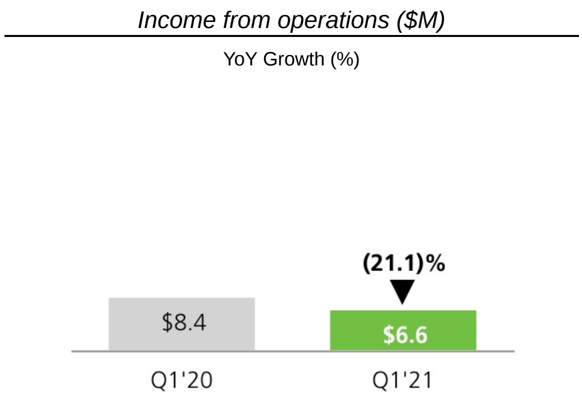
   2020 required unprecedented speed and scale to support our customers, and we were quick to reprioritize and expedite product enhancements to support our customers' changing needs as they needed to operate more digitally. We have carried that momentum into 2021. For example, we upgraded virtually all of our Blackbaud Grantmaking customers to a new SKY UX version in just one month's time. This helps alleviate our customers' IT burden, improves data security with multi-factor authentication and provides freedom and flexibility to access advanced grant management technology anywhere via any browser on any device. With more veteran grantmakers using mobile technology and a younger generation of grantmakers emerging in the philanthropic community, providing convenient access to grant data and grant management tools will continue to be critical for success. Blackbaud plays a critical role in accelerating our customers' move to the cloud. In higher education, with the COVID-19 pandemic accelerating the need for powerful cloud-based systems that allow for easier collaboration, Blackbaud CRM has been the trusted CRM solution for a growing number of institutions to support their overall advancement needs.

4. *Focus on Employees, Culture and ESG Initiatives*

   During the first quarter of 2021, we elevated a specific strategy focused on employees, culture and ESG initiatives. This is not new for us. It is something that has been in our DNA for a long time and is a big advantage as we look to attract and retain top talent. This is evident in our 2020 social responsibility report, which was released in April 2021, and demonstrates how we responded to the unique challenges the pandemic created for our employees, customers, and communities. We also expanded this year's report to include voluntary ESG reporting disclosures that align with the Sustainability Accounting Standards Board and Global Reporting Initiative. One highlight from the report is that the Company is comprised of 46% female employees and 54% male employees, which is an industry-leading ratio. We are fully committed to continuing to create a diverse and inclusive environment at all levels of the organization.

Financial Summary





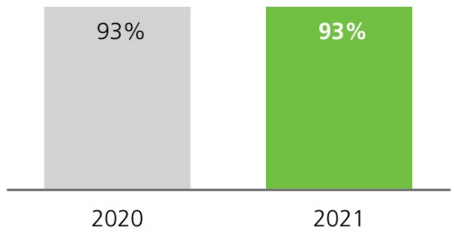
Total revenue decreased by $4.4 million during the three months ended March 31, 2021, when compared to the same period in 2020, driven largely by the following:

- \- Decrease in one-time consulting revenue due primarily to less implementation and customization services. We changed our commission plans during the first quarter of 2020 to intentionally shift our sales teams' focus towards selling our cloud solutions. Additionally, the bookings shortfalls during 2020 caused by the COVID-19 pandemic contributed to the decrease in one-time consulting revenue.
- \- Decrease in one-time analytics revenue as analytics are generally integrated in our cloud solutions
- \+ Growth in recurring revenue related to an increase in transactional revenue related to charitable giving

Income from operations decreased by $1.8 million during the three months ended March 31, 2021, when compared to the same period in 2020, driven largely by the following:

- \- Increase in stock-based compensation costs of $16.4 million due to:
  - replacement of our annual cash bonus plans with a short-term performance-based equity award plan;
  - increases in the grant date fair values of our annual equity awards granted to employees;
  - in response to COVID-19, replacement of our 2020 base salary merit increases with one-year time-based equity awards;
  - overall Company performance against 2020 goals; and
  - decrease in the vesting period for our annual long-term incentive time-based equity awards from 4 years (1/4 per year) to 3 years (1/3 per year), beginning in February 2021.
- \- Decrease in total revenue, as described above
- \+ Decrease in compensation costs other than stock-based compensation of $12.7 million primarily due to a decrease in headcount
- \+ Decrease in travel costs of $3.6 million due to our restriction on non-essential employee travel in response to the COVID-19 pandemic
- \+ Decrease in amortization of intangible assets from business combinations of $2.0 million

Customer retention



Our recurring revenue contracts are generally for a term of three years at contract inception with one to three-year renewals thereafter. We anticipate a continued decrease in maintenance contract renewals as we transition our solution portfolio and maintenance customers from a perpetual license-based model to a cloud subscription delivery model. In the long term, we also anticipate an increase in recurring subscription contract renewals as we continue focusing on innovation, quality and the integration of our cloud solutions, which we believe will provide value-adding capabilities to better address our customers' needs. Due primarily to these factors, we believe a recurring revenue customer retention measure that combines recurring subscription, maintenance and service customer contracts provides a better representation of our customers' overall behavior. For the twelve months ended March 31, 2021, approximately 93% of our customers with recurring revenue contracts were retained. This customer retention rate is unchanged from our rate for the full year ended December 31, 2020.

Balance sheet and cash flow

At March 31, 2021, our cash and cash equivalents were $27.8 million and the carrying amount of our debt under the 2020 Credit Facility was $488.8 million. Our net leverage ratio was 1.79 to 1.00.

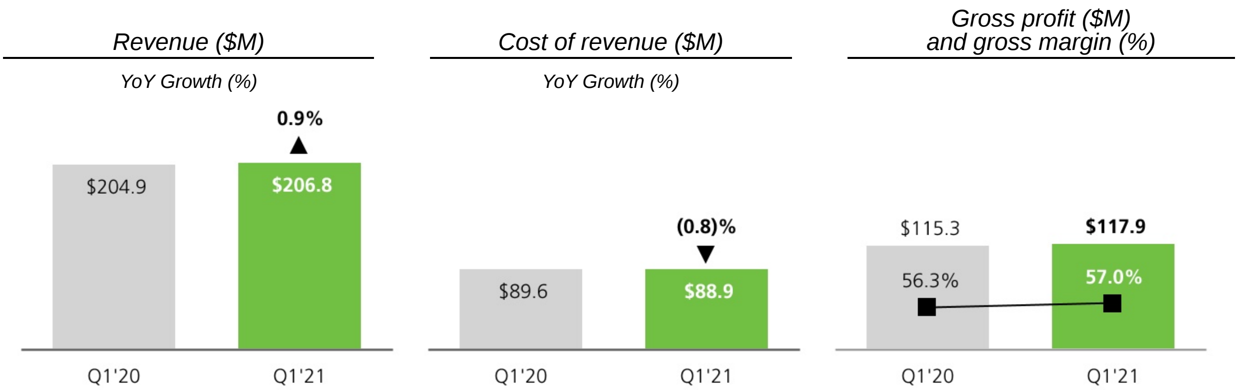
During the three months ended March 31, 2021, we generated $30.1 million in cash from operations, had a net increase in borrowings of $21.0 million, returned $28.1 million to stockholders by way of share repurchases and had aggregate cash outlays of $12.8 million for purchases of property and equipment and capitalized software development costs.

Results of Operations

Comparison of the three months ended March 31, 2021 and 2020

Revenue and Cost of Revenue

Recurring



Recurring revenue is comprised of fees for the use of our subscription-based software solutions, which includes providing access to cloud solutions, hosting services, online training programs, subscription-based analytic services, such as donor acquisitions and data enrichment, and payment services. Recurring revenue also includes fees from maintenance services for our on-premises solutions, services included in our renewable subscription contracts, retained and managed services contracts that we expect to have a term consistent with our cloud solution contracts, and variable transaction revenue associated with the use of our solutions.

Cost of recurring revenue is primarily comprised of compensation costs for customer support and production IT personnel, hosting and data center costs, third-party contractor expenses, third-party royalty and data expenses, allocated depreciation, facilities and IT support costs, amortization of intangible assets from business combinations, amortization of software development costs, transaction-based costs related to payments services including remittances of amounts due to third-parties and other costs incurred in providing support and recurring services to our customers.

Our customers continue to prefer cloud subscription offerings with integrated analytics, training and payment services. Recurring subscription contracts are typically for a term of three years at contract inception with one to three-year renewals thereafter. We intend to continue focusing on innovation, quality and integration of our cloud solutions, which we believe will drive future revenue growth.

