**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 September 30, 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, 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 October 29, 2021 was 48,176,560.

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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 related liabilities, and current or potential legal proceedings 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 filings made with the United States Securities & Exchange Commission ("SEC"). 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) | | September 30, 2021 | | December 31, 2020 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 27,591 | $ | 35,750 |
| Restricted cash | | 216,122 | | 609,219 |
| Accounts receivable, net of allowance of $10,847 and $10,292 at September 30, 2021 and December 31, 2020, respectively | | 105,873 | | 95,404 |
| Customer funds receivable | | 6,076 | | 321 |
| Prepaid expenses and other current assets | | 102,319 | | 78,366 |
| Total current assets | | 457,981 | | 819,060 |
| Property and equipment, net | | 103,346 | | 105,177 |
| Operating lease right-of-use assets | | 19,652 | | 22,671 |
| Software development costs, net | | 118,860 | | 111,827 |
| Goodwill | | 635,912 | | 635,854 |
| Intangible assets, net | | 249,494 | | 277,506 |
| Other assets | | 69,699 | | 72,639 |
| **Total assets** | $ | 1,654,944 | $ | 2,044,734 |
| **Liabilities and stockholders' equity** | | | | |
| Current liabilities: | | | | |
| Trade accounts payable | $ | 38,388 | $ | 27,836 |
| Accrued expenses and other current liabilities | | 58,579 | | 52,228 |
| Due to customers | | 220,785 | | 608,264 |
| Debt, current portion | | 12,948 | | 12,840 |
| Deferred revenue, current portion | | 329,426 | | 312,236 |
| Total current liabilities | | 660,126 | | 1,013,404 |
| Debt, net of current portion | | 514,418 | | 518,193 |
| Deferred tax liability | | 56,144 | | 54,086 |
| Deferred revenue, net of current portion | | 4,528 | | 4,678 |
| Operating lease liabilities, net of current portion | | 13,470 | | 17,357 |
| Other liabilities | | 9,421 | | 10,866 |
| **Total liabilities** | | 1,258,107 | | 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, 62,353,643 and 60,904,638 shares issued at September 30, 2021 and December 31, 2020, respectively | | 62 | | 61 |
| Additional paid-in capital | | 634,406 | | 544,963 |
| Treasury stock, at cost; 14,039,117 and 12,054,268 shares at September 30, 2021 and December 31, 2020, respectively | | (490,456) | | (353,091) |
| Accumulated other comprehensive income (loss) | | 3,319 | | (2,497) |
| Retained earnings | | 249,506 | | 236,714 |
| **Total stockholders' equity** | | 396,837 | | 426,150 |
| **Total liabilities and stockholders' equity** | $ | 1,654,944 | $ | 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 September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Recurring | $ 218,530 | $ 200,102 | $ 642,266 | $ 621,229 |
| One-time services and other | 12,688 | 14,899 | 37,583 | 49,384 |
| **Total revenue** | 231,218 | 215,001 | 679,849 | 670,613 |
| **Cost of revenue** | | | | |
| Cost of recurring | 95,823 | 84,251 | 279,123 | 265,172 |
| Cost of one-time services and other | 11,858 | 14,434 | 40,013 | 43,317 |
| **Total cost of revenue** | 107,681 | 98,685 | 319,136 | 308,489 |
| **Gross profit** | 123,537 | 116,316 | 360,713 | 362,124 |
| **Operating expenses** | | | | |
| Sales, marketing and customer success | 44,703 | 48,460 | 138,948 | 159,149 |
| Research and development | 31,566 | 22,783 | 90,967 | 72,655 |
| General and administrative | 34,733 | 34,132 | 97,328 | 89,829 |
| Amortization | 558 | 749 | 1,674 | 2,219 |
| Restructuring | 131 | 105 | 263 | 179 |
| **Total operating expenses** | 111,691 | 106,229 | 329,180 | 324,031 |
| **Income from operations** | 11,846 | 10,087 | 31,533 | 38,093 |
| Interest expense | (4,003) | (3,997) | (14,171) | (12,049) |
| Other income, net | 862 | 542 | 339 | 2,242 |
| **Income before provision for income taxes** | 8,705 | 6,632 | 17,701 | 28,286 |
| Income tax provision | 2,517 | 1,756 | 4,946 | 6,948 |
| **Net income** | $ 6,188 | $ 4,876 | $ 12,755 | $ 21,338 |
| **Earnings per share** | | | | |
| Basic | $ 0.13 | $ 0.10 | $ 0.27 | $ 0.44 |
| Diluted | $ 0.13 | $ 0.10 | $ 0.26 | $ 0.44 |
| **Common shares and equivalents outstanding** | | | | |
| Basic weighted average shares | 47,542,746 | 48,271,139 | 47,554,746 | 48,182,799 |
| Diluted weighted average shares | 48,274,072 | 48,859,707 | 48,259,956 | 48,582,068 |
| **Other comprehensive (loss) income** | | | | |
| Foreign currency translation adjustment | (3,234) | 4,661 | 1,060 | (1,954) |
| Unrealized gain (loss) on derivative instruments, net of tax | 262 | 943 | 4,756 | (1,628) |
| **Total other comprehensive (loss) income** | (2,972) | 5,604 | 5,816 | (3,582) |
| **Comprehensive income** | $ 3,216 | $ 10,480 | $ 18,571 | $ 17,756 |

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) | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 12,755 | $ 21,338 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 60,484 | 68,755 |
| Provision for credit losses and sales returns | 7,992 | 10,156 |
| Stock-based compensation expense | 89,480 | 54,556 |
| Deferred taxes | 400 | 1,879 |
| Amortization of deferred financing costs and discount | 1,234 | 569 |
| Other non-cash adjustments | (527) | 2,203 |
| Changes in operating assets and liabilities, net of acquisition and disposal of businesses: | | |
| Accounts receivable | (18,779) | (18,319) |
| Prepaid expenses and other assets | (14,169) | 4,292 |
| Trade accounts payable | 10,728 | (17,203) |
| Accrued expenses and other liabilities | 2,790 | (31,595) |
| Deferred revenue | 17,400 | 12,534 |
| **Net cash provided by operating activities** | 169,788 | 109,165 |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | (8,332) | (25,836) |
| Capitalized software development costs | (29,661) | (32,028) |
| **Net cash used in investing activities** | (37,993) | (57,864) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of debt | 128,300 | 267,400 |
| Payments on debt | (131,272) | (290,999) |
| Debt issuance costs | — | (593) |
| Employee taxes paid for withheld shares upon equity award settlement | (39,012) | (21,286) |
| Proceeds from exercise of stock options | — | 4 |
| Change in due to customers | (386,973) | (337,821) |
| Change in customer funds receivable | (5,838) | (4,495) |
| Purchase of treasury stock | (98,353) | — |
| Dividend payments to stockholders | — | (5,960) |
| **Net cash used in financing activities** | (533,148) | (393,750) |
| Effect of exchange rate on cash, cash equivalents and restricted cash | 97 | (623) |
| **Net decrease in cash, cash equivalents and restricted cash** | (401,256) | (343,072) |
| **Cash, cash equivalents and restricted cash, beginning of period** | 644,969 | 577,295 |
| **Cash, cash equivalents and restricted cash, end of period** | $ 243,713 | $ 234,223 |

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) | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Cash and cash equivalents | $ 27,591 | $ 35,750 |
| Restricted cash | 216,122 | 609,219 |
| Total cash, cash equivalents and restricted cash in the statement of cash flows | $ 243,713 | $ 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 |
| Net income | — | — | — | — | — | 6,731 | 6,731 |
| Purchase of 405,047 treasury shares under stock repurchase program | — | — | — | (30,008) | — | — | (30,008) |
| Vesting of restricted stock units | 804,323 | — | — | — | — | — | — |
| Employee taxes paid for 285,521 withheld shares upon equity award settlement | — | — | — | (20,286) | — | — | (20,286) |
| Stock-based compensation | — | — | 30,528 | — | — | 21 | 30,549 |
| Restricted stock grants | 9,431 | — | — | — | — | — | — |
| Restricted stock cancellations | (76,316) | — | — | — | — | — | — |
| Other comprehensive income | — | — | — | — | 2,128 | — | 2,128 |
| **Balance at June 30, 2021** | 62,332,714 | $ 62 | $ 605,486 | $ (449,877) | $ 6,291 | $ 243,312 | $ 405,274 |
| Net income | — | — | — | — | — | 6,188 | 6,188 |
| Purchase of 583,280 treasury shares under stock repurchase program | — | — | — | (40,279) | — | — | (40,279) |
| Vesting of restricted stock units | 908 | — | — | — | — | — | — |
| Employee taxes paid for 4,313 withheld shares upon equity award settlement | — | — | — | (300) | — | — | (300) |
| Stock-based compensation | — | — | 28,920 | — | — | 6 | 28,926 |
| Restricted stock grants | 54,132 | — | — | — | — | — | — |
| Restricted stock cancellations | (34,111) | — | — | — | — | — | — |
| Other comprehensive loss | — | — | — | — | (2,972) | — | (2,972) |
| **Balance at September 30, 2021** | 62,353,643 | $ 62 | $ 634,406 | $ (490,456) | $ 3,319 | $ 249,506 | $ 396,837 |

# Blackbaud, Inc.
## Condensed Consolidated Statements of Stockholders' Equity (continued)
## (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, 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 |
| Net income | — | — | — | — | — | 11,823 | 11,823 |
| Exercise of stock options and vesting of restricted stock units | 7,111 | — | 3 | — | — | — | 3 |
| Employee taxes paid for 21,200 withheld shares upon equity award settlement | — | — | — | (1,214) | — | — | (1,214) |
| Stock-based compensation | — | — | 20,103 | — | — | 30 | 20,133 |
| Restricted stock grants | 20,776 | — | — | — | — | — | — |
| Restricted stock cancellations | (59,426) | — | — | — | — | — | — |
| Other comprehensive loss | — | — | — | — | (336) | — | (336) |
| **Balance at June 30, 2020** | 60,901,100 | $ 61 | $ 491,450 | $ (311,661) | $ (14,476) | $ 245,428 | $ 410,802 |
| Net income | — | — | — | — | — | 4,876 | 4,876 |
| Vesting of restricted stock units | 906 | — | — | — | — | — | — |
| Employee taxes paid for 4,574 withheld shares upon equity award settlement | — | — | — | (290) | — | — | (290) |
| Stock-based compensation | — | — | 20,819 | — | — | 24 | 20,843 |
| Restricted stock grants | 48,783 | — | — | — | — | — | — |
| Restricted stock cancellations | (46,864) | — | — | — | — | — | — |
| Other comprehensive income | — | — | — | — | 5,604 | — | 5,604 |
| **Balance at September 30, 2020** | 60,903,925 | $ 61 | $ 512,269 | $ (311,951) | $ (8,872) | $ 250,328 | $ 441,835 |

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

## 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 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 nine months ended September 30, 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").

As discussed in Note 13, beginning in the second quarter of 2021, we combined our General Markets Group ("GMG") and Enterprise Markets Group ("EMG") into a single U.S. Markets Group ("UMG") and moved our Corporations vertical under our International Markets Group ("IMG"). This change was made to better align our resources toward customer retention and growth which, are key objectives as we progress toward our long-term aspirational goals. The change did not impact our conclusions that we have one operating and reportable segment and one goodwill reporting unit.

**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 significantly impact our vertical markets and geographies, but the magnitude of the impact on our business cannot be determined at this time due to numerous uncertainties, including the duration of the outbreak, the severity of variants which may develop, travel restrictions and business closures, the effectiveness of vaccination programs and other actions taken to contain the disease and other unforeseeable consequences.

**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, loss contingencies and insurance recoveries, 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 nine months ended September 30, 2021, consisted of the following:

| (dollars in thousands) | | Total |
|---|---|---|
| **Balance at December 31, 2020** | $ | 635,854 |
| Effect of foreign currency translation | | 58 |
| **Balance at September 30, 2021** | $ | 635,912 |

## 4. Earnings Per Share

We compute basic earnings per share by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings 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 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.