Recurring revenue increased by $1.9 million or 0.9%, during the three months ended March 31, 2021, when compared to the same period in 2020, driven primarily by the following:

- \+ Increase in transactional revenue of $2.8 million, primarily due to the continued shift toward virtual and online fundraising and charitable giving
- \- Decrease in contractual recurring revenue of $0.9 million largely due to a decrease in maintenance revenue related to our continuing efforts to migrate customers from legacy on-premises solutions onto our cloud solutions as well as the bookings shortfalls during 2020 resulting from COVID-19

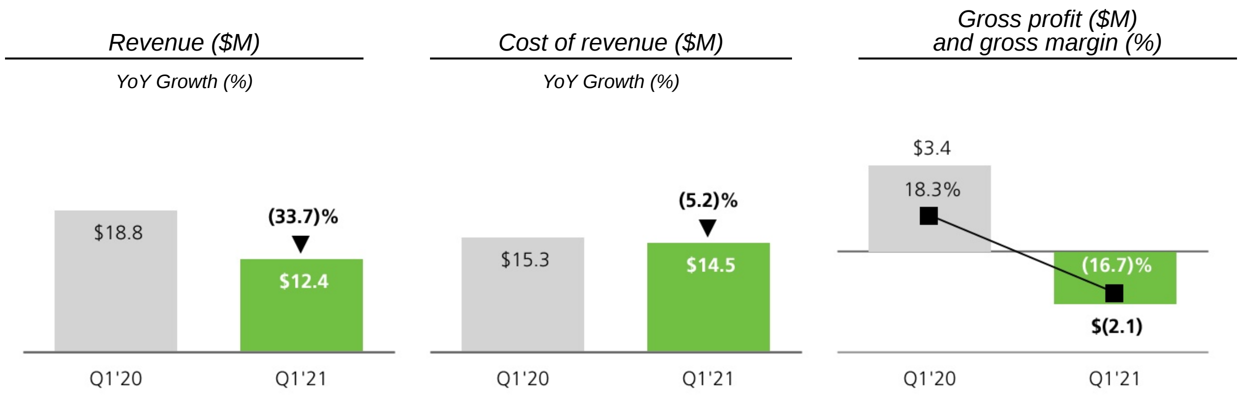
Blackbaud, Inc.
(Unaudited)

Cost of recurring revenue decreased by $0.7 million or 0.8%, during the three months ended March 31, 2021, when compared to the same period in 2020, driven primarily by the following:

- \- Decrease in amortization of intangible assets from business combinations of $1.7 million
- \- Decreases in allocated facilities costs related to efficiencies in our real estate footprint, and third-party contractor costs
- \+ Increase in compensation costs of $1.3 million primarily related to stock-based compensation due to the factors discussed above on page 23
- \+ Increase in amortization of software development costs of $1.0 million due to investments made on innovation, quality and the integration of our cloud solutions

Recurring gross margin increased by 0.7% for the three months ended March 31, 2021, when compared to the same period in 2020, primarily due to the increase in recurring revenue slightly outpacing the decrease in related costs.

One-time services and other



One-time services and other revenue is comprised of fees for one-time consulting, analytic and onsite training services, fees for retained and managed services contracts that we do not expect to have a term consistent with our cloud solution contracts, revenue from the sale of our software sold under perpetual license arrangements, fees from user conferences and third-party software referral fees.

Cost of one-time services and other is primarily comprised of compensation costs for professional services and onsite training personnel, other costs incurred in providing onsite customer training, third-party contractor expenses, data expense incurred to perform one-time analytic services, third-party software royalties, costs of user conferences, allocated depreciation, facilities and IT support costs and amortization of intangible assets from business combinations.

One-time services and other revenue decreased by $6.3 million, or 33.7%, during the three months ended March 31, 2021, when compared to the same period in 2020, driven primarily by the following:

- \- Decrease in one-time consulting revenue of $4.7 million due primarily to less implementation and customization services. We changed our commission plans during the first quarter of 2020 to intentionally shift our sales teams' focus towards selling our cloud solutions. Additionally, the bookings shortfalls during 2020 caused by the COVID-19 pandemic contributed to the decrease in one-time consulting revenue.
- \- Decrease in one-time analytics revenue of $1.0 million as analytics are generally integrated in our cloud solutions

Cost of one-time services and other decreased by $0.8 million, or 5.2%, during the three months ended March 31, 2021, when compared to the same periods in 2020, driven primarily by the following:

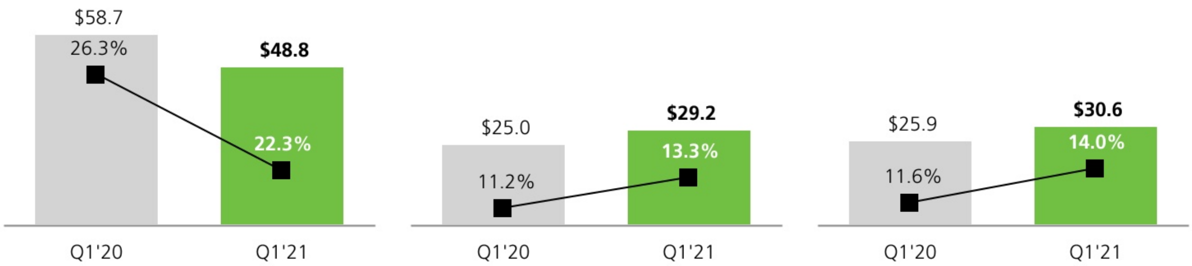
- \- Decrease in compensation costs other than stock-based compensation of $1.3 million largely due to a decrease in headcount
- \- Decrease in third-party contractor costs of $0.7 million primarily due to the timing of our spending
- \+ Increase in stock-based compensation costs of $2.6 million due to the factors discussed above on page 23

One-time services and other gross margin decreased by 35.1% during the three months ended March 31, 2021, respectively, when compared to the same period in 2020, primarily due to the significant reductions in one-time consulting and analytics revenue discussed above.

Operating Expenses

Sales, marketing and customer success ($M)	*Research and development ($M)*	*General and administrative ($M)*

Percentages indicate expenses as a percentage of total revenue



Sales, marketing and customer success

Sales, marketing and customer success expense includes compensation costs, variable sales commissions, travel-related expenses, advertising and marketing materials, public relations costs, variable reseller commissions and allocated depreciation, facilities and IT support costs.

We see a large market opportunity in the long-term and will continue to make investments to drive sales effectiveness. We have also implemented software tools to enhance our digital footprint and drive lead generation. In response to the COVID-19 pandemic, we implemented a modest and targeted headcount reduction during the second quarter of 2020, including a reduction in our sales headcount with a focus on retaining our most highly productive sales executives. The enhancements we are making in our go-to-market approach are expected to significantly reduce the payback period for our customer acquisition costs while increasing sales velocity. As a result, we do not expect our sales, marketing and customer success expense to return to pre-pandemic levels.

Sales, marketing and customer success expense decreased by $9.9 million or 16.9%, during the three months ended March 31, 2021, respectively, when compared to the same period in 2020, primarily driven by the following:

- \- Decrease in compensation costs other than stock-based compensation of $8.6 million due to the targeted reduction in sales headcount during the second quarter of 2020, discussed above
- \- Decrease in allocated costs of $2.5 million primarily related to a decrease in rent expense and the impact of the targeted reduction in sales headcount during the second quarter of 2020, as discussed above
- \- Decrease in travel costs of $2.2 million due to our restriction on non-essential employee travel in response to the COVID-19 pandemic
- \+ Increase in stock-based compensation costs of $2.9 million due to the factors discussed above on page 23

Blackbaud, Inc.
(Unaudited)

Research and development

Research and development expense includes compensation costs for engineering and product management personnel, third-party contractor expenses, software development tools and other expenses related to developing new solutions or upgrading and enhancing existing solutions that do not qualify for capitalization, and allocated depreciation, facilities and IT support costs.

We continue to make investments to delight our customers with innovative cloud solutions, which is a component of our four-point strategy. We increased engineering hiring beginning in the fourth quarter of 2020.

Research and development expenses increased by $4.2 million or 16.8%, during the three months ended March 31, 2021, when compared to the same period in 2020, primarily driven by the following:

+ Increase in compensation costs of $3.3 million primarily related to stock-based compensation due to the factors discussed above on page 23
+ Decrease in software development costs of $1.7 million that were required to be capitalized under the internal-use software guidance, primarily due to lower engineering headcount

Not included in research and development expense for the three months ended March 31, 2021 and 2020 were $9.1 million and $10.8 million, respectively, of qualifying costs associated with development activities that are required to be capitalized under the internal-use software accounting guidance such as those for our cloud solutions, as well as development costs associated with acquired companies. Qualifying capitalized software development costs associated with our cloud solutions are subsequently amortized to cost of subscriptions revenue over the related asset's estimated useful life, which generally range from three to seven years. We expect that the amount of software development costs capitalized will be relatively consistent in the near-term as we continue making investments in innovation, quality and the integration of our solutions, which we believe will drive long-term revenue growth.

General and administrative

General and administrative expense consists primarily of compensation costs for general corporate functions, including senior management, finance, accounting, legal, human resources and corporate development, third-party professional fees, insurance, allocated depreciation, facilities and IT support costs, acquisition-related expenses and other administrative expenses.

During the third quarter of 2020, we adjusted our workforce strategy to provide more flexibility to our employees after our offices reopen and we expect to have more employees working remotely either part-time or full-time, even within our hub locations. This change is expected to create efficiencies within our real estate footprint as we shift toward more collaborative workspaces within our offices.

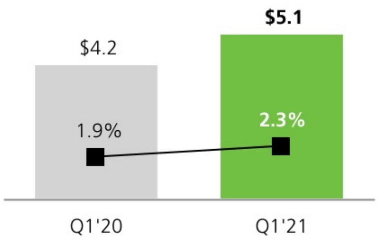
General and administrative expense increased by $4.7 million or 18.3%, during the three months ended March 31, 2021, when compared to the same period in 2020, primarily driven by the following:

+ Increase in stock-based compensation costs of $5.1 million due to the factors discussed above on page 23
+ Increase in corporate costs of $2.2 million primarily related to increases in third-party consulting fees and insurance costs
- Decrease in rent expense of $3.0 million primarily related to the purchase of our global headquarters facility during the third quarter of 2020 and our exit of certain other office leases globally during the second half of 2020 in-line with our new workforce strategy, discussed above

Interest Expense

Interest expense ($M)

Percentages indicate expenses as a percentage of total revenue



The increase in interest expense in dollars and as a percentage of total revenue during the three months ended March 31, 2021, when compared to the same period in 2020, was primarily due to the Real Estate Loans assumed for the purchase of our global headquarters facility in August 2020 and the deferred financing costs and debt discount associated with the 2020 Credit Facility, which was entered into in October 2020.

Deferred Revenue

The table below compares the components of deferred revenue from our consolidated balance sheets:

(dollars in millions)	Timing of recognition	March 31, 2021	December 31, 2020	Change
Recurring	Over the period billed in advance, generally one year	$ 278.0	$ 303.8	(8.5)%
One-time services and other	As services are delivered	16.5	13.1	26.4 %
Total deferred revenue[(1)]		294.5	316.9	(7.1)%
Less: Long-term portion		4.5	4.7	(3.9)%
Current portion[(1)]		$ 290.0	$ 312.2	(7.1)%

(1) The individual amounts for each year may not sum to total deferred revenue or current portion of deferred revenue due to rounding.

To the extent that our customers are billed for our solutions and services in advance of delivery, we record such amounts in deferred revenue. Our recurring revenue contracts are generally for a term of three years at contract inception, billed annually in advance, and non-cancelable. We have been for several years successfully shifting our legacy customer base away from annual renewals and moving them onto multi-year renewal contracts. We generally invoice our customers with recurring revenue contracts in annual cycles 30 days prior to the end each one-year period.

Deferred revenue from recurring revenue contracts decreased during the three months ended March 31, 2021, primarily due a seasonal decrease in customer contract renewals. Historically, due to the timing of customer budget cycles, we have an increase in customer contract renewals at or near the beginning of our third quarter, which generally results in our lowest balance of deferred revenue at the end of our first quarter. Deferred revenue from one-time services and other increased during the three months ended March 31, 2021, primarily due to increased bookings during the fourth quarter of 2020 and the first quarter of 2021.

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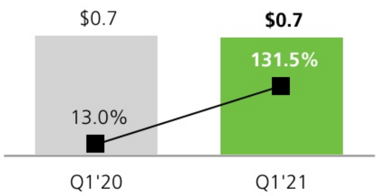
(Unaudited)

Income tax provision

Income tax provision ($M)

Percentages indicate effective income tax rates



The increase in our effective income tax rate for the three months ended March 31, 2021, when compared to the same period in 2020, was primarily attributable to higher 2021 discrete tax expense against lower pre-tax income. The 2020 effective income tax rate was positively impacted by benefits attributable to stock-based compensation. The 2021 effective income tax rate was negatively impacted by tax expense attributable to stock-based compensation against lower pre-tax income.

Non-GAAP Financial Measures

The operating results analyzed below are presented on a non-GAAP basis. We use non-GAAP financial measures internally in analyzing our operational performance. Accordingly, we believe these non-GAAP measures are useful to investors, as a supplement to GAAP measures, in evaluating our ongoing operational performance. While we believe these non-GAAP measures provide useful supplemental information, non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be completely comparable to similarly titled measures of other companies due to potential differences in the exact method of calculation between companies.

The non-GAAP financial measures discussed below exclude the impact of certain transactions because we believe they are not directly related to our operating performance in any particular period, but are for our long-term benefit over multiple periods. We believe that these non-GAAP financial measures reflect our ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in our business.

	Three months ended March 31,		
(dollars in millions)	2021	2020	Change
GAAP gross profit	$ 115.8	$ 118.8	(2.5)%
GAAP gross margin	52.8 %	53.1 %	
Non-GAAP adjustments:			
Add: Stock-based compensation expense	5.4	0.9	519.4 %
Add: Amortization of intangibles from business combinations	9.1	10.9	(16.5)%
Subtotal[(1)]	14.5	11.8	22.5 %
Non-GAAP gross profit[(1)]	$ 130.3	$ 130.6	(0.2)%
Non-GAAP gross margin	59.4 %	58.4 %	

(1) The individual amounts for each year may not sum to non-GAAP revenue, subtotal or non-GAAP gross profit due to rounding.

Blackbaud, Inc.
(Unaudited)

(dollars in millions, except per share amounts)	Three months ended March 31, 2021	2020	Change
GAAP income from operations	$ 6.6	$ 8.4	(21.1)%
GAAP operating margin	3.0 %	3.8 %	
Non-GAAP adjustments:			
Add: Stock-based compensation expense	30.0	13.6	120.9 %
Add: Amortization of intangibles from business combinations	9.7	11.7	(17.1)%
Add: Employee severance	1.0	0.1	921.6 %
Add: Acquisition-related integration costs	(0.1)	—	206.3 %
Add: Acquisition-related expenses	0.1	0.1	(53.2)%
Add: Restructuring and other real estate activities	(0.1)	—	(562.5)%
Subtotal(1)	40.5	25.5	59.1 %
Non-GAAP income from operations(1)	$ 47.2	$ 33.9	39.1 %
Non-GAAP operating margin	21.5 %	15.2 %	
GAAP income before provision for income taxes	$ 0.5	$ 5.3	(90.3)%
GAAP net (loss) income	$ (0.2)	$ 4.6	(103.5)%
Shares used in computing GAAP diluted earnings per share	47,363,197	48,455,751	(2.3)%
GAAP diluted earnings per share	$ —	$ 0.10	(100.0)%
Non-GAAP adjustments:			
Add: GAAP income tax provision	0.7	0.7	(1.7)%
Add: Total non-GAAP adjustments affecting income from operations	40.5	25.5	59.1 %
Non-GAAP income before provision for income taxes	41.0	30.8	33.2 %
Assumed non-GAAP income tax provision(2)	8.2	6.2	33.2 %
Non-GAAP net income(1)	$ 32.8	$ 24.7	33.2 %
Shares used in computing non-GAAP diluted earnings per share	48,387,042	48,455,751	(0.1)%
Non-GAAP diluted earnings per share	$ 0.68	$ 0.51	33.3 %

(1) The individual amounts for each year may not sum to subtotal, non-GAAP income from operations or non-GAAP net income due to rounding.
(2) We apply a non-GAAP effective tax rate of 20.0% when calculating non-GAAP net income and non-GAAP diluted earnings per share.