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

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

| (dollars in thousands, except per share amounts) | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|
| Numerator: | | | | |
| Net income | $ 6,188 | $ 4,876 | $ 12,755 | $ 21,338 |
| Denominator: | | | | |
| Weighted average common shares | 47,542,746 | 48,271,139 | 47,554,746 | 48,182,799 |
| Add effect of dilutive securities: | | | | |
| Stock-based awards | 731,326 | 588,568 | 705,210 | 399,269 |
| Weighted average common shares assuming dilution | 48,274,072 | 48,859,707 | 48,259,956 | 48,582,068 |
| Earnings per share: | | | | |
| Basic | $ 0.13 | $ 0.10 | $ 0.27 | $ 0.44 |
| Diluted | $ 0.13 | $ 0.10 | $ 0.26 | $ 0.44 |
| | | | | |
| Anti-dilutive shares excluded from calculations of diluted earnings per share | 904,100 | 915,226 | 1,034,091 | 1,036,445 |

## 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:

| (dollars in thousands) | Fair value measurement using Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Fair value as of September 30, 2021** | | | | |
| Financial assets: | | | | |
| Derivative instruments | $ — | $ 2,283 | $ — | $ 2,283 |
| Total financial assets | $ — | $ 2,283 | $ — | $ 2,283 |
| | | | | |
| **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. See Note 8 for additional information about our derivative instruments.

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 all tenors of LIBOR by June 2023. 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 September 30, 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 September 30, 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 nine months ended September 30, 2021. Additionally, we did not hold any Level 3 assets or liabilities during the nine months ended September 30, 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 material non-recurring fair value adjustments to our long-lived assets, intangible assets, goodwill and operating lease ROU assets during the nine months ended September 30, 2021.

## 6. Consolidated Financial Statement Details

**Restricted cash**

| (dollars in thousands) | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Restricted cash due to customers | $ 214,709 | $ 607,943 |
| Real estate escrow balances | 1,413 | 1,276 |
| Total restricted cash | $ 216,122 | $ 609,219 |

**Blackbaud, Inc.**
**Notes to Condensed Consolidated Financial Statements**
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### Prepaid expenses and other assets

| (dollars in thousands) | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Costs of obtaining contracts[1][2] | $ 78,656 | $ 84,914 |
| Prepaid software maintenance and subscriptions[3] | 28,904 | 24,471 |
| Receivables for probable insurance recoveries[4][5] | 25,936 | 6,288 |
| Implementation costs for cloud computing arrangements, net[6][7] | 12,430 | 11,298 |
| Unbilled accounts receivable | 6,302 | 10,385 |
| Prepaid insurance | 3,331 | 1,426 |
| Derivative instruments | 2,283 | — |
| Taxes, prepaid and receivable | 1,473 | 1,891 |
| Other assets | 12,703 | 10,332 |
| Total prepaid expenses and other assets | 172,018 | 151,005 |
| Less: Long-term portion | 69,699 | 72,639 |
| Prepaid expenses and other current assets | $ 102,319 | $ 78,366 |

(1) Amortization expense from costs of obtaining contracts was $8.8 million and $26.9 million for the three and nine months ended September 30, 2021, respectively, and $9.4 million and $28.2 million for the three and nine months ended September 30, 2020, respectively.
(2) The current portion of costs of obtaining contracts as of September 30, 2021 and December 31, 2020 was $30.3 million and $31.9 million, respectively.
(3) The current portion of prepaid software maintenance and subscriptions as of September 30, 2021 and December 31, 2020 was $25.4 million and $19.8 million, respectively.
(4) All receivables for probable insurance recoveries are classified as current.
(5) See discussion of the Security Incident at Note 9.
(6) These costs primarily relate to the multi-year implementations of our new global enterprise resource planning and customer relationship management systems.
(7) Amortization expense from capitalized cloud computing implementation costs was insignificant and $1.3 million for the three and nine months ended September 30, 2021, respectively, and insignificant for the three and nine months ended September 30, 2020. Accumulated amortization for these costs was $2.5 million as of September 30, 2021 and $1.1 million as of December 31, 2020.

### Accrued expenses and other liabilities

| (dollars in thousands) | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Accrued legal costs[1] | $ 21,341 | $ 4,808 |
| Taxes payable[2] | 14,430 | 19,577 |
| Operating lease liabilities, current portion | 7,160 | 9,359 |
| Customer credit balances | 6,539 | 5,874 |
| Accrued commissions and salaries | 4,084 | 5,010 |
| Unrecognized tax benefit | 3,656 | 3,351 |
| Accrued health care costs | 2,440 | 2,341 |
| Accrued vacation costs | 2,207 | 2,311 |
| Derivative instruments | — | 4,159 |
| Other liabilities | 6,143 | 6,304 |
| Total accrued expenses and other liabilities | 68,000 | 63,094 |
| Less: Long-term portion | 9,421 | 10,866 |
| Accrued expenses and other current liabilities | $ 58,579 | $ 52,228 |

(1) All accrued legal costs are classified as current. The increase in accrued legal costs from December 31, 2020 was primarily due to the Security Incident. See Note 9.
(2) 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 was due by the end of calendar year 2021 with the remainder due by the end of calendar year 2022.

### Other income, net

| (dollars in thousands) | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|
| Interest income | $ 82 | $ 767 | $ 311 | $ 1,399 |
| Other income (expense), net | 780 | (225) | 28 | 843 |
| Other income, net | $ 862 | $ 542 | $ 339 | $ 2,242 |

## 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.

| | Debt balance at | | Weighted average effective interest rate at | |
|---|---|---|---|---|
| (dollars in thousands) | September 30, 2021 | December 31, 2020 | September 30, 2021 | December 31, 2020 |
| Credit facility: | | | | |
| Revolving credit loans | $ 75,000 | $ 69,625 | 2.23 % | 1.83 % |
| Term loans | 392,500 | 400,000 | 2.04 % | 3.12 % |
| Real estate loans | 59,779 | 60,626 | 5.22 % | 5.22 % |
| Other debt | 2,232 | 3,926 | 5.00 % | 5.00 % |
| Total debt | 529,511 | 534,177 | 2.44 % | 3.21 % |
| Less: Unamortized discount and debt issuance costs | 2,145 | 3,144 | | |
| Less: Debt, current portion | 12,948 | 12,840 | 2.47 % | 2.61 % |
| Debt, net of current portion | $ 514,418 | $ 518,193 | 2.44 % | 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 September 30, 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 September 30, 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 September 30, 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 |

## 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.

The terms and notional values of our derivative instruments were as follows as of September 30, 2021:

| (dollars in thousands) | Term of derivative instrument | | Notional value |
|---|---|---|---|
| **Derivative instruments designated as hedging instruments:** | | | |
| Interest rate swap | November 2020 - October 2024 | $ | 60,000 |
| Interest rate swap | November 2020 - October 2024 | | 60,000 |
| Interest rate swap | June 2021 - October 2024 | | 120,000 |
| Interest rate swap | July 2021 - October 2024 | | 120,000 |
| Interest rate swap | July 2021 - October 2024 | | 75,000 |
| | | $ | 435,000 |

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

| | Asset derivatives | | | | | Liability derivatives | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Balance sheet location | | September 30, 2021 | | December 31, 2020 | Balance sheet location | | September 30, 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 | $ | — | $ | 2,698 |
| Interest rate swaps, long-term portion | Other assets | | 2,283 | | — | Other liabilities | | — | | 1,461 |
| **Total derivative instruments designated as hedging instruments** | | $ | 2,283 | $ | — | | $ | — | $ | 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 | Location of gain (loss) reclassified from accumulated other comprehensive loss into income | Gain (loss) reclassified from accumulated other comprehensive loss into income | | | |
|---|---|---|---|---|---|---|---|
| | | September 30, 2021 | | | Three months ended September 30, 2021 | | Nine months ended September 30, 2021 |
| Interest rate swaps | $ | 2,283 | Interest expense | $ | (505) | $ | (3,289) |
| | | September 30, 2020 | | | Three months ended September 30, 2020 | | Nine months ended September 30, 2020 |
| Interest rate swaps | $ | (3,957) | Interest expense | $ | (1,276) | $ | (2,499) |

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 September 30, 2021 that is expected to be reclassified into earnings within the next twelve months is $1.4 million. There were no ineffective portions of our interest rate swap derivatives during the nine months ended September 30, 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 September 30, 2021, we did not have any operating leases that had not yet commenced.

The components of lease expense were as follows:

| (dollars in thousands) | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|
| Operating lease cost[1] | $ 2,344 | $ 12,128 | $ 7,557 | $ 24,720 |
| Variable lease cost | 625 | 1,120 | 2,023 | 3,491 |
| Sublease income | (313) | (732) | (1,139) | (2,585) |
| Net lease cost | $ 2,656 | $ 12,516 | $ 8,441 | $ 25,626 |

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

See Note 14 for a discussion of the workforce strategy actions we took during October 2021.

### 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 September 30, 2021, the remaining aggregate minimum purchase commitment under these arrangements was approximately $39.7 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.

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**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 costs due to third-party service providers and consultants, including legal fees, 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. It is possible 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. Based on our review of expenses incurred to date, and upon consideration of the number of matters outstanding (as described below), we believe that total costs related to the Security Incident will exceed the limits of our insurance coverage during the fourth quarter of 2021. However, we are currently unable to estimate the approximate amount or range of any such excess.

In the three and nine months ended September 30, 2021, we recorded $11.4 million and $35.9 million, respectively, of expenses related to the Security Incident and offsetting probable insurance recoveries of $10.6 million and $34.5 million, respectively. As of September 30, 2021, we have recorded cumulative expenses related to the Security Incident of $45.7 million and cumulative probable insurance recoveries of $43.9 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, $18.0 million had been paid as of September 30, 2021. Recorded expenses consisted primarily of payments for legal fees related to governmental inquiries and investigations and customer constituent class actions. We present expenses and insurance recoveries related to the Security Incident in general and administrative expense on our condensed consolidated statements of comprehensive income and as operating activities on our condensed consolidated statements of cash flows. 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, and those 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 September 30, 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 260 specific requests for reimbursement of expenses ("Customer Reimbursement Requests") and approximately 400 reservations of the right to seek expense recovery in the future 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). Of the Customer Reimbursement Requests received to date, approximately 170 have been fully resolved and closed. In addition, insurance companies representing various customers' interests through subrogation claims have contacted us. Customer and insurer subrogation claims generally seek reimbursement of their 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. Our review of customer and subrogation claims includes 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 19 putative consumer class action cases [17 in U.S. federal courts (which have been consolidated under multi district litigation to a single federal 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 48 state Attorneys General and the District of Columbia and separate Civil Investigative Demands from the offices of the Illinois Attorney General and the California Attorney General relating to the Security Incident. In addition, we have received communications, inquires and requests from the U.S. Federal Trade Commission, the SEC, the U.S. Department of Health and Human Services, the Information Commissioner's Office in the United Kingdom under the U.K. Data Protection Act 2018 (the "ICO", the Office of the Australian Information Commissioner, the Office of the Privacy Commissioner of Canada, the Spanish Data Protection Authority, and the Data Protection Commission of Ireland).

On September 28, 2021, the ICO notified us that it has closed its investigation of the Security Incident. Based on its investigation and having considered our actions before, during and after the Security Incident, the ICO issued our European subsidiary a reprimand in accordance with Article 58(2)(b) of the U.K. General Data Protection Regulation ("U.K. GDPR") due to our non-compliance, in the ICO's view, with the requirements set out in Article 32 of the U.K. GDPR regarding the processing of personal data. The ICO did not impose a penalty related to the Security Incident, nor did it impose any requirements for further action by us.

On September 24, 2021, we received notice from the Spanish Data Protection Authority that it has concluded its investigation of the Security Incident, pursuant to which our European subsidiary paid a penalty of €60,000 in relation to the alleged late notification of two Spanish data controllers regarding the Security Incident.