Non-GAAP free cash flow is defined as operating cash flow less capital expenditures, including costs required to be capitalized for software development, and capital expenditures for property and equipment.

(dollars in millions)	Three months ended March 31, 2021	2020	Change
GAAP net cash provided by (used in) operating activities	$ 30.1	$ (24.5)	(222.9)%
Less: purchase of property and equipment	(3.5)	(2.9)	21.0 %
Less: capitalized software development costs	(9.3)	(10.9)	(14.9)%
Non-GAAP free cash flow	$ 17.3	$ (38.3)	(145.2)%

Blackbaud, Inc.
(Unaudited)

Non-GAAP organic revenue growth

In addition, we discuss non-GAAP organic revenue growth, non-GAAP organic revenue growth on a constant currency basis and non-GAAP organic recurring revenue growth, in analyzing our operating performance. We believe that these non-GAAP measures are useful to investors, as a supplement to GAAP measures, for evaluating the periodic growth of our business on a consistent basis. Each of these measures of non-GAAP organic revenue growth excludes incremental acquisition-related revenue attributable to companies acquired in the current fiscal year. For companies, if any, acquired in the immediately preceding fiscal year, each of these non-GAAP organic revenue growth measures reflects presentation of full year incremental non-GAAP revenue derived from such companies as if they were combined throughout the prior period, and they include the non-GAAP revenue attributable to those companies, as if there were no acquisition-related write-downs of acquired deferred revenue to fair value as required by GAAP. In addition, each of these non-GAAP organic revenue growth measures excludes prior period revenue associated with divested businesses. The exclusion of the prior period revenue is to present the results of the divested businesses within the results of the combined company for the same period of time in both the prior and current periods. We believe this presentation provides a more comparable representation of our current business' organic revenue growth and revenue run-rate.

	Three months ended March 31,	
(dollars in millions)	2021	2020
GAAP revenue	$ 219.2	$ 223.6
GAAP revenue growth	**(2.0)%**	
Add: Non-GAAP acquisition-related revenue [1]	—	—
Non-GAAP organic revenue [2]	$ 219.2	$ 223.6
Non-GAAP organic revenue growth	**(2.0)%**	
Non-GAAP organic revenue [2]	$ 219.2	$ 223.6
Foreign currency impact on Non-GAAP organic revenue [3]	(2.0)	—
Non-GAAP organic revenue on constant currency basis [3]	$ 217.2	$ 223.6
Non-GAAP organic revenue growth on constant currency basis	**(2.9)%**	
GAAP recurring revenue	$ 206.8	$ 204.9
GAAP recurring revenue growth	**0.9 %**	
Add: Non-GAAP acquisition-related revenue [1]	—	—
Non-GAAP organic recurring revenue	$ 206.8	$ 204.9
Non-GAAP organic recurring revenue growth	**0.9 %**	

(1) Non-GAAP acquisition-related revenue excludes incremental acquisition-related revenue calculated in accordance with GAAP that is attributable to companies acquired in the current fiscal year. For companies, if any, acquired in the immediately preceding fiscal year, non-GAAP acquisition-related revenue reflects presentation of full-year incremental non-GAAP revenue derived from such companies, as if they were combined throughout the prior period, and it includes the non-GAAP revenue from the acquisition-related deferred revenue write-down attributable to those companies.
(2) Non-GAAP organic revenue for the prior year periods presented herein will not agree to non-GAAP organic revenue presented in the respective prior period quarterly financial information solely due to the manner in which non-GAAP organic revenue growth is calculated.
(3) To determine non-GAAP organic revenue growth on a constant currency basis, revenues from entities reporting in foreign currencies were translated to U.S. Dollars using the comparable prior period's quarterly weighted average foreign currency exchange rates. The primary foreign currencies creating the impact are the Australian Dollar, British Pound, Canadian Dollar and EURO.

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(Unaudited)

Rule of 40

Rule of 40 is defined as non-GAAP organic revenue growth plus non-GAAP adjusted EBITDA margin. Non-GAAP adjusted EBITDA is defined as GAAP net income plus interest, net; income tax provision (benefit); depreciation; amortization of intangible assets from business combinations; amortization of software development costs; acquisition-related deferred revenue write-down; stock-based compensation; acquisition-related integration costs; acquisition-related expenses; employee severance; and restructuring and other real estate activities.

	Three months ended March 31,		
(dollars in millions)	2021	2020	Change
GAAP net (loss) income	$ (0.2)	$ 4.6	(103.5)%
Non-GAAP adjustments:			
Add: Interest, net	5.0	3.6	36.4 %
Add: GAAP income tax provision	0.7	0.7	(1.7)%
Add: Depreciation	3.2	3.5	(9.3)%
Add: Amortization of intangibles from business combinations	9.7	11.7	(17.1)%
Add: Amortization of software development costs[1]	8.0	6.7	19.3 %
Subtotal	26.5	26.2	1.1 %
Non-GAAP EBITDA	$ 26.3	$ 30.9	(14.7)%
Non-GAAP EBITDA margin	12.0 %		
Non-GAAP adjustments:			
Add: Stock-based compensation expense	30.0	13.6	120.9 %
Add: Employee severance	1.0	0.1	921.6 %
Add: Acquisition-related integration costs	(0.1)	—	206.3 %
Add: Acquisition-related expenses	0.1	0.1	(53.2)%
Add: Restructuring and other real estate activities	(0.1)	—	(562.5)%
Subtotal	30.9	13.8	123.4 %
Adjusted Non-GAAP EBITDA	$ 57.2	$ 44.7	28.0 %
Adjusted Non-GAAP EBITDA margin	**26.1 %**		
Rule of 40[2]	**24.1 %**		

(1) Includes amortization expense related to software development costs and amortization expense from capitalized cloud computing implementation costs.
(2) Measured by non-GAAP organic revenue growth plus non-GAAP adjusted EBITDA margin. See Non-GAAP organic revenue growth table above.

Seasonality

Our revenues normally fluctuate as a result of certain seasonal variations in our business. Our first quarter has historically been the seasonal low for bookings, with the second and fourth quarters historically being seasonally higher, and our bookings tend to be back-end loaded within individual quarters given our quarterly quota plans. Transactional revenue is non-contractual and less predictable given the susceptibility to certain drivers such as timing and number of events and marketing campaigns, as well as fluctuations in donation volumes and tuition payments. Our transactional revenue has historically been at its lowest in the first quarter due to the timing of customer fundraising initiatives and events. We have historically experienced seasonal highs during the fourth quarter due to year-end giving campaigns and during the second quarter when a large number of events are held. Our revenue from professional services has historically been lower in the first quarter when many of those services commence and in the fourth quarter due to the holiday season. As a result of these and other factors, our total revenue has historically been lower in the first quarter than in the remainder of our fiscal year, with the fourth quarter historically achieving the highest total revenue. Our expenses, however, do not vary significantly as a result of these factors, but do fluctuate on a quarterly basis due to varying timing of expenditures.

Our cash flow from operations normally fluctuates quarterly due to the combination of the timing of customer contract renewals including renewals associated with customers of acquired companies, delivery of professional services and occurrence of customer events, as well as merit-based salary increases, among other factors. Historically, due to lower revenues in our first quarter, combined with the payment of certain annual vendor contracts, our cash flow from operations has been lowest in our first quarter. Due to the timing of customer contract renewals and student enrollments, many of which take place at or near the beginning of our third quarter, our cash flow from operations has been lower in our second quarter as compared to our third and fourth quarters. Partially offsetting these favorable drivers of cash flow from operations in our third and fourth quarters are base salary merit increases, which were replaced in 2020 with performance-based equity awards due to COVID-19, but are expected to return in July 2021. In addition, deferred revenues can vary on a seasonal basis for the same reasons. Our cash flow from financing is negatively impacted in our first quarter when most of our equity awards vest, as we pay taxes on behalf of our employees related to the settlement or exercise of equity awards. During the second quarter of 2021, we expect an increase in the amount taxes we pay on behalf of our employees related to the settlement of equity awards when compared to the same period in 2020, as the equity granted in May 2020 in lieu of cash bonus plans and base salary merit increases will vest. These patterns may change as a result of the continued shift to online giving, growth in volume of transactions for which we process payments, or as a result of acquisitions, new market opportunities, new solution introductions, the COVID-19 pandemic or other factors.

Liquidity and Capital Resources

The following table presents selected financial information about our financial position:

(dollars in millions)	March 31, 2021	December 31, 2020	Change
Cash and cash equivalents	$ 27.8	$ 35.8	(22.4)%
Property and equipment, net	105.1	105.2	(0.1)%
Software development costs, net	113.6	111.8	1.6 %
Total carrying value of debt	550.8	531.0	3.7 %
Working capital	(180.9)	(194.3)	6.9 %

The following table presents selected financial information about our cash flows:

	Three months ended March 31,		
(dollars in millions)	2021	2020	Change
Net cash provided by (used in) operating activities	$ 30.1	$ (24.5)	(222.9)%
Net cash used in investing activities	(12.8)	(13.8)	(7.5)%
Net cash used in financing activities	(379.6)	(278.9)	36.1 %

Our principal sources of liquidity are our operating cash flow, funds available under the 2020 Credit Facility and cash on hand. Our operating cash flow depends on continued customer renewal of our subscription and maintenance arrangements, market acceptance of our solutions and services and our customers' ability to pay. Based on current estimates of revenue and expenses, we believe that the currently available sources of funds and anticipated cash flows from operations will be adequate for at least the next twelve months to finance our operations, fund anticipated capital expenditures and meet our debt obligations. To the extent we undertake future material acquisitions, investments or unanticipated capital expenditures, we may require additional capital. In that context, we regularly evaluate opportunities to enhance our capital structure including through potential debt or equity issuances.

At March 31, 2021, our total cash and cash equivalents balance included approximately $16.6 million of cash that was held by operations outside the U.S. While these funds may not be needed to fund our U.S. operations for at least the next twelve months, if we need these funds, we may be required to accrue and pay taxes to repatriate the funds. We currently do not intend nor anticipate a need to repatriate our cash held outside the U.S.

Operating Cash Flow

Net cash provided by operating activities increased by $54.6 million during the three months ended March 31, 2021, when compared to the same period in 2020, primarily due to a $46.6 million increase in cash flow from operations associated with working capital and an $8.0 million increase in net income adjusted for non-cash expenses. Throughout both periods, our cash flows from operations were derived principally from: (i) our earnings from on-going operations prior to non-cash expenses such as depreciation, amortization, stock-based compensation, amortization of deferred financing costs and debt discount and adjustments to our provision for credit losses and sales returns; and (ii) changes in our working capital.

Working capital changes are composed of changes in accounts receivable, prepaid expenses and other assets, trade accounts payable, accrued expenses and other liabilities, and deferred revenue. The increase in cash flow from operations associated with working capital during the three months ended March 31, 2021, when compared to the same period in 2020, was primarily due to:

- the payment of our 2019 cash bonus plans in 2020 and the replacement of our 2020 cash bonus plans with performance-based equity awards (which we expect will continue going forward);
- an increase in the collection of customer receivable balances; and
- fluctuations in the timing of vendor payments.

Investing Cash Flow

Net cash used in investing activities of $12.8 million decreased by $1.0 million during the three months ended March 31, 2021, when compared to the same period in 2020.

During the three months ended March 31, 2021, we used $9.3 million for software development costs, which was down $1.6 million from cash spent during the same period in 2020, primarily due to lower engineering headcount. We increased engineering hiring beginning in the fourth quarter of 2020 and continue to invest in our innovative cloud solutions, as well as development activities for Blackbaud SKY, our modern cloud platform.

We also spent $3.5 million of cash for purchases of property and equipment during the three months ended March 31, 2021, which was an increase of $0.6 million when compared to the same period in 2020.

Financing Cash Flow

During the three months ended March 31, 2021, we had a net increase in borrowings of $21.0 million.

We paid $18.4 million to satisfy tax obligations of employees upon settlement of equity awards during the three months ended March 31, 2021 compared to $19.8 million during the same period in 2020. The amount of taxes paid by us on the behalf of employees related to the settlement of equity awards varies from period to period based upon the timing of grants and vesting, as well as the market price for shares of our common stock at the time of settlement. While most of our equity awards currently vest in our first quarter, the equity awards that we granted in May 2020 to replace our 2020 cash bonus plans and base salary merit increases will vest in May 2021. During the three months ended March 31, 2020, we paid dividends of $6.0 million and we did not pay dividends during the same period in 2021, as we discontinued the declaration and payment of all cash dividends, beginning with the second quarter of 2020.

Cash used in financing activities associated with changes in restricted cash due to customers increased $42.5 million during the three months ended March 31, 2021 when compared to the same period in 2020, as the amount of restricted cash held and payable by us to customers as of December 31, 2020 was larger than at the same date in 2019 primarily due to the timing of year-end donations.

Stock repurchase program

In November 2020, our Board of Directors reauthorized and expanded a stock repurchase program that authorizes us to purchase up to $250.0 million of our outstanding shares of common stock. The program does not have an expiration date. Under the stock repurchase program, we are authorized to repurchase shares from time to time in accordance with applicable laws both on the open market, including under trading plans established pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, and in privately negotiated transactions. The timing and amount of repurchases depends on several factors, including market and business conditions, the trading price of our common stock and the nature of other investment opportunities. The repurchase program may be limited, suspended or discontinued at any time without prior notice. During the three months ended March 31, 2021, we purchased 465,821 shares for $28.1 million.

2020 Credit Facility

Historically, we have drawn on our credit facility from time to time to help us meet financial needs, primarily due to the seasonality of our cash flows from operations and financing for business acquisitions. At March 31, 2021, our available borrowing capacity under the 2020 Credit Facility was $406.0 million. The 2020 Credit Facility matures in October 2025.

At March 31, 2021, the carrying amount of our debt under the 2020 Credit Facility was $488.8 million. Our average daily borrowings during the three months ended March 31, 2021 were $489.5 million.

The following is a summary of the financial covenants under the 2020 Credit Facility:

Financial covenant	Requirement	Ratio as of March 31, 2021
Net leverage ratio	≤ 4.00 to 1.00	1.79 to 1.00
Interest coverage ratio	≥ 2.50 to 1.00	16.44 to 1.00

Under the 2020 Credit Facility, we also have restrictions on our ability to declare and pay dividends and our ability to repurchase shares of our common stock. In order to pay any cash dividends and/or repurchase shares of stock: (i) no default or event of default shall have occurred and be continuing under the 2020 Credit Facility, and (ii) our pro forma net leverage ratio, as set forth in the 2020 Credit Facility, must be 0.25 less than the net leverage ratio requirement at the time of dividend declaration or share repurchase. At March 31, 2021, we were in compliance with our debt covenants under the 2020 Credit Facility.

Commitments and Contingencies

As of March 31, 2021, we had contractual obligations with future minimum commitments as follows:

(in millions)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Recorded contractual obligations:					
Debt[1]	$ 553.5	$ 12.9	$ 23.4	$ 464.4	$ 52.9
Interest payments on debt[2]	2.6	2.2	0.3	—	—
Operating leases[3]	25.6	8.1	9.3	4.6	3.5
Unrecorded contractual obligations:					
Interest payments on debt[4]	78.9	11.9	24.9	19.2	22.9
Purchase obligations[5]	79.0	56.6	22.4	—	—
Total contractual obligations	$ 739.6	$ 91.8	$ 80.3	$ 488.2	$ 79.3

(1) Represents principal payments only, under the following assumptions: (i) that the amounts outstanding under the 2020 Credit Facility, our Real Estate Loans and our other debt at March 31, 2021 will remain outstanding until maturity, with minimum payments occurring as currently scheduled, and (ii) that there are no assumed future borrowings on the 2020 Credit Facility for the purposes of determining minimum commitment amounts.
(2) Represents interest payment obligations related to our interest rate swap agreements.
(3) Our commitments related to operating leases have not been reduced by sublease income, incentive payments and reimbursement of leasehold improvements.
(4) The actual interest expense recognized in our consolidated statements of comprehensive income will depend on the amount of debt, the length of time the debt is outstanding and the interest rate, which could be different from our assumptions described in (1) above.
(5) We have contractual obligations for third-party technology used in our solutions and for other services we purchase as part of our normal operations. In certain cases, these arrangements require a minimum annual purchase commitment by us.

The term loan under the 2020 Credit Facility and our other debt require periodic principal payments. The balance of the term loans and any amounts drawn on the revolving credit loans are due upon maturity of the 2020 Credit Facility in October 2025. The Real Estate Loans also require periodic principal payments and the balance of the Real Estate Loans are due upon maturity in April 2038.