On January 15, 2021, we were notified by the Data Protection Commission of Ireland that it has concluded its investigation of the Security Incident without taking any action against us.

We continue to cooperate with all ongoing inquiries and investigations, 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 have a material adverse impact on our results of operations, cash flows, or financial condition.

## 10. Income Taxes

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands) | 2021 | 2020 | 2021 | 2020 |
| Income tax provision | $ 2,517 | $ 1,756 | $ 4,946 | $ 6,948 |
| Effective income tax rate | 28.9 % | 26.5 % | 27.9 % | 24.6 % |

The increase in our effective income tax rate for the three months ended September 30, 2021, when compared to the same period in 2020, was primarily attributable to higher 2021 non-deductible stock-based compensation and reduced state tax credits. Furthermore, the 2020 effective tax rate was positively impacted by a favorable return to provision adjustment offset against tax expense attributable to a corporate income tax rate increase enacted during the period.

The increase in our effective income tax rate for the nine months ended September 30, 2021 when compared to the same period in 2020, was primarily attributable to the impact of non-deductible expenses 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:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands) | 2021 | 2020 | 2021 | 2020 |
| **Included in cost of revenue:** | | | | |
| Cost of recurring | $ 2,997 | $ 1,608 | $ 8,900 | $ 3,229 |
| Cost of one-time services and other | 1,266 | 2,080 | 5,958 | 3,894 |
| **Total included in cost of revenue** | 4,263 | 3,688 | 14,858 | 7,123 |
| **Included in operating expenses:** | | | | |
| Sales, marketing and customer success | 4,942 | 4,004 | 15,048 | 10,085 |
| Research and development | 6,110 | 4,098 | 19,725 | 11,245 |
| General and administrative | 13,611 | 9,053 | 39,849 | 26,103 |
| **Total included in operating expenses** | 24,663 | 17,155 | 74,622 | 47,433 |
| **Total stock-based compensation expense** | $ 28,926 | $ 20,843 | $ 89,480 | $ 54,556 |

## 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, which are summarized on page 42 below.

We account for purchases of treasury stock under the cost method. During the three and nine months ended September 30, 2021, we purchased 583,280 and 1,454,148 shares for $40.3 million and $98.4 million, respectively. The remaining amount available to purchase stock under the stock repurchase program was $110.6 million as of September 30, 2021.

### 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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands) | 2021 | 2020 | 2021 | 2020 |
| **Accumulated other comprehensive income (loss), beginning of period** | $ 6,291 | $ (14,476) | $ (2,497) | $ (5,290) |
| **By component:** | | | | |
| **Gains and losses on cash flow hedges:** | | | | |
| Accumulated other comprehensive income (loss) balance, beginning of period | $ 1,393 | $ (3,894) | $ (3,101) | $ (1,323) |
| Other comprehensive income (loss) before reclassifications, net of tax effects of $38, $0, $(818) and $1,225 | (109) | 1 | 2,329 | (3,472) |
| Amounts reclassified from accumulated other comprehensive (loss) income to interest expense | 505 | 1,276 | 3,289 | 2,499 |
| Tax benefit included in provision for income taxes | (134) | (334) | (862) | (655) |
| Total amounts reclassified from accumulated other comprehensive (loss) income | 371 | 942 | 2,427 | 1,844 |
| Net current-period other comprehensive income (loss) | 262 | 943 | 4,756 | (1,628) |
| Accumulated other comprehensive income (loss) balance, end of period | $ 1,655 | $ (2,951) | $ 1,655 | $ (2,951) |
| **Foreign currency translation adjustment:** | | | | |
| Accumulated other comprehensive income (loss) balance, beginning of period | $ 4,898 | $ (10,582) | $ 604 | $ (3,967) |
| Translation adjustments | (3,234) | 4,661 | 1,060 | (1,954) |
| Accumulated other comprehensive income (loss) balance, end of period | 1,664 | (5,921) | 1,664 | (5,921) |
| **Accumulated other comprehensive income (loss), end of period** | $ 3,319 | $ (8,872) | $ 3,319 | $ (8,872) |

## 13. Revenue Recognition

**Transaction price allocated to the remaining performance obligations**

As of September 30, 2021, approximately $821 million of revenue is expected to be recognized from remaining performance obligations. We expect to recognize revenue on approximately 55% 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 September 30, 2021 and December 31, 2020 were insignificant. Our opening and closing balances of deferred revenue were as follows:

| (in thousands) | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Total deferred revenue | $ 333,954 | $ 316,914 |

The increase in deferred revenue during the nine months ended September 30, 2021 was primarily due to a seasonal increase in customer contract renewals and, to a lesser extent, early progress in initiatives to bring our pricing in line with the market. 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. The amount of revenue recognized during the nine months ended September 30, 2021 that was included in the deferred revenue balance at the beginning of the period was approximately $270 million. The amount of revenue recognized during the nine months ended September 30, 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:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands) | 2021 | 2020 | 2021 | 2020 |
| United States | $ 191,580 | $ 182,649 | $ 563,916 | $ 565,912 |
| United Kingdom | 25,351 | 18,309 | 72,142 | 63,668 |
| Other countries | 14,287 | 14,043 | 43,791 | 41,033 |
| Total revenue | $ 231,218 | $ 215,001 | $ 679,849 | $ 670,613 |

Beginning in the second quarter of 2021, we combined our General Markets Group ("GMG") and Enterprise Markets Group ("EMG") into a single U.S. Markets Group ("UMG") and moved our Corporations vertical under our International Markets Group ("IMG"). This change was made to better align our resources toward customer retention and growth, which are key objectives as we progress toward our long-term aspirational goals.

The UMG and the IMG comprised our go-to-market organizations as of September 30, 2021. The following is a description of each market group as of that date:

- The UMG focuses on sales primarily to all prospects and customers inside of the U.S.; and
- The IMG focuses on sales primarily to all prospects and customers outside of the U.S, as well as corporations.

The following table presents our revenue by market group:

| (dollars in thousands) | Three months ended September 30, 2021 | Three months ended September 30, 2020(1) | Nine months ended September 30, 2021 | Nine months ended September 30, 2020(1) |
|---|---|---|---|---|
| UMG | $ 180,570 | $ 164,796 | $ 533,473 | $ 535,340 |
| IMG | 49,220 | 49,168 | 145,017 | 134,996 |
| Other | 1,428 | 1,037 | 1,359 | 277 |
| Total revenue | $ 231,218 | $ 215,001 | $ 679,849 | $ 670,613 |

(1) Due to the market group change discussed above, we have recast our revenue by market group for the three and nine months ended September 30, 2020 to present them on a consistent basis with the current year.

The following table presents our recurring revenue by type:

| (dollars in thousands) | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|
| Contractual recurring | $ 150,581 | $ 147,492 | $ 448,552 | $ 443,450 |
| Transactional recurring | 67,949 | 52,610 | 193,714 | 177,779 |
| Total recurring revenue | $ 218,530 | $ 200,102 | $ 642,266 | $ 621,229 |

## 14. Subsequent Events

### Workforce strategy actions

In October 2021, we made the decision to permanently close our fixed office locations (with the exception of our global headquarters facility in Charleston, South Carolina), effective December 1, 2021. This change was intended to align our real estate footprint with our transition to a remote-first workforce. We may enter into arrangements for smaller more flexible workspaces where necessary. We currently expect to incur between $13.0 million and $14.0 million of pre-tax costs related to these actions during the fourth quarter of 2021. We expect that the costs associated with these actions will be largely noncash impairment charges, primarily for operating lease ROU assets in the office locations we have determined to exit.

# 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 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 somewhat uncertain, although we are seeing signs of recovery in the industry. We believe the COVID-19 pandemic has accelerated the shift to a digital-first world. The percentage of giving done online grew by approximately 40% in 2020 with roughly a quarter of that giving taking place on mobile device. 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.

**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 are now once again actively evaluating 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. Acquisitions are an important element of our strategy going forward.

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. In support of this strategy, during the second quarter of 2021, we merged our EMG and GMG to create one U.S. Market Group to better align our resources toward customer retention and growth. For more information, see Note 13 to our condensed consolidated financial statements in this report.

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 recently released an entirely new experience for Blackbaud Grantmaking which provides the relevant capabilities to users from their Blackbaud fundraising, fund management, and grant making solutions all in one interface. It also delivers purpose-built automation capabilities and maximizes the value of relationships by giving our customers a holistic view of the relationships driving their grant making - highlighting connections between grantees, and the relationships between individuals and the organizations they are funding. Another example is a recent release within Financial Edge NXT where we're transforming the entire accounts receivable experience. This provides a modern experience and new streamlined workflows and controls in areas such as invoice creation, billing and receiving payments, as well as holistic relationship management across vendors, customers, and sponsors.

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

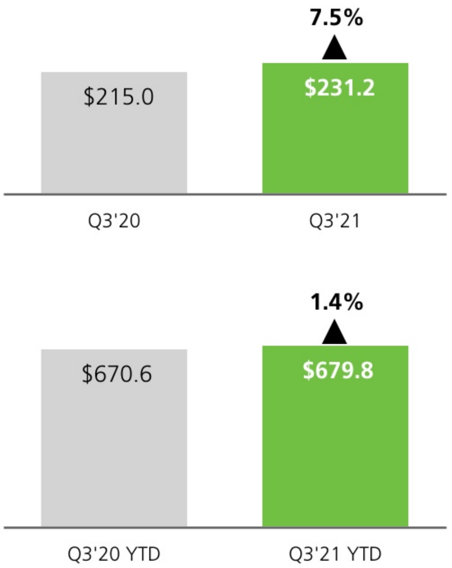
During the first quarter of 2021, we elevated a specific strategy focused on employees, culture and ESG initiatives. This is not new for us. It is something that is in our DNA and is a big advantage as we look to attract and retain top talent. This is evident in our 2020 social responsibility report, which was released in April 2021. We are fully committed to continuing to create a diverse and inclusive environment at all levels of the organization. Early in 2021, we established an ESG Steering Committee with our CEO as the executive sponsor, and our Board of Directors are also involved in this initiative. Building on our culture of innovation, we launched a new ideation initiative called "Imagine Week," inviting employees across the globe to pitch their ideas directly to the executive leadership team. Employees at every level and length of tenure in the company made proposals ranging from fundraising to customer service improvements. These ideas are making their way into our go-forward plans. In addition, we recently decided, effective December 1, 2021, to permanently close our fixed office locations (with the exception of our global headquarters facility in Charleston, South Carolina) to align our real estate footprint with our transition to a remote-first workforce. We may enter into arrangements for smaller more flexible workspaces where necessary.

**Blackbaud, Inc.**
**(Unaudited)**

## Financial Summary

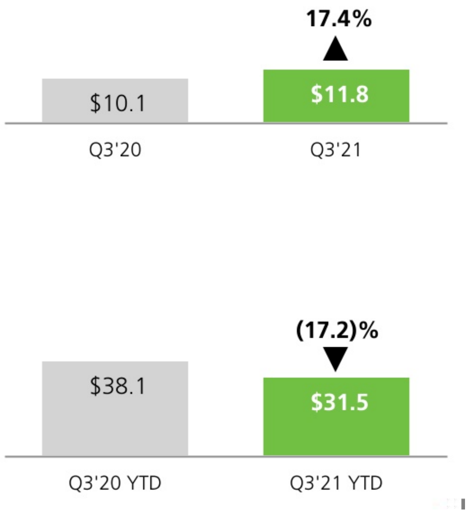
*Total revenue ($M)*

*YoY Growth (%)*




*Income from operations ($M)*

*YoY Growth (%)*




Total revenue increased by $16.2 million and $9.2 million during the three and nine months ended September 30, 2021, respectively, when compared to the same periods in 2020, driven largely by the following:

+ Growth in recurring revenue related to increases in transactional revenue from the continued shift toward virtual fundraising and online charitable giving and, to a lesser extent, early progress in initiatives to bring our pricing in line with the market; also included in the increases in total revenue are increases related to fluctuations in foreign currency exchange rates of $1.9 million and $7.8 million, respectively
- Decreases in one-time consulting revenue due primarily to less implementation and customization services, in line with our multi-year strategic shift from a license-based and one-time services business model to a cloud subscription business model. Our cloud subscription offerings generally require less implementation and customization services.
- Decreases in one-time analytics revenue as analytics are generally integrated in our cloud solutions

For additional information on the impact of foreign currency fluctuations on our financial results, see Foreign Currency Exchange Rates below on page 44.