The total liability for uncertain tax positions as of March 31, 2021 and December 31, 2020, was $4.6 million and $4.6 million, respectively. Our accrued interest and penalties related to tax positions taken on our tax returns was $1.1 million and $1.1 million as of March 31, 2021 and December 31, 2020, respectively.

Off-Balance Sheet Arrangements

As of March 31, 2021, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Foreign Currency Exchange Rates

Approximately 15% of our total revenue for the three months ended March 31, 2021 was generated from operations outside the U.S. We do not have significant operations in countries in which the economy is considered to be highly inflationary. Our consolidated financial statements are denominated in U.S. dollars and, accordingly, changes in the exchange rate between foreign currencies and the U.S. dollar will affect the translation of our subsidiaries' financial results into U.S. dollars for purposes of reporting our consolidated financial results. The accumulated currency translation adjustment, recorded within accumulated other comprehensive loss as a component of stockholders' equity, was a gain of $3.1 million as of March 31, 2021 and a gain of $0.6 million as of December 31, 2020.

The vast majority of our contracts are entered into by our U.S. or U.K. entities. The contracts entered into by the U.S. entity are almost always denominated in U.S. dollars or Canadian dollars, and contracts entered into by our U.K., Australian and Irish subsidiaries are generally denominated in British Pounds, Australian dollars and Euros, respectively. Historically, as the U.S. dollar weakened, foreign currency translation resulted in an increase in our revenues and expenses denominated in non-U.S. currencies. Conversely, as the U.S. dollar strengthened, foreign currency translation resulted in a decrease in our revenue and expenses denominated in non-U.S. currencies. During the three months ended March 31, 2021, foreign translation resulted in increases in our revenues and expenses denominated in non-U.S. currencies. Though we have exposure to fluctuations in currency exchange rates, primarily those between the U.S. dollar and both the British Pound and Canadian dollar, the impact has generally not been material to our consolidated results of operations or financial position. For the three months ended March 31, 2021, the fluctuation in foreign currency exchange rates increased our total revenue and our income from operations by $2.0 million and $0.7 million, respectively. We will continue monitoring such exposure and take action as appropriate. To determine the impacts on revenue (or income from operations) from fluctuations in currency exchange rates, current period revenues (or income from operations) from entities reporting in foreign currencies were translated into U.S. dollars using the comparable prior year period's weighted average foreign currency exchange rates. These impacts are non-GAAP financial information and are not in accordance with, or an alternative to, information prepared in accordance with GAAP.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies and estimates during the three months ended March 31, 2021 as compared to those disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Recently Issued Accounting Pronouncements

For a discussion of the impact that recently issued accounting pronouncements are expected to have on our financial position and results of operations when adopted in the future, see Note 2 to our condensed consolidated financial statements in this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have market rate sensitivity for interest rates and foreign currency exchange rates.

Interest Rate Risk

Our variable rate debt is our primary financial instrument with market risk exposure for changing interest rates. We manage our variable rate interest rate risk through a combination of short-term and long-term borrowings and the use of derivative instruments entered into for hedging purposes. Our interest rate exposure includes LIBOR rates. The Financial Conduct Authority in the U.K. has stated that it plans to phase out LIBOR by the end of calendar year 2021. We do not currently anticipate a significant impact to our financial position or results of operations as a result of this action as we expect that our financial contracts currently indexed to LIBOR will either expire or be modified without significant financial impact before the phase out occurs. Due to the nature of our debt, the materiality of the fair values of the derivative instruments and the highly liquid, short-term nature and level of our cash and cash equivalents as of March 31, 2021, we believe that the risk of exposure to changing interest rates for those positions is immaterial. There were no significant changes in how we manage interest rate risk between December 31, 2020 and March 31, 2021.

Foreign Currency Risk

For a discussion of our exposure to foreign currency exchange rate fluctuations, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Foreign Currency Exchange Rates” in this report.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e) and 15d-15(e)) are designed only to provide reasonable assurance that they will meet their objectives. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting officer), of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e)) pursuant to Securities Exchange Act Rule 13a-15(b). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to provide the reasonable assurance discussed above.

Changes in Internal Control Over Financial Reporting

No changes in internal control over financial reporting occurred during the most recent fiscal quarter ended March 31, 2021 with respect to our operations, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of our legal proceedings, see Note 9 to our condensed consolidated financial statements in this report.

ITEM 1A. RISK FACTORS

We are supplementing Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on February 23, 2021 (the "Annual Report"). The following risk factors should be read in conjunction with the risk factors set forth in that Annual Report.

Operational Risks

The Security Incident could have numerous adverse effects on our business.

As previously disclosed, on July 16, 2020, we contacted certain customers to inform them about the Security Incident, including that in May 2020 we discovered and stopped a ransomware attack. Prior to our successfully preventing the cybercriminal from blocking our system access and fully encrypting files, and ultimately expelling them from our system with no significant disruption to our operations, the cybercriminal removed a copy of a subset of data from our self-hosted environment. Although the nature of the incident, our research and third party (including law enforcement) investigation have provided no reason to believe that any data went beyond the cybercriminal, was or will be misused, or will be disseminated or otherwise made available publicly, our investigation into the Security Incident remains ongoing and may provide additional information.

To date, we have received approximately 630 claims for reimbursement of expenses from customers or their attorneys related to the Security Incident (none of which have as yet been filed in court or in arbitration) and are in the process of assessing what liability may exist pursuant to such claims. Possible exposure could result from our customers' costs and expenses associated with notifying their own constituents of the Security Incident and taking steps to assure that personal information has not been compromised as a result of the Security Incident. In addition, presently, we are a defendant in 30 putative consumer class action cases [27 in U.S. federal courts (some of which have been consolidated under multi district litigation to a single federal court), 1 in a U.S. state court and 2 in Canadian courts] alleging harm from the Security Incident. The plaintiffs in these cases, who generally purport to represent various classes of individual constituents of our customers, generally claim to have been harmed by alleged actions and/or omissions by us in connection with the Security Incident and assert a variety of common law and statutory claims seeking monetary damages, injunctive relief, costs and attorneys' fees, and other related relief. To date, we also have received a consolidated, multi-state Civil Investigative Demand issued on behalf of 47 state Attorneys General and the District of Columbia and a separate Civil Investigative Demand from the office of the Illinois Attorney General's Office relating to the Security Incident. In addition, we have received communications, inquires and requests from the U.S. Federal Trade Commission, the U.S. Department of Health and Human Services, the U.S. Securities and Exchange Commission, the Information Commissioner's Office in the United Kingdom (the "ICO") under the U.K. Data Protection Act 2018, the Office of the Australian Information Commissioner and the Office of the Privacy Commissioner of Canada. (See Note 9 to our unaudited, condensed consolidated financial statements included in this report for a more detailed description of the Security Incident and related matters)

We may be named as a party in additional lawsuits, other claims may be asserted by or on behalf of our customers or their constituents, and we may be subject to additional governmental inquires, requests or investigations. Responding to and resolving these current and any future lawsuits, claims and/or investigations could result in material remedial and other expenses that may not be covered by insurance. Governmental authorities also may seek to impose undertakings, injunctive relief, consent decrees, or other civil or criminal penalties, which could, among other things, materially increase our data security costs or otherwise require us to alter how we operate our business. Although we intend to defend ourselves vigorously against the claims asserted against us, we cannot predict the potential outcomes, cost and expenses associated with current and any future claims, lawsuits, inquiries and investigations.

Significant management time and Company resources have been, and are expected to continue to be, devoted to the Security Incident. (See Note 9 to our unaudited, condensed consolidated financial statements included in this report.) Although we carry insurance designed to protect us against certain losses related to cybersecurity events, that insurance coverage may not be sufficient to cover all expenses or other losses (including fines) or all types of claims that may arise in connection with cyberattacks, security compromises and other related incidents. Furthermore, in the future such insurance may not be available on commercially reasonable terms, or at all.

Future publicity or developments related to the Security Incident could have a range of other adverse effects on our business or prospects, including causing or contributing to loss of customer confidence, reduced customer demand, reduced customer retention, strategic growth opportunities, and associated retention and recruiting difficulties.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table provides information about shares of common stock acquired or repurchased during the three months ended March 31, 2021 under the stock repurchase program then in effect, as well as common stock withheld by us to satisfy the minimum tax obligations of employees due upon vesting of restricted stock awards and units.

Period	Total number of shares purchased(1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs(2)	Approximate dollar value of shares that may yet be purchased under the plans or programs (in thousands)
Beginning balance, January 1, 2021				$ 208,999
January 1, 2021 through January 31, 2021	464,149	$ 60.23	464,149	181,042
February 1, 2021 through February 28, 2021	242,539	76.42	1,672	180,933
March 1, 2021 through March 31, 2021	—	—	—	180,933
Total	706,688	$ 65.79	465,821	$ 180,933

(1) Includes 240,867 shares in February withheld by us to satisfy the minimum tax obligations of employees due upon vesting of restricted stock awards and units. The level of this acquisition activity varies from period to period based upon the timing of award grants and vesting.
(2) In November 2020, our Board of Directors reauthorized and expanded our stock repurchase program to authorize us to purchase up to $250.0 million of our outstanding shares of common stock. The program does not have an expiration date.

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ITEM 6. EXHIBITS

The exhibits listed below are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q:

		Filed In			
Exhibit Number	Description of Document	Filed Herewith	Form	Exhibit Number	Filing Date
10.1	Form of Employment Agreement between Blackbaud, Inc. and Kevin McDearis	X			
10.2	Form of Retention Agreement between Blackbaud, Inc. and Kevin McDearis		10-Q	10.92	8/4/2017
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			
32.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			
101.INS	Inline XBRL Instance Document - the Instance Document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL Document.	X			
101.SCH	Inline XBRL Taxonomy Extension Schema Document.	X			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	X			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	X			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.	X			
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	X			
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).	X			

SIGNATURES

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

			BLACKBAUD, INC.
Date:	May 4, 2021	By:	/s/ Michael P. Gianoni
			Michael P. Gianoni President and Chief Executive Officer (Principal Executive Officer)
Date:	May 4, 2021	By:	/s/ Anthony W. Boor
			Anthony W. Boor Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

THIS CONTRACT IS SUBJECT TO ARBITRATION PURSUANT TO SECTION 13 BELOW.

EMPLOYEE AGREEMENT

This EMPLOYEE AGREEMENT (this "Agreement"), is entered into by and between BLACKBAUD, INC. (the "Company"), and Kevin McDearis ("Employee").

WHEREAS, in connection with Employee's employment with the Company, Employee will have access to valuable, confidential, privileged and/or proprietary information relating to the Company's business, customers, processes, vendors and relationships;

WHEREAS, the parties agree that this Agreement and the consideration provided in connection therewith provides sufficient consideration for restrictions, covenants, promises, and other terms contained herein; and

WHEREAS, the Company and Employee desire to memorialize certain terms relating to non-disclosure, non-solicitation, and non-competition.

Now, THEREFORE, in consideration of the Company's agreement to employ Employee, the mutual promises and covenants of the parties, and other good and valuable consideration, the receipt and legal sufficiency of which is hereby acknowledged, the Company and Employee stipulate and agree as follows:

1. **Nature of the Business.** For purposes of this Agreement, the "Business" shall be defined as products and/or services that are both (1) related to the design, development, marketing, sale or servicing of software, software applications, internet applications, donor research and management, prospective donor analysis or e-commerce solutions, or consulting with respect thereto; and (2) used by non-profit organizations in connection with fund raising, e-commerce, accounting, school administration or ticketing.

2. **Consideration.** It is stipulated and agreed that this Agreement is being entered at the inception of Employee's employment with the Company. Employee expressly acknowledges that signing this Agreement was a material inducement for the Company to enter into the employment relationship.

3. **Covenants Not to Use or Disclose Confidential Information.**

It is stipulated and agreed that as a result of Employee's employment by the Company, Employee has and. will have access to valuable, highly confidential, privileged and proprietary information not generally available in the public domain relating to the Company's Business (the "Confidential Information"). For purposes of this Agreement, "Confidential Information" means the Company's, or its affiliated companies', trade secrets; patents; copyrights; software (including, without limitation, all progran1s, specifications, applications, routines, subroutines, techniques, algorithms, and ideas for formulae); products and/or services; concepts; inventions; know-how; data; drawings; designs; documents; names and/or lists of clients, customers, client and/or customer usage, prospective clients and/or customers, employees, agents, contractors, and suppliers; marketing information; business plans; business methodologies and processes;

strategies; financial information and other business records; and all copies of any of the foregoing, including notes, extracts, memoranda shared with, prepared or suffered or directed to be prepared by Employee based on any Confidential Information. It is further acknowledged and agreed that the unauthorized use or disclosure by Employee of any of the Confidential Information would seriously damage the Company in its Business. Confidential Information does not include generalized skills or knowledge acquired by Employee in the course of his/her duties.

As a consequence of the above, with respect to any Confidential Information that is obtained by Employee during or as the result of Employee's perfom1ance of services for the Company and/or its customers, affiliated companies, vendors, suppliers and distributors, whatever its nature and form and whether obtained orally, by observation, from written materials or otherwise, Employee agrees that during the term of Employee's employment and after the termination of Employee's employment for any reason:

(a) Employee will hold all Confidential Information in strict confidence and will not use, publish, divulge or otherwise reveal or allow to be revealed any portion thereof to any third person, company or other entity, except to or with the prior written consent of the Company;

(b) Employee will use his/her best efforts to assure that all Confidential Information is properly protected and kept from unauthorized persons or entities, and will immediately report to the Company any misuse of Confidential Information by another person or entity that Employee may encounter or of which Employee may become aware;

(c) Employee will make no use of any Confidential Information except such use as is required in the performance of Employee's services for the Company; and

(d) Upon termination of Employee's employment with the Company for any reason, or upon the Company's request, Employee will in1mediately deliver to the Company all documents, software, hardware, written materials and other items of any kind, and any copies thereof that contain Confidential Information.

4. <u>Covenant Not to Compete or Solicit Customers.</u>

Ancillary to the Confidentiality/Non-Disclosure agreement contained herein and signed at the inception of employment, and in order to protect the substantial time, money and effort invested by the Company in the training and development of its employees, the research and development of its products, its selling, marketing, pricing and servicing strategies, the development of good will among its members and vendors and other legitimate business interests, the Company and Employee further agree as follows:

(a) During the term of Employee's employment and for one (1) year following the termination of his/her employment (the "Restricted Period"), Employee will not, either directly or indirectly, for himself/herself or on behalf of any other person, business, enterprise or entity, compete with the Company by providing services similar to the Business of the Company to any other person, business, enterprise or entity that competes with the Company.

Employee acknowledges that the Company has a national presence and that although headquartered in Charleston, South Carolina, the Company does business not only throughout South Carolina but also throughout the United States. The parties acknowledge that their sole intention in this Section 4 is to prohibit direct competition in relation to the Business that could affect the Company's business with existing or potential customers for the limited period described. Employee acknowledges that the covenant set forth in this paragraph is reasonable and necessary to protect the legitimate interests and goodwill of the Company due to the national nature of the Company's business and its national customer base. Before entering into this Agreement, Employee has considered the limitations that the covenant in this paragraph could impose on his ability to find other employment and has determined that the covenant would not cause undue hardship to Employee or his or her family. Employee also agrees that the Business constitutes a small part of the market for Employee's services, that Employee's employment opportunities and livelihood are not limited to the provision of services relating to the Business, and that the covenant will not create undue hardship for Employee or his family. It is the desire and intent of the parties that the provisions of this paragraph be enforced to the fullest extent permitted under the laws and public policies of each jurisdiction in which enforcement is sought.

(b) In addition to, but not in limitation of the restrictions set forth above, the Employee further promises and agrees that unless the Company has given its prior written consent, which can be withheld in its sole discretion, he/she will not advertise or market services as a Company employee or former Company employee or as an expert in any Company products or services or any similar designation in connection with the foregoing. During the term of Employee's employment and for one (l) year following termination of his/her employment, he/she will not, directly or indirectly, either on behalf of himself/herself or any other person, business, enterprise or entity, (i) solicit the Company's Customers for any business purpose in competition with or in conflict with tl1e Business of the Company or (ii) divert business. away from the Company with respect to the Company's Customers. For purposes of this Agreement "Customers" shall mean any current customer or prospective customer of the Company (1) with whom Employee had contact directly or indirectly in connection with Employee's employment with the Company during the two (2) years prior to the termination of Employee's employment with the Company; or (ii) about whom Employee had access to proprietary, confidential, or commercially advantageous information through Employee's employment by the Company during the two (2) year period prior to the termination of Employee's employment with the Company.