**Blackbaud, Inc.**
**(Unaudited)**

Income from operations increased by $1.8 million during the three months ended September 30, 2021, when compared to the same period in 2020, driven largely by the following:

+ Increase in total revenue, as described above
+ Decrease in restructuring and other real estate costs of $7.4 million due to our workforce strategy changes made in the third quarter of 2020
+ Decrease in rent expense of $2.3 million 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 the changes to our workforce strategy at that time
- Increase in stock-based compensation expense of $8.1 million primarily due to:
  - Certain changes to our compensation program that are expected to cause stock-based compensation expense to remain higher than historical levels, including
    - 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; and
    - replacement of cash sign-on and retention bonuses with time-based equity awards.
  - Increases in the grant date fair values of our annual equity awards granted to employees; and
  - Overall year-to-date Company performance against 2021 goals.
- Increase in transaction-based costs of $5.5 million related to payment services integrated in our cloud solutions
- Increase in third-party contractor costs of $4.1 million as we continue to migrate our cloud infrastructure to leading public cloud service providers and invest in security
- Increase in compensation costs other than stock-based compensation of $3.9 million primarily due to base salary merit increases in July 2021 and the return of our 401(k)-match program effective January 1, 2021
- Increase in marketing costs of $1.3 million primarily due to incremental spending on advertising campaigns and, to a lesser extent, investments in digital marketing

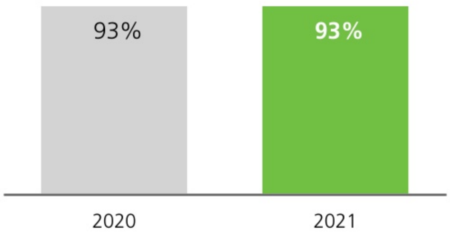
Income from operations decreased by $6.6 million during the nine months ended September 30, 2021, when compared to the same period in 2020, driven largely by the following:

- \- Increase in stock-based compensation expense of $34.9 million, respectively, due to:
    - Certain changes to our compensation program that are expected to cause stock-based compensation expense to remain higher than historical levels, including
        - replacement of our annual cash bonus plans with a short-term performance-based equity award plan
        - 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; and
        - replacement of cash sign-on and retention bonuses with time-based equity awards.
    - Increases in the grant date fair values of our annual equity awards granted to employees; and
    - Overall Company performance against 2020 and year-to-date Company performance against 2021 goals.
- \- Increase in transaction-based costs of $7.1 million related to payment services integrated in our cloud solutions
- \- Increase in marketing costs of $2.7 million primarily due to investments in digital marketing and, to a lesser extent, incremental spending on advertising campaigns
- \- Increases in third-party contractor and hosting costs of $2.5 million and $2.1 million, respectively, as we continue to migrate our cloud infrastructure to leading public cloud service providers and invest in security
- \- Increase in corporate costs of $1.8 million primarily related to increases in third-party consulting fees and insurance costs, partially offset by a decrease in bad debt expense
- \+ Increase in total revenue, as described above
- \+ Decrease in compensation costs other than stock-based compensation of $9.2 million primarily due to a decrease in headcount, partially offset by base salary merit increases in July 2021 and the return of our 401(k)-match program effective January 1, 2021
- \+ Decrease in rent expense of $7.7 million 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 the changes to our workforce strategy at that time
- \+ Decrease in real estate activity costs of $7.4 million due to our workforce strategy changes made in the third quarter of 2020
- \+ Decrease in amortization of intangible assets from business combinations of $3.8 million
- \+ Decrease in travel costs of $3.5 million due to our restriction on non-essential employee travel in response to the COVID-19 pandemic
- \+ Decrease in employee severance of $3.1 million, related to a modest and targeted headcount reduction during the three months ended June 30, 2020, in response to the COVID-19 pandemic

We are continuing to make critical investments in the business in areas such as digital marketing, engineering, security, customer success and our continued shift of cloud infrastructure to leading public cloud service providers. While we are making good progress, some of these investments are likely to push into early 2022, particularly in areas where we are increasing headcount.

**Blackbaud, Inc.**
**(Unaudited)**

*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 September 30, 2021, approximately 93% of our customers with recurring revenue contracts were retained. This customer retention rate is materially unchanged from our rate for the full year ended December 31, 2020.

*Balance sheet and cash flow*

At September 30, 2021, our cash and cash equivalents were $27.6 million and the carrying amount of our debt under the 2020 Credit Facility was $465.9 million. Our net leverage ratio was 1.70 to 1.00.

During the nine months ended September 30, 2021, we generated $169.8 million in cash from operations, had a net decrease in borrowings of $3.0 million, returned $98.4 million to stockholders by way of share repurchases and had aggregate cash outlays of $38.0 million for purchases of property and equipment and capitalized software development costs.

*Security Incident update*

As discussed in Note 9 to our unaudited, condensed consolidated financial statements included in this report, we believe that total costs related to the Security Incident will exceed the limits of our insurance coverage during the fourth quarter of 2021. Accordingly, we expect that the Security Incident could negatively impact our GAAP profitability and cash flow during the fourth quarter of 2021 and will negatively impact our GAAP profitability and cash flow for the foreseeable future. As we are currently unable to estimate the approximate amount or range of any such excess, we are unable to determine the effect the Security Incident will have on our results of operations, cash flows, or financial condition.

*Recent development - workforce strategy actions*

In October 2021, we made the decision to permanently close our fixed office locations (with the exception of our global headquarters facility in Charleston, South Carolina), effective December 1, 2021. This change was intended to align our real estate footprint with our transition to a remote-first workforce. We may enter into arrangements for smaller more flexible workspaces where necessary. We currently expect to incur between $13.0 million and $14.0 million of pre-tax costs related to these actions during the fourth quarter of 2021. We expect that the costs associated with these actions will be largely noncash impairment charges, primarily for operating lease ROU assets in the office locations we have determined to exit. These actions are expected to result in future annual before-tax expense savings of between approximately $3.0 million and $5.0 million beginning in 2022.

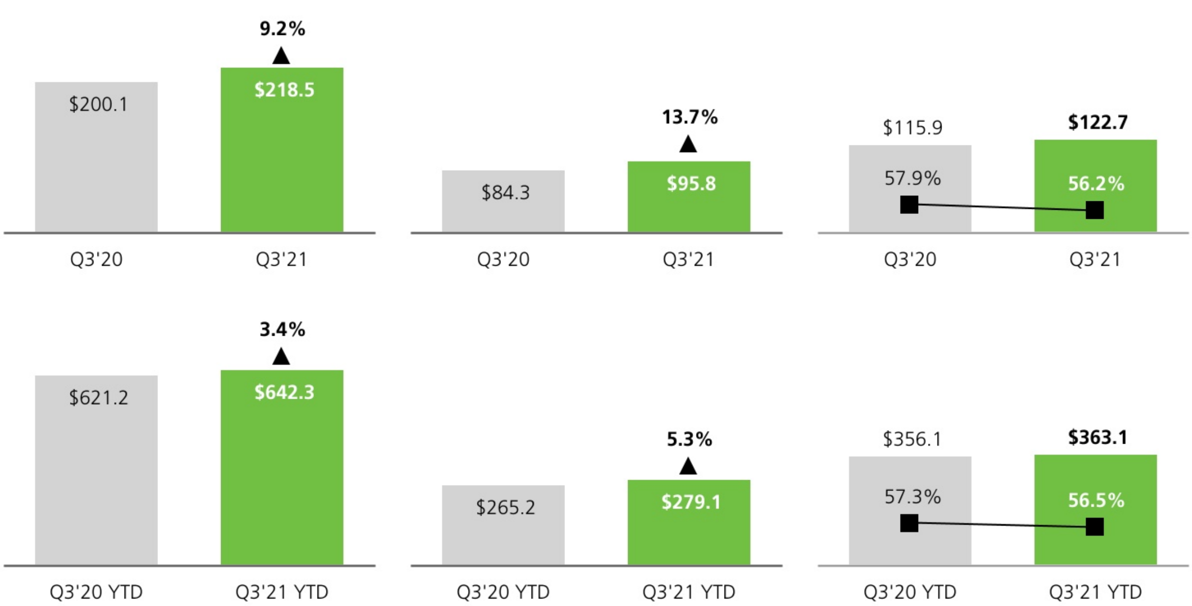
## Results of Operations

### Comparison of the three and nine months ended September 30, 2021 and 2020

### Revenue and Cost of Revenue

*Recurring*

| *Revenue ($M)* | *Cost of revenue ($M)* | *Gross profit ($M) and gross margin (%)* |
|---|---|---|
| *YoY Growth (%)* | *YoY Growth (%)* | |




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 $18.4 million, or 9.2%, and $21.0 million, or 3.4%, during the three and nine months ended September 30, 2021, when compared to the same periods in 2020, driven primarily by the following:

+ Increases in transactional revenue of $15.3 million and $15.9 million, respectively, primarily due to the continued shift toward virtual fundraising and online charitable giving; also included in the increases in transactional revenue are increases related to fluctuations in foreign currency exchange rates of $1.2 million and $4.2 million, respectively
+ Increases in contractual recurring revenue of $3.1 million and $5.1 million, respectively, related to the performance of our cloud solutions, partially offset by a decrease in maintenance revenue as customers migrate to our cloud solutions; also included in the increases in contractual recurring revenue are increases related to fluctuations in foreign currency exchange rates of $0.7 million and $3.6 million, respectively

For additional information on the impact of foreign currency fluctuations on our financial results, see Foreign Currency Exchange Rates below on page 44.

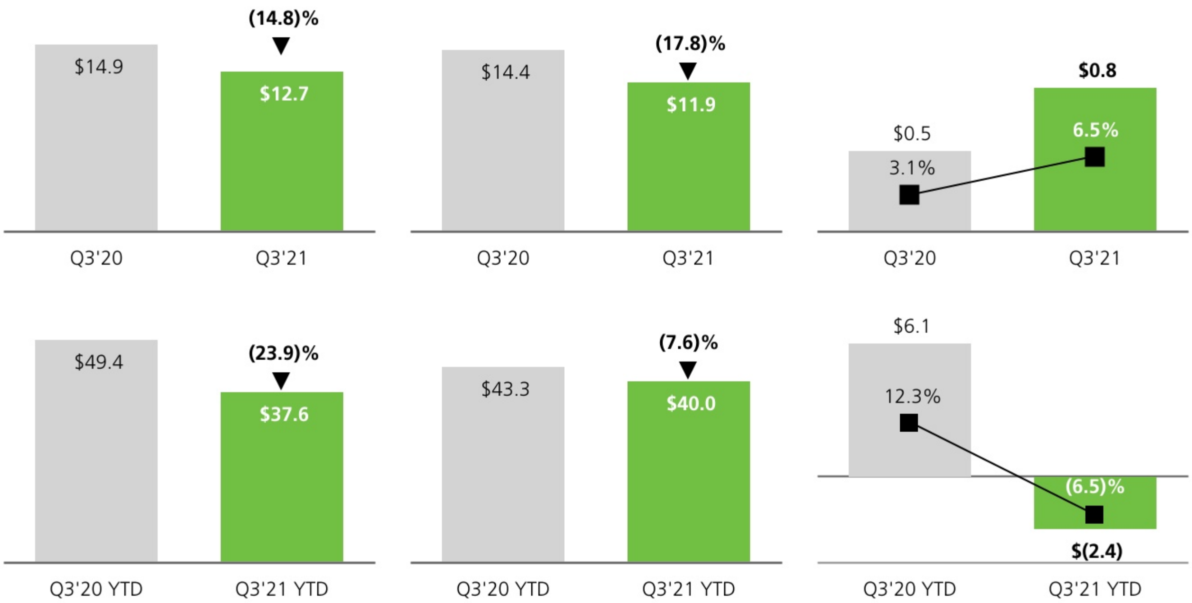
Cost of recurring revenue increased by $11.6 million, or 13.7%, and $14.0 million, or 5.3%, during the three and nine months ended September 30, 2021, respectively, when compared to the same periods in 2020, driven primarily by the following:

+ Increases in transaction-based costs of $5.5 million and $7.2 million, respectively, related to payment services integrated in our cloud solutions
+ Increases in compensation costs of $3.4 million and $7.6 million, respectively, primarily related to stock-based compensation due to the factors discussed above on page 26 and a shift in resources historically supporting one-time services and other towards recurring revenue
+ Increases in third-party contractor and hosting costs of $3.2 million and $4.7 million, respectively, as we continue to migrate our cloud infrastructure to leading public cloud service providers and make investments in security
- Decrease in amortization of intangible assets from business combinations of $2.0 million during the nine months ended September 30, 2021
- Decrease in amortization of software development costs of $1.7 million, during the nine months ended September 30, 2021 due to an impairment charge in Q2 2020 which did not recur in 2021
- Decrease in rent expense of $0.8 million, during the nine months ended September 30, 2021, largely due to a decrease in leased hardware, including servers, network gear and storage

Recurring gross margin decreased by 1.7% and 0.8% for the three and nine months ended September 30, 2021, respectively, when compared to the same periods in 2020, primarily due to the increases in cost of recurring revenue outpacing the increases in recurring revenue.

*One-time services and other*

| *Revenue ($M)* | *Cost of revenue ($M)* | *Gross profit ($M) and gross margin (%)* |
|---|---|---|
| *YoY Growth (%)* | *YoY Growth (%)* | |




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 $2.2 million, or 14.8%, and $11.8 million, or 23.9%, during the three and nine months ended September 30, 2021, respectively, when compared to the same periods in 2020, driven primarily by the following:

- Decreases in one-time consulting revenue of $1.4 million and $8.5 million, respectively, due primarily to less implementation and customization services, in line with our multi-year strategic shift from a license-based and one-time services business model to a cloud subscription business model. Our cloud subscription offerings generally require less implementation and customization services.
- Decreases in one-time analytics revenue of $1.2 million and $3.0 million, respectively, as analytics are generally integrated in our cloud solutions

Cost of one-time services and other decreased by $2.6 million, or 17.8%, during the three months ended September 30, 2021, when compared to the same period in 2020, driven primarily by the following:

- Decrease in amortization of intangible assets from business combinations of $1.1 million
- Decrease in compensation costs of $1.0 million largely due to a decrease in headcount, as well as a shift in resources historically supporting one-time services and other towards recurring revenue

**Blackbaud, Inc.**
**(Unaudited)**

Cost of one-time services and other decreased by $3.3 million, or 7.6%, during the nine months ended September 30, 2021, when compared to the same period in 2020, driven primarily by the following:

- - Decrease in amortization intangible assets from business combinations of $1.3 million
- - Decrease in third-party contractor costs of $1.2 million, primarily due to a decrease in partners delivering services
- - Decrease in compensation costs other than stock-based compensation of $0.7 million largely due to a decrease in headcount, as well as a shift in resources historically supporting one-time services and other towards recurring revenue
- - Decrease in allocated costs of $1.4 million primarily related to a decrease in rent expense, as discussed below in General and Administrative
- + Increase in stock-based compensation costs of $2.1 million due to the factors discussed above on page 23

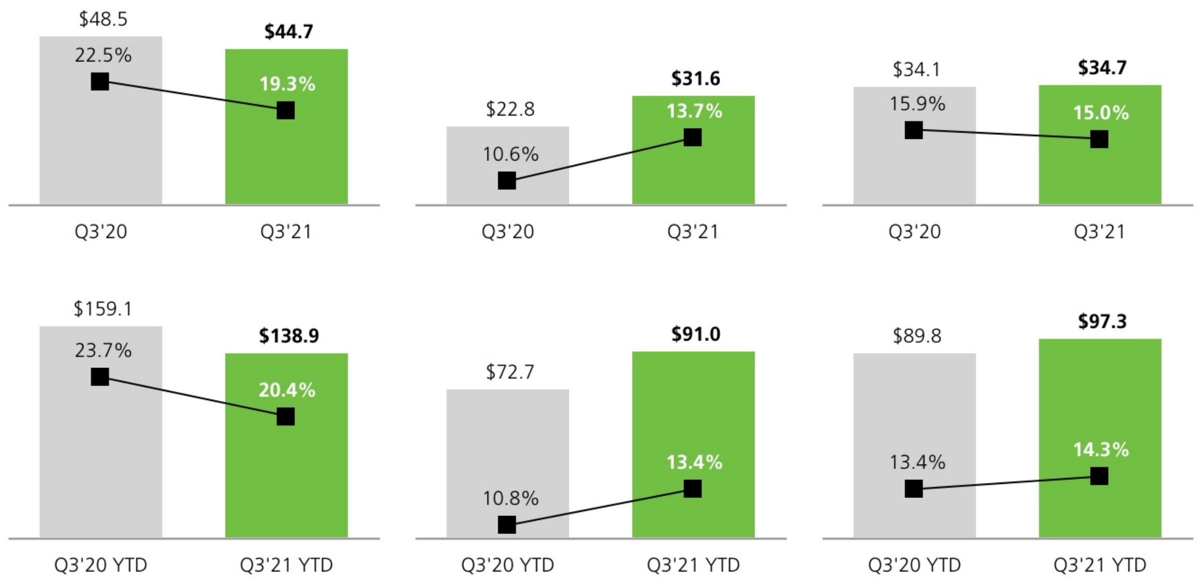
One-time services and other gross margin increased by 3.4% during the three months ended September 30, 2021, when compared to the same period in 2020, primarily due to the decrease in cost of one-time services and other outpacing the decrease in one-time services and other revenue.

One-time services and other gross margin decreased by 18.8% during the nine months ended September 30, 2021, 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.

**Blackbaud, Inc.**
**(Unaudited)**

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 our average customer acquisition cost as well as the related payback period 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 $3.8 million, or 7.8%, and $20.2 million, or 12.7%, during the three and nine months ended September 30, 2021, respectively, when compared to the same periods in 2020, primarily driven by the following:

- Decreases in compensation costs other than stock-based compensation of $3.9 million and $17.9 million, respectively, primarily due to the targeted reduction in sales headcount during the second quarter of 2020, discussed above
- Decreases in allocated costs of $1.5 million and $5.8 million, respectively, 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 $2.0 million, during the nine months ended September 30, 2021, due to our restriction on non-essential employee travel in response to the COVID-19 pandemic, which went into effect during March 2020
- Decrease in commissions expense of $1.4 million, during the nine months ended September 30, 2021, related to a decrease in overall commissionable bookings during 2020 due to the COVID-19 pandemic and a decrease in commissionable one-time services and other bookings during 2021

\+ Increases in advertising costs of $1.3 million and $2.7 million, respectively, primarily due to incremental spending on advertising campaigns and investments in digital marketing

\+ Increases in stock-based compensation costs of $0.9 million and $5.0 million, respectively, due to the factors discussed beginning on page 25

*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 $8.8 million or 38.6%, and $18.3 million or 25.2%, during the three and nine months ended September 30, 2021, respectively, when compared to the same periods in 2020, primarily driven by the following:

\+ Increases in compensation costs of $6.1 million and $14.2 million, respectively, primarily related to stock-based compensation due to the factors discussed above on page 26

\+ Increases in third-party contractor costs of $1.6 million and $2.1 million, respectively, as we continue to migrate our cloud infrastructure to leading public cloud service providers and make investments in security

\+ Decrease in software development costs of $2.5 million, during the nine months ended September 30, 2021, that were required to be capitalized under the internal-use software guidance

Not included in research and development expense for the three months ended September 30, 2021 and 2020 were $9.7 million and $10.2 million, respectively, and for the nine months ended September 30, 2021 and 2020 were $29.2 million and $31.6 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.

General and administrative expense increased by $0.6 million, or 1.8%, and $7.5 million, or 8.3%, during the three and nine months ended September 30, 2021, respectively, when compared to the same periods in 2020, primarily driven by the following:

+ Increases in stock-based compensation costs of $4.6 million and $13.7 million, respectively, due to the factors discussed above on page 25
+ Increases in compensation expense, excluding stock-based compensation costs, of $1.9 million and $1.8 million, respectively, due to base salary merit increases on July 2021, as well as an increase in headcount
+ Increases in corporate costs of $1.6 million and $2.0 million, respectively, primarily related to increases in third-party consulting fees and insurance costs, partially offset by decreases in bad debt expense
- Decreases in real estate activity costs of $6.6 million and $7.4 million, respectively, due to our workforce strategy changes made in the third quarter of 2020
- Decreases in rent expense, net of allocated costs, of $1.0 million and $1.9 million, respectively, 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 changes to our workforce strategy at that time
- Decrease in third-party contractor costs of $1.1 million during the nine months ended September 30, 2021

**Interest Expense**

*Interest expense ($M)*

*Percentages indicate expenses as a percentage of total revenue*


Interest expense in dollars and as a percentage of total revenue during the three months ended September 30, 2021 was relatively in line with the same period in 2020.

The increase in interest expense in dollars and as a percentage of total revenue during the nine months ended September 30, 2021, when compared to the same periods 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 | September 30, 2021 | December 31, 2020 | Change |
|---|---|---|---|---|
| Recurring | Over the period billed in advance, generally one year | $ 314.5 | $ 303.8 | 3.5 % |
| One-time services and other | As services are delivered | 19.5 | 13.1 | 49.0 % |
| Total deferred revenue[(1)] | | 334.0 | 316.9 | 5.4 % |
| Less: Long-term portion | | 4.5 | 4.7 | (3.2)% |
| Current portion[(1)] | | $ 329.4 | $ 312.2 | 5.5 % |

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

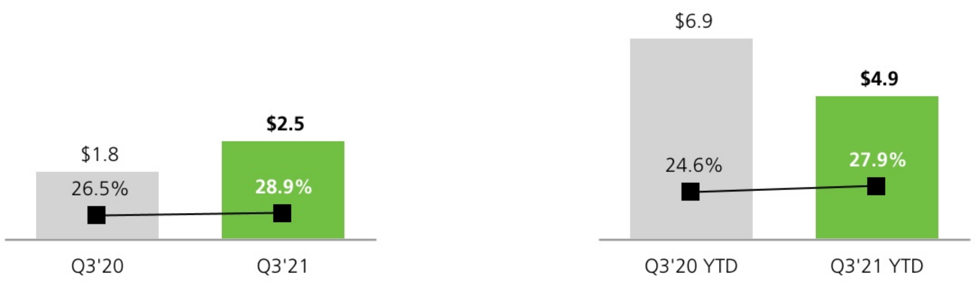
To the extent that our customers are billed for our solutions and services in advance of delivery, we record such amounts in deferred revenue. Our recurring revenue contracts are generally for a term of three years at contract inception, billed annually in advance, and non-cancelable. We have been for 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 increased during the nine months ended September 30, 2021, primarily due a seasonal increase in customer contract renewals and, to a lesser extent, early progress in initiatives to bring our pricing in line with the market. 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. Deferred revenue from one-time services and other increased during the nine months ended September 30, 2021, primarily due to a seasonal increase in one-time service billings during the second and third quarters.