5. **CovenantNot to Solicit Employees.** In the event Employee's employment hereunder is terminated, for a period of one (1) year after the termination Employee will not, directly or indirectly, either on behalf of himself/herself or any other person, business, enterprise or entity, solicit for employment, employ, hire, contract with, or otherwise engage any

Applicable Personnel. For purposes of this Section, "Applicable Personnel" means any person that was employed or engaged as an employee or independent contractor of the Company at any time during the six (6) month period prior to termination of Employee's employment with the Company.

6. **Exclusive Emplovment.** Employee shall not without the express prior written consent of the Company, directly or indirectly, during Employee's employment with the Company, render professional services to any person or fim1 for compensation or engage in any activity competitive with and/or adverse to the Company's purposes, mission or interests, whetl1er alone, as a partner or member, or as an officer, director, employee or shareholder of any other corporation or entity or as a trustee, fiduciary or other representative of any other activity or entity, except with the express written approval of the Company, which the Company may revoke at any time in its sole discretion.

7. **Ownership and Assignment of Inventions.** Employee understands and agrees that Employee is perfom1ing work for hire for the Company and that any Inventions (as defined below) developed or conceived by Employee during Employee's employment with the Company are the sole property of the Company. "Inventions" shall include any inventions, improvements, developments, discoveries, programs, designs, products, processes, information systems and software, as well as any other concepts, works and ideas, whether patentable or not, relating to any present or prospective activities or Business of the Company. Employee agrees to make the Company aware of all such Inventions. To the maximum extent permitted by applicable law, Employee farther agrees to assign and does hereby assign to the Company all rights, title and interest in and to all such Inventions hereafter made by Employee. This Section does not apply to any Invention for which Employee affim1atively proves that: (a) no equipment, supplies, facility, trade secrets, or Confidential Information of the Company was used; (b) the Invention was developed entirely on Employee's own time; and (c) the Invention did not result, either directly or indirectly, from any work performed by Employee for the Company.

8. **Remedies.** It is stipulated and agreed that a breach by Employee of any of the covenants contained in Sections 3, 4, 5, 6 or 7 of this Agreement would cause irreparable damage to the Company. The Company, in addition to any other rights or remedies that the Company may have, shall be entitled to an injunction restraining Employee from violating or continuing any violation of such covenants. Such right to obtain injunctive relief maybe exercised at the option of the Company, concurrently with, prior to, after, or in lieu of the exercise of any other rights or remedies that the Company may have as a result of any such breach or threatened breach of this Agreement. Employee agrees that upon breach of any of the covenants contained in Sections 3, 4, 5, 6 or 7 of this Agreement, the Company shall be entitled to an accounting and repayment of all profits, royalties, compensation, and/or other benefits that Employee directly or indirectly has realized or may realize as a result of, or in connection with, any such breach. Employee further agrees that she will be liable for any expenses the Company may incur, including attorneys' fees, to enforce the terms of this Agreement.

9. **No Effect on Trade Secret Laws.** Notwithstanding anything herein to the contrary, nothing in this Agreement is intended to alter, limit (temporally, geographically, or otherwise), or have any effect whatsoever on Employee's obligation to refrain from disclosing the Company's trade secrets. Nothing in this Agreement shall limit or otherwise affect the Company's remedies for any violation of applicable trade secrets laws, all of which shall be cumulative to any remedies available to the Company for a breach of this Agreement.

10. **Other Agreements/Warranties.** Employee warrants that Employee is not bound by the terms of a confidentiality agreement or non-competition agreement or any other agreement with a former employer or other third party that would preclude Employee from accepting employment with the Company or that would preclude Employee from effectively performing Employee's duties for the Company. Employee further warrants that Employee has the right to make all disclosures that Employee will make to the Company during the course of Employee's employment with the Company. Employee agrees that Employee shall not disclose to the Company, or seek to induce the Company to use, any confidential information in the nature of trade secrets or other proprietary information belonging to others and that in the event that the Company directs Employee to perform tasks that would result in the disclosure or use of any such confidential information, that Employee shall notify the Company in advance of any such disclosure. Employee agrees to defend, indemnify, and hold harmless the Company for any losses that it incurs as a result of the Employee's violation of any non-competition, non- solicitation, non-disclosure, or trade secret obligations that she may have to any other party during her Employment with the Company.

11. **Acknowledgment of Reasonableness.** Employee has carefully read and considered the provisions of this Agreement, has had the opportunity to consult with an attorney of Employee's choice, and agrees that the restrictions and remedies set forth herein are fair and reasonably required for the protection of the Company. In the event that any provision relating to the scope of the restrictions shall be declared by a court of competent jurisdiction to exceed the maximum scope that such court deems reasonable and enforceable under applicable law, the Company and Employee agree that the scope of the restriction held reasonable and enforceable by the court shall thereafter be the scope of this Agreement.

12. **Severabilitv; Survival.** The covenants described herein and all provisions and sub provisions of this Agreement are intended to be severable. If any term, covenant, provision, sub-provision, or portion thereof is held to be invalid, void or unenforceable by a court of competent jurisdiction for any reason whatsoever, such ruling shall not affect the remainder of this Agreement, which shall remain in full force and effect Any provision of this Agreement that contemplates performance or observance subsequent to termination of this Agreement, regardless of the date, cause or manner of such termination, shall survive such termination and shall continue in full force and effect.

13. **Dispute Resolution; Applicable Law.** Except as otherwise set forth in Section 8 above, the parties agree that all disputes, claims and controversies arising out of this Agreement shall be settled by arbitration in accordance with the American Arbitration Association

rules, such arbitration to take place in the location of the Company office to which Employee is assigned, and judgment upon the award rendered in any such arbitration may be entered in any court, state or federal, having jurisdiction. This Agreement and any dispute or controversy arising out of or relating to this Agreement shall, in all respects, be governed by and construed according to the laws of the State of South Carolina, without regard to its conflict of law principles.

14. **Waiver.** Any waiver of a breach of any provision of this Agreement must be in writing and signed by the waiving party. Any waiver of a breach of any provision of this Agreement shall not operate or be construed as a waiver of, or estoppel with respect to, any subsequent breach of such provision or any other provision of this Agreement. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not deprive that party of its right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

15. **Employment At-Will.** Nothing in this Agreement shall be interpreted to create a contract of employment for any specific time. Employee is and shall remain an employee at-will, and either party may terminate the employment relationship at any time for any reason or no reason at all.

16. **Entire Agreement.** This Agreement constitutes the entire agreement between the parties as of the date hereof with respect to the subject matter hereof and supersedes any previous understandings, representations, statements and agreements, whether oral or written, between or among the parties with respect to the subject matter hereof. This Agreement may be modified only by written agreement, signed by all of the parties and expressly purporting to modify this Agreement.

17. **No Assignment/ Binding Effect.** Employee may not assign this Agreement to any other person or entity without the Company's express written consent, which may be withheld for any reason or no reason at all. This Agreement shall be binding on Employee's heirs, successors, and permitted assigns.

18. **Tolling.** The Restricted Period shall be tolled for any period(s) of violation, including period(s) of time required for litigation to enforce the covenants of this Agreement.

19. **Counterparts.** This Agreement may be executed simultaneously in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement.

[SIGNATURES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement to be effective as of the date first written above.

EMPLOYEE:

/s/ Kevin McDearis

Kevin McDearis

BLACKBAUD, INC.

/s/ John Mistretta

By: John Mistretta

Its: SVP HR

EXHIBIT 31.1

Blackbaud, Inc.

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael P. Gianoni, certify that:

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

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

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

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

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

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date:	May 4, 2021	By:	/s/ Michael P. Gianoni
			Michael P. Gianoni
			President and Chief Executive Officer
			(Principal Executive Officer)

EXHIBIT 31.2

Blackbaud, Inc.

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony W. Boor, certify that:

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

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

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

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

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

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 4, 2021

By: /s/ Anthony W. Boor
Anthony W. Boor
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

Blackbaud, Inc.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Blackbaud, Inc. (the “Company”) for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Michael P. Gianoni, President and Chief Executive Officer, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	May 4, 2021	By:	/s/ Michael P. Gianoni
			Michael P. Gianoni President and Chief Executive Officer (Principal Executive Officer)

EXHIBIT 32.2

Blackbaud, Inc.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Blackbaud, Inc. (the “Company”) for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Anthony W. Boor, Executive Vice President and Chief Financial Officer, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	May 4, 2021	By:	/s/ Anthony W. Boor
			Anthony W. Boor Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)