### Income Taxes

*Income tax provision ($M)*

*Percentages indicate effective income tax rates*




The increase in our effective income tax rate for the three months ended September 30, 2021, when compared to the same period in 2020, was primarily attributable to higher 2021 non-deductible stock-based compensation and reduced state tax credits. Furthermore, the 2020 effective tax rate was positively impacted by a favorable return to provision adjustment offset against tax expense attributable to a corporate income tax rate increase enacted during the period.

The increase in our effective income tax rate for the nine months ended September 30, 2021 when compared to the same period in 2020, was primarily attributable to the impact of non-deductible expenses 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.

## Blackbaud, Inc.
## (Unaudited)

| (dollars in millions, except per share amounts) | Three months ended September 30, 2021 | 2020 | Change | Nine months ended September 30, 2021 | 2020 | Change |
|---|---|---|---|---|---|---|
| **GAAP Revenue** | $ 231.2 | $ 215.0 | 7.5 % | $ 679.8 | $ 670.6 | 1.4 % |
| **GAAP gross profit** | $ 123.5 | $ 116.3 | 6.2 % | $ 360.7 | $ 362.1 | (0.4)% |
| **GAAP gross margin** | 53.4 % | 54.1 % | | 53.1 % | 54.0 % | |
| **Non-GAAP adjustments:** | | | | | | |
| Add: Stock-based compensation expense | 4.3 | 3.7 | 15.6 % | 14.9 | 7.1 | 108.6 % |
| Add: Amortization of intangibles from business combinations | 8.6 | 9.2 | (6.8)% | 26.6 | 29.8 | (10.8)% |
| Add: Employee severance | — | — | 100.0 % | — | 0.8 | (96.4)% |
| Subtotal[1] | 12.9 | 12.9 | (0.3)% | 41.5 | 37.8 | 9.8 % |
| **Non-GAAP gross profit[1]** | $ 136.4 | $ 129.2 | 5.6 % | $ 402.2 | $ 399.9 | 0.6 % |
| **Non-GAAP gross margin** | 59.0 % | 60.1 % | | 59.2 % | 59.6 % | |
| **GAAP income from operations** | $ 11.8 | $ 10.1 | 17.4 % | $ 31.5 | $ 38.1 | (17.2)% |
| **GAAP operating margin** | 5.1 % | 4.7 % | | 4.6 % | 5.7 % | |
| **Non-GAAP adjustments:** | | | | | | |
| Add: Stock-based compensation expense | 28.9 | 20.8 | 38.8 % | 89.5 | 54.6 | 64.0 % |
| Add: Amortization of intangibles from business combinations | 9.2 | 10.0 | (8.2)% | 28.3 | 32.1 | (11.8)% |
| Add: Employee severance | 0.1 | 0.2 | (70.7)% | 1.5 | 4.6 | (67.1)% |
| Add: Acquisition-related integration costs | — | — | 13.3 % | (0.1) | (0.1) | (2.5)% |
| Add: Acquisition-related expenses | 0.1 | 0.1 | 4.7 % | 0.2 | 0.3 | (31.9)% |
| Add: Restructuring and other real estate activities | (0.4) | 6.9 | (106.0)% | (0.4) | 7.0 | (105.9)% |
| Add: Security Incident-related costs, net of insurance[2] | 0.9 | — | 100.0 % | 1.3 | — | 100.0 % |
| Subtotal[1] | 38.6 | 38.0 | 1.6 % | 120.3 | 98.4 | 22.2 % |
| **Non-GAAP income from operations[1]** | $ 50.5 | $ 48.1 | 4.9 % | $ 151.8 | $ 136.5 | 11.2 % |
| **Non-GAAP operating margin** | 21.8 % | 22.4 % | | 22.3 % | 20.4 % | |
| **GAAP income before provision for income taxes** | $ 8.7 | $ 6.6 | 31.3 % | $ 17.7 | $ 28.3 | (37.4)% |
| **GAAP net income** | $ 6.2 | $ 4.9 | 26.9 % | $ 12.8 | $ 21.3 | (40.2)% |
| Shares used in computing GAAP diluted earnings per share | 48,274,072 | 48,859,707 | (1.2)% | 48,259,956 | 48,582,068 | (0.7)% |
| **GAAP diluted earnings per share** | $ 0.13 | $ 0.10 | 30.0 % | $ 0.26 | $ 0.44 | (40.9)% |
| **Non-GAAP adjustments:** | | | | | | |
| Add: GAAP income tax provision | 2.5 | 1.8 | 43.3 % | 4.9 | 6.9 | (28.8)% |
| Add: Total non-GAAP adjustments affecting income from operations | 38.6 | 38.0 | 1.6 % | 120.3 | 98.4 | 22.2 % |
| **Non-GAAP income before provision for income taxes** | 47.3 | 44.7 | 6.0 % | 138.0 | 126.7 | 8.9 % |
| Assumed non-GAAP income tax provision[3] | 9.5 | 8.9 | 6.0 % | 27.6 | 25.3 | 8.9 % |
| **Non-GAAP net income[1]** | $ 37.9 | $ 35.7 | 6.0 % | $ 110.4 | $ 101.3 | 8.9 % |
| Shares used in computing non-GAAP diluted earnings per share | 48,274,072 | 48,859,707 | (1.2)% | 48,259,956 | 48,582,068 | (0.7)% |
| **Non-GAAP diluted earnings per share** | $ 0.78 | $ 0.73 | 6.8 % | $ 2.29 | $ 2.09 | 9.6 % |

(1) The individual amounts for each year may not sum to non-GAAP gross profit, subtotal, non-GAAP income from operations or non-GAAP net income due to rounding.
(2) Includes Security Incident-related costs incurred during the three and nine months ended September 30, 2021 of $11.4 million and $35.9 million, respectively, net of probable insurance recoveries during the same periods of $10.6 million and $34.5 million, respectively. Recorded expenses consisted primarily of payments to third-party service providers and consultants, including legal fees, as well as settlements of customer claims. Not included in this adjustment were costs associated with enhancements to our cybersecurity program.
(3) 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 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.

| (dollars in millions) | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|
| GAAP revenue | $ 231.2 | $ 215.0 | $ 679.8 | $ 670.6 |
| **GAAP revenue growth** | **7.5 %** | | **1.4 %** | |
| Add: Non-GAAP acquisition-related revenue[1] | — | — | — | — |
| Non-GAAP organic revenue[2] | $ 231.2 | $ 215.0 | $ 679.8 | $ 670.6 |
| **Non-GAAP organic revenue growth** | **7.5 %** | | **1.4 %** | |
| | | | | |
| Non-GAAP organic revenue[2] | $ 231.2 | $ 215.0 | $ 679.8 | $ 670.6 |
| Foreign currency impact on Non-GAAP organic revenue[3] | (2.0) | — | (8.4) | — |
| Non-GAAP organic revenue on constant currency basis[3] | $ 229.2 | $ 215.0 | $ 671.5 | $ 670.6 |
| **Non-GAAP organic revenue growth on constant currency basis** | **6.6 %** | | **0.1 %** | |
| | | | | |
| GAAP recurring revenue | $ 218.5 | $ 200.1 | $ 642.3 | $ 621.2 |
| **GAAP recurring revenue growth** | **9.2 %** | | **3.4 %** | |
| Add: Non-GAAP acquisition-related revenue[1] | — | — | — | — |
| Non-GAAP organic recurring revenue | $ 218.5 | $ 200.1 | $ 642.3 | $ 621.2 |
| **Non-GAAP organic recurring revenue growth** | **9.2 %** | | **3.4 %** | |

(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.

**Blackbaud, Inc.**
**(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; restructuring and other real estate activities; and Security Incident-related costs, net of insurance.

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| (dollars in millions) | 2021 | 2020 | Change | 2021 | 2020 | Change |
| GAAP net income | $ 6.2 | $ 4.9 | 26.9 % | $ 12.8 | $ 21.3 | (40.2)% |
| Non-GAAP adjustments: | | | | | | |
| Add: Interest, net | 3.9 | 3.2 | 21.4 % | 13.9 | 10.7 | 30.1 % |
| Add: GAAP income tax provision | 2.5 | 1.8 | 43.3 % | 4.9 | 6.9 | (28.8)% |
| Add: Depreciation | 3.1 | 3.7 | (15.8)% | 9.5 | 10.9 | (12.6)% |
| Add: Amortization of intangibles from business combinations | 9.2 | 10.0 | (8.2)% | 28.3 | 32.1 | (11.8)% |
| Add: Amortization of software development costs(1) | 8.0 | 7.8 | 2.5 % | 24.1 | 24.8 | (3.1)% |
| Subtotal(2) | 26.7 | 26.5 | 0.9 % | 80.6 | 85.3 | (5.5)% |
| Non-GAAP EBITDA(2) | $ 32.9 | $ 31.3 | 5.0 % | $ 93.4 | $ 106.7 | (12.5)% |
| Non-GAAP EBITDA margin | 14.2 % | | | 13.7 % | | |
| | | | | | | |
| Non-GAAP adjustments: | | | | | | |
| Add: Stock-based compensation expense | 28.9 | 20.8 | 38.8 % | 89.5 | 54.6 | 64.0 % |
| Add: Employee severance | 0.1 | 0.2 | (70.7)% | 1.5 | 4.6 | (67.1)% |
| Add: Acquisition-related integration costs | — | — | 13.3 % | (0.1) | (0.1) | (2.5)% |
| Add: Acquisition-related expenses | 0.1 | 0.1 | 4.7 % | 0.2 | 0.3 | (31.9)% |
| Add: Restructuring and other real estate activities | (0.4) | 6.9 | (106.0)% | (0.4) | 7.0 | (105.9)% |
| Add: Security Incident-related costs, net of insurance(3) | 0.9 | — | 100.0 % | 1.3 | — | 100.0 % |
| Subtotal(2) | 29.5 | 28.1 | 5.0 % | 92.0 | 66.3 | 38.7 % |
| Non-GAAP Adjusted EBITDA(2) | $ 62.4 | $ 59.4 | 5.0 % | $ 185.4 | $ 173.0 | 7.1 % |
| **Non-GAAP Adjusted EBITDA margin** | **27.0 %** | | | **27.3 %** | | |
| | | | | | | |
| **Rule of 40(4)** | **34.5 %** | | | **28.7 %** | | |

(1) Includes amortization expense related to software development costs and amortization expense from capitalized cloud computing implementation costs.
(2) The individual amounts for each year may not sum to subtotal, non-GAAP EBITDA or non-GAAP adjusted EBITDA due to rounding.
(3) Includes Security Incident-related costs incurred, net of probable insurance recoveries. See additional details in the reconciliation of GAAP to Non-GAAP operating income above.
(4) Measured by non-GAAP organic revenue growth plus non-GAAP adjusted EBITDA margin. See Non-GAAP organic revenue growth table above.

*Non-GAAP free cash flow*

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.

| | Nine months ended September 30, | | |
|---|---|---|---|
| (dollars in millions) | 2021 | 2020 | Change |
| **GAAP net cash provided by operating activities** | $ 169.8 | $ 109.2 | 55.5 % |
| Less: purchase of property and equipment | (8.3) | (25.8) | (67.8)% |
| Less: capitalized software development costs | (29.7) | (32.0) | (7.4)% |
| **Non-GAAP free cash flow** | $ 131.8 | $ 51.3 | 156.9 % |

### 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 returned 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, however, we experienced an increase in the amount taxes we paid 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 vested. 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) | September 30, 2021 | December 31, 2020 | Change |
|---|---|---|---|
| Cash and cash equivalents | $ 27.6 | $ 35.8 | (22.8)% |
| Property and equipment, net | 103.3 | 105.2 | (1.7)% |
| Software development costs, net | 118.9 | 111.8 | 6.3 % |
| Total carrying value of debt | 527.4 | 531.0 | (0.7)% |
| Working capital | (202.1) | (194.3) | (4.0)% |

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

| | Nine months ended September 30, | | |
|---|---|---|---|
| (dollars in millions) | 2021 | 2020 | Change |
| Net cash provided by operating activities | $ 169.8 | $ 109.2 | 55.5 % |
| Net cash used in investing activities | (38.0) | (57.9) | (34.3)% |
| Net cash used in financing activities | (533.1) | (393.8) | 35.4 % |

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 or, investments or incur unusually high capital or operating 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 September 30, 2021, our total cash and cash equivalents balance included approximately $15.4 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 $60.6 million during the nine months ended September 30, 2021, when compared to the same period in 2020, primarily due to a $48.3 million increase in cash flow from operations associated with working capital and an $12.4 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 nine months ended September 30, 2021, when compared to the same period in 2020, was primarily due to:

- fluctuations in the timing of vendor payments; and
- 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).

Security Incident update

As discussed in Note 9 to our unaudited, condensed consolidated financial statements included in this report, we believe that total costs related to the Security Incident will exceed the limits of our insurance coverage during the fourth quarter of 2021. Accordingly, we expect that the Security Incident could negatively impact our GAAP profitability and cash flow during the fourth quarter of 2021 and will negatively impact our GAAP profitability and cash flow for the foreseeable future. As we are currently unable to estimate the approximate amount or range of any such excess, we are unable to determine the effect the Security Incident will have on our results of operations, cash flows, or financial condition.

**Investing Cash Flow**

Net cash used in investing activities of $38.0 million decreased by $19.9 million during the nine months ended September 30, 2021, when compared to the same period in 2020.

During the nine months ended September 30, 2021, we used $29.7 million for software development costs, which was down $2.4 million from cash spent during the same period in 2020, primarily due to less costs qualifying for capitalization under the internal-use software accounting guidance. 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 $8.3 million of cash for purchases of property and equipment during the nine months ended September 30, 2021, which was an decrease of $17.5 million when compared to the same period in 2020. The additional cash expended during the nine months ended 2020 was primarily used to purchase our global headquarters facility.

### Financing Cash Flow

During the nine months ended September 30, 2021, we had a net decrease in borrowings of $3.0 million.

We paid $39.0 million to satisfy tax obligations of employees upon settlement of equity awards during the nine months ended September 30, 2021 compared to $21.3 million during the same period in 2020. The amount of taxes paid by us on 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. Most of our equity awards currently vest in our first quarter. During the nine months ended September 30, 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 $49.2 million during the nine months ended September 30, 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 and nine months ended September 30, 2021, we purchased 583,280 and 1,454,148 shares for $40.3 million and $98.4 million, respectively. The remaining amount available to purchase stock under the stock repurchase program was $110.6 million as of September 30, 2021.

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 September 30, 2021, our available borrowing capacity under the 2020 Credit Facility was $424.6 million. The 2020 Credit Facility matures in October 2025.

At September 30, 2021, the carrying amount of our debt under the 2020 Credit Facility was $465.9 million. Our average daily borrowings during the three and nine months ended September 30, 2021 were $471.0 million and $485.3 million, respectively.

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

| Financial covenant | Requirement | Ratio as of September 30, 2021 |
|---|---|---|
| Net leverage ratio | ≤ 4.00 to 1.00 | 1.70 to 1.00 |
| Interest coverage ratio | ≥ 2.50 to 1.00 | 16.32 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 September 30, 2021, we were in compliance with our debt covenants under the 2020 Credit Facility.

### Commitments and Contingencies

As of September 30, 2021, we had contractual obligations with future minimum commitments as follows:

| | | | | | Payments due by period |
|---|---|---|---|---|---|
| (in millions) | Total[1] | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| **Recorded contractual obligations:** | | | | | |
| Debt[2] | $ 529.5 | $ 12.9 | $ 23.5 | $ 441.2 | $ 51.9 |
| Interest payments on debt[3] | 1.6 | 1.4 | 0.2 | — | — |
| Operating leases[4] | 22.6 | 8.0 | 9.6 | 3.0 | 2.0 |
| | | | | | |
| **Unrecorded contractual obligations:** | | | | | |
| Interest payments on debt[5] | 71.6 | 11.3 | 24.8 | 13.9 | 21.5 |
| Purchase obligations[6] | 39.7 | 27.5 | 12.2 | — | — |
| **Total contractual obligations** | $ 664.9 | $ 61.2 | $ 70.2 | $ 458.0 | $ 75.5 |

(1) The individual amounts for each period may not sum to total due to rounding.
(2) 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 September 30, 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.
(3) Represents interest payment obligations related to our interest rate swap agreements.
(4) Our commitments related to operating leases have not been reduced by sublease income, incentive payments and reimbursement of leasehold improvements.
(5) 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 (2) above.
(6) 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 September 30, 2021 and December 31, 2020, was $4.9 million and $4.6 million, respectively. Our accrued interest and penalties related to tax positions taken on our tax returns was $1.2 million and $1.1 million as of September 30, 2021 and December 31, 2020, respectively. In the fourth quarter of 2021, we entered into settlement discussions with the IRS Appeals Office in relation to one of our uncertain tax positions, which is not material to the financial statements. Successful settlement is expected to result in release of corresponding liability for uncertain tax positions within next twelve months.

Security Incident

As discussed in Note 9 to our unaudited, condensed consolidated financial statements included in this report, we believe that total losses related to the Security Incident will exceed the limits of our insurance coverage during the fourth quarter of 2021. As we are currently unable to determine the approximate amount or range of any such excess, we are unable to determine the effect the Security Incident will have on our results of operations, liquidity, or financial condition.

## Off-Balance Sheet Arrangements

As of September 30, 2021, we did not have any off-balance sheet arrangements as previously defined by 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 17% of our total revenue for the nine months ended September 30, 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 $1.7 million as of September 30, 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 nine months ended September 30, 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 nine months ended September 30, 2021, the fluctuation in foreign currency exchange rates increased our total revenue and our income from operations by $8.4 million and $3.2 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 nine months ended September 30, 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 all tenors of LIBOR by June 2023. 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 September 30, 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 September 30, 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 September 30, 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 260 specific requests for reimbursement of expenses ("Customer Reimbursement Requests") and approximately 400 reservations of the right to seek expense recovery in the future 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) and are in the process of assessing what liability may exist pursuant to such claims. Of the Customer Reimbursement Requests received to date, approximately 170 have been fully resolved and closed. In addition, insurance companies representing various customers’ interests through subrogation claims have contacted us. Customer and insurer subrogation claims generally seek reimbursement of their 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. Our review of customer and subrogation claims generally seek reimbursement of their 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. In addition, presently, we are a defendant in 19 putative consumer class action cases [17 in U.S. federal courts (which have been consolidated under multi district litigation to a single federal 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 48 state Attorneys General and the District of Columbia and separate Civil Investigative Demands from the offices of the Illinois Attorney General and the California Attorney General 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, the Office of the Privacy Commissioner of Canada, the Spanish Data Protection Authority and the Data Protection Commission of Ireland. (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. In the three and nine months ended September 30, 2021, we recorded $11.4 million and $35.9 million, respectively, of expenses related to the Security Incident and offsetting probable insurance recoveries of $10.6 million and $34.5 million, respectively. As of September 30, 2021, we have recorded cumulative expenses related to the Security Incident of $45.7 million and cumulative probable insurance recoveries of $43.9 million. Although we carry insurance designed to protect us against certain losses related to cybersecurity events, we believe that insurance coverage will not be sufficient to cover all expenses or other losses (including fines) or all types of claims that may arise in connection with the Security Incident, and may not be sufficient for possible future cyberattacks, security compromises and other related incidents. Furthermore, in the future such insurance may not be available on commercially reasonable terms, or at all. (See Note 9 to our unaudited, condensed consolidated financial statements included in this report.)

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 September 30, 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, July 1, 2021 | | | | $ 150,925 |
| July 1, 2021 through July 31, 2021 | — | $ — | — | 150,925 |
| August 1, 2021 through August 31, 2021 | 4,313 | 69.40 | — | 150,925 |
| September 1, 2021 through September 30, 2021 | 583,280 | 69.06 | 583,280 | 110,646 |
| **Total** | 587,593 | $ 69.06 | 583,280 | $ 110,646 |

(1) Includes 4,313 shares in August 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.

# ITEM 6. EXHIBITS

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

| Exhibit Number | Description of Document | Filed Herewith | Form | Exhibit Number | Filing Date |
|---|---|---|---|---|---|
| | | Filed In | | | |
| 10.01 | LIBOR Transition Amendment, dated as of September 20, 2021, between Blackbaud, Inc. and Bank of America, N.A. | X | | | |
| 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: | November 4, 2021 | By: | /s/ Michael P. Gianoni |
| | | | Michael P. Gianoni<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| Date: | November 4, 2021 | By: | /s/ Anthony W. Boor |
| | | | Anthony W. Boor<br>Executive Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) |

LIBOR TRANSITION AMENDMENT

THIS LIBOR TRANSITION AMENDMENT (this "Agreement"), dated as of September 20, 2021 (the "Amendment Effective Date"), is entered into between BLACKBAUD, INC., a Delaware corporation (the "Borrower"), and Bank of America, N.A., as administrative agent (the "Administrative Agent").

RECITALS

WHEREAS, the Borrower, the lenders from time to time party thereto (the "Lenders"), and the Administrative Agent have entered into that certain Amended and Restated Credit Agreement, dated as of October 30, 2020 (as amended, restated, amended and restated, modified, extended, restated, replaced, or supplemented from time to time, the "Credit Agreement");

WHEREAS, certain loans and/or other extensions of credit (the "Loans") under the Credit Agreement denominated in Sterling (the "Impacted Currency") accrue or are permitted to accrue interest, fees, commissions or other amounts based on the London Interbank Offered Rate as administered by the ICE Benchmark Administration ("LIBOR") in accordance with the terms of the Credit Agreement; and

WHEREAS, applicable parties under the Credit Agreement have determined in accordance with the Credit Agreement that LIBOR for the Impacted Currency should be replaced with a successor rate in accordance with Section 4.8(c) of the Credit Agreement and, in connection therewith, the Administrative Agent has determined that certain conforming changes are necessary or advisable.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Capitalized terms used herein but not otherwise defined herein (including on any Appendix attached hereto) shall have the meanings provided to such terms in the Credit Agreement, as amended by this Agreement.

2. Agreement. Notwithstanding any provision of the Credit Agreement or any other Loan Document to the contrary, the parties hereto hereby agree that the terms set forth on Appendix A shall apply solely with respect to the Impacted Currency. For the avoidance of doubt, to the extent provisions in the Credit Agreement apply to the Impacted Currency and such provisions are not specifically addressed by Appendix A, the provisions in the Credit Agreement shall continue to apply to the Impacted Currency.

3. Conflict with Loan Documents. In the event of any conflict between the terms of this Agreement and the terms of the Credit Agreement or the other Loan Documents, the terms hereof shall control.

4. Conditions Precedent. This Agreement shall become effective on the fifth (5th) Business Day after receipt by the Administrative Agent of counterparts of this Agreement, properly executed by the Borrower and the Administrative Agent but only to the extent that Lenders comprising the Required Lenders have not by 5:00 p.m. New York time on such date provided written notice to the Administrative Agent that such Required Lenders object to this Agreement.

5. Payment of Expenses. The Borrower agrees to reimburse the Administrative Agent for all reasonable fees, charges and disbursements of the Administrative Agent in connection with the

preparation, execution and delivery of this Agreement, including all reasonable fees, charges and disbursements of counsel to the Administrative Agent (paid directly to such counsel if requested by the Administrative Agent).

6. Miscellaneous.

(a) The Loan Documents, and the obligations of the Borrower under the Loan Documents, are hereby ratified and confirmed and shall remain in full force and effect according to their terms. This Agreement is a Loan Document.

(b) The Borrower (i) acknowledges and consents to all of the terms and conditions of this Agreement, (ii) affirms all of its obligations under the Loan Documents, (iii) agrees that this Agreement and all documents executed in connection herewith do not operate to reduce or discharge its obligations under the Loan Documents, (iv) agrees that the Security Documents continue to be in full force and effect and are not impaired or adversely affected in any manner whatsoever, (v) confirms its grant of security interests pursuant to the Security Documents to which it is a party as Collateral for the Obligations, and (vi) acknowledges that all Liens granted (or purported to be granted) pursuant to the Security Documents remain and continue in full force and effect in respect of, and to secure, the Obligations.

(c) The Borrower represents and warrants that as of the date hereof:

(i) The execution, delivery and performance by such Person of this Agreement is within such Person's organizational powers and has been duly authorized by all necessary organizational, partnership, member or other action, as applicable, as may be necessary or required.

(ii) This Agreement has been duly executed and delivered by such Person, and constitutes a valid and binding obligation of such Person, enforceable against it in accordance with the terms hereof, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, or similar state or federal debtor relief laws affecting the enforcement of creditors' rights generally and by general principles of equity.

(iii) The execution and delivery by such Person of this Agreement and performance by such Person of this Agreement have been duly authorized by all necessary corporate or other organizational action, and do not and will not (i) contravene the terms of its certificate or articles of incorporation or organization or other applicable constitutive documents, (ii) conflict with or result in any breach or contravention of, or the creation of any lien under, or require any payment to be made under (x) any contractual obligation to which such Person is a party or affecting such Person or the properties of such Person or any subsidiary thereof or (y) any order, injunction, writ or decree of any governmental authority or any arbitral award to which such Person or any subsidiary thereof or its property is subject or (c) violate any law.

(iv) Immediately before and immediately after giving effect to this Agreement, (A) all representations and warranties of such Person set forth in the Loan Documents are true and correct in all material respects (and in all respects if any such representation or warranty is already qualified by materiality (after giving effect to such materiality qualification)) on and as of the Amendment Effective Date (except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct in all material respects (and in all respects if any such representation or warranty is already qualified by materiality (after giving effect to such materiality qualification)) as of such earlier date), and (B) no Event of Default exists.

(d) This Agreement may be in the form of an electronic record (in ".pdf" form or otherwise) and may be executed using electronic signatures, which shall be considered as originals and shall have the same legal effect, validity and enforceability as a paper record. This Agreement may be executed in as many counterparts as necessary or convenient, including both paper and electronic counterparts, but all such counterparts shall be one and the same Agreement. For the avoidance of doubt, the authorization under this paragraph may include, without limitation, use or acceptance by the Administrative Agent of a manually signed Agreement which has been converted into electronic form (such as scanned into ".pdf" format), or an electronically signed Agreement converted into another format, for transmission, delivery and/or retention.

(e) Any provision of this Agreement held to be illegal, invalid or unenforceable in any jurisdiction, shall, as to such jurisdiction, be ineffective to the extent of such illegality, invalidity or unenforceability without affecting the legality, validity or enforceability of the remaining provisions hereof and the illegality, invalidity or unenforceability of a particular provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

(f) The terms of the Credit Agreement with respect to governing law, submission to jurisdiction, waiver of venue and waiver of jury trial are incorporated herein by reference, *mutatis mutandis*, and the parties hereto agree to such terms.

[remainder of page intentionally left blank]

Each of the parties hereto has caused a counterpart of this Agreement to be duly executed and delivered as of the date first above written.

BORROWER:

**BLACKBAUD, INC.**, as a Borrower

By: /s/ Thomas E. Griffin
Name: Thomas E. Griffin
Title: VP Finance, Treasury

ADMINISTRATIVE AGENT:

**BANK OF AMERICA, N.A.**,
as Administrative Agent

By: /s/ Liliana Claar
Name: Liliana Claar
Title: Vice President

## Appendix A

TERMS APPLICABLE TO ALTERNATIVE CURRENCY LOANS

1. Defined Terms. The following terms shall have the meanings set forth below:

"Alternative Currency" means Sterling.

"Alternative Currency Daily Rate" means, for any day, with respect to any extension of credit under the Credit Agreement denominated in Sterling, the rate per annum equal to SONIA determined pursuant to the definition thereof plus the SONIA Adjustment; provided, that, if any Alternative Currency Daily Rate shall be less than zero, such rate shall be deemed zero for purposes of this Agreement. Any change in an Alternative Currency Daily Rate shall be effective from and including the date of such change without further notice.

"Alternative Currency Daily Rate Loan" means a Loan that bears interest at a rate based on the definition of "Alternative Currency Daily Rate." All Alternative Currency Daily Rate Loans must be denominated in an Alternative Currency.

"Alternative Currency Loan" means an Alternative Currency Daily Rate Loan.

"Applicable Rate" means the Applicable Rate, Applicable Margin or any similar or analogous definition in the Credit Agreement.

"Borrowing" means a Committed Borrowing, Borrowing, or any similar or analogous definition in the Credit Agreement.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the laws of, or are in fact closed in, the state where the Administrative Agent's Office is located; provided that

(a) if such day relates to any interest rate settings as to an Alternative Currency Loan denominated in Sterling, means a day other than a day banks are closed for general business in London because such day is a Saturday, Sunday or a legal holiday under the laws of the United Kingdom; and

(b) if such day relates to any fundings, disbursements, settlements and payments in a currency other than euro in respect of an Alternative Currency Loan denominated in a currency other than euro, or any other dealings in any currency other than Euro to be carried out pursuant to this Agreement in respect of any such Alternative Currency Loan (other than any interest rate settings), means any such day on which banks are open for foreign exchange business in the principal financial center of the country of such currency.

"Committed Loan Notice" means a Committed Loan Notice, Loan Notice, Borrowing Notice, Continuation/Conversion Notice, or any similar or analogous definition in the Credit Agreement, and such term shall be deemed to include the Committed Loan Notice attached hereto as Exhibit A.

"Conforming Changes" means, with respect to the use, administration of or any conventions associated with SONIA or any proposed Successor Rate for any currency, any conforming changes to the definitions of "SONIA", "Interest Period", timing and frequency of determining rates and making payments of interest and other technical, administrative or operational matters (including, for the avoidance of doubt, the definition of "Business Day", timing of borrowing requests or prepayment, conversion or continuation notices and length of lookback periods) as may be appropriate, in the discretion of the Administrative Agent, to reflect the adoption and implementation of such applicable rate(s) and to permit the administration thereof by the Administrative Agent in a manner substantially consistent with market practice for such currency (or, if the Administrative Agent determines that adoption of any portion of such market practice is not administratively feasible or that no market practice for the administration of such rate for such currency exists, in such other manner of administration as the Administrative Agent determines is reasonably necessary in connection with the administration of this Agreement and any other Loan Document).

"Interest Payment Date" means, as to any Alternative Currency Daily Rate Loan, the last Business Day of each month and the applicable maturity date set forth in the Credit Agreement.

"Revaluation Date" means, with respect to any Loan, each of the following: (a) each date of a Borrowing of an Alternative Currency Loan, (b) with respect to an Alternative Currency Daily Rate Loan, each Interest Payment Date, and (c) such additional dates as the Administrative Agent shall determine or the Required Lenders shall require.

"SONIA" means, with respect to any applicable determination date, the Sterling Overnight Index Average Reference Rate published on the fifth Business Day preceding such date on the applicable Reuters screen page (or such other commercially available source providing such quotations as may be designated by the Administrative Agent from time to time); provided however that if such determination date is not a Business Day, SONIA means such rate that applied on the first Business Day immediately prior thereto.

"SONIA Adjustment" means, with respect to SONIA, 0.0326% per annum.

"Type" means, with respect to a Loan, its character as a Base Rate Loan, a Eurocurrency Rate Loan, or an Alternative Currency Daily Rate Loan.

2. Terms Applicable to Alternative Currency Loans. From and after the Amendment Effective Date, the parties hereto agree as follows:

(a) Alternative Currencies. (i) No Alternative Currency shall be considered a currency for which there is a published LIBOR Rate, and (ii) any request for a new Loan denominated in an Alternative Currency, or to continue an existing Loan denominated in an Alternative Currency, shall be deemed to be a request for a new Loan bearing interest at the Alternative Currency Daily Rate; provided, that, to the extent any Loan bearing interest at the Eurocurrency Rate is outstanding on the Amendment Effective Date, such Loan shall continue to bear interest at the Eurocurrency Rate until the end of the current Interest Period or payment period applicable to such Loan unless, in the case of a Loan that bears interest at a daily floating rate, such daily floating rate is no longer representative or being made available, in which case such Loan shall bear interest at the applicable Alternative Currency Daily Rate immediately upon the effectiveness of this Agreement.

(b) References to Eurocurrency Rate and Eurocurrency Rate Loans in the Credit Agreement and Loan Documents.

(i) References to the Eurocurrency Rate and Eurocurrency Rate Loans in provisions of the Credit Agreement and the other Loan Documents that are not specifically addressed herein (other than the definitions of Eurocurrency Rate and Eurocurrency Rate Loan) shall be deemed to include Alternative Currency Daily Rates, and Alternative Currency Loans, as applicable.

(ii) For purposes of any requirement for the Borrower to compensate Lenders for losses in the Credit Agreement resulting from any continuation, conversion, payment or prepayment of any Alternative Currency Loan on a day other than the last day of any Interest Period (as defined in the Credit Agreement), references to the Interest Period (as defined in the Credit Agreement) shall be deemed to include any relevant interest payment date or payment period for an Alternative Currency Loan.

(c) Interest Rates. **The Administrative Agent does not warrant, or accept responsibility, nor shall the Administrative Agent have any liability with respect to the administration, submission or any other matter related to the rates in the definition of "Alternative Currency Daily Rate",** or with respect to any rate (including, for the avoidance of doubt, the selection of such rate and any related spread or other adjustment) that is an alternative or replacement for or successor to any such rate or the effect of any of the foregoing, or of any Conforming Changes.

(d) Revaluation Dates. The Administrative Agent shall determine the Dollar Amount amounts of Borrowings and Loans denominated in Alternative Currencies. Such Dollar Amount shall become effective as of such Revaluation Date and shall be the Dollar Amount of such amounts until the next Revaluation Date to occur.

(e) Borrowings of Alternative Currency Loans. In addition to any other borrowing requirements set forth in the Credit Agreement:

(i) Alternative Currency Loans. Each Borrowing of Alternative Currency Loans shall be made upon the Borrower's irrevocable notice to the Administrative Agent, which may be given by (A) telephone or (B) a Committed Loan Notice; provided that any telephonic notice must be confirmed immediately by delivery to the Administrative Agent of a Committed Loan Notice. Each such Committed Loan Notice must be received by the Administrative Agent not later than 11:00 a.m. (Eastern time) three Business Days (or five Business Days in the case of a Special Notice Currency) prior to the requested date of any Borrowing. Each Borrowing of Alternative Currency Loans shall be in a principal amount of the Dollar Amount of $5,000,000 or a whole multiple of the Dollar Amount of $1,000,000 in excess thereof. Each Committed Loan Notice shall specify (i) whether the Borrower is requesting a Borrowing, (ii) the requested date of the Borrowing, as the case may be (which shall be a Business Day), (iii) the currency and principal amount of Loans to be borrowed or continued, and (iv) the Type of Loans to be borrowed. If the Borrower fails to specify a currency in a Loan Notice requesting a Borrowing, then the Loans so requested shall be made in Dollars. If the Borrower fails to specify a Type of Loan in a Committed Loan Notice, then the applicable Loans shall be made as Base Rate Loans denominated in Dollars. Except as otherwise specified in the Credit Agreement, no Alternative Currency Loan may be converted into or continued as a Loan denominated in a different currency, but instead must be repaid in the original currency of such Alternative Currency Loan and reborrowed in the other currency.

(ii) Conforming Changes. With respect to any Alternative Currency Daily Rate or Alternative Currency Term Rate, the Administrative Agent will have the right to make additional Conforming Changes from time to time and, notwithstanding anything to the contrary herein, in the Credit Agreement or in any other Loan Document, any amendments implementing such additional Conforming Changes will become effective without any further action or consent of any other party to this Agreement, the Credit Agreement or any other Loan Document; provided, that, with respect to any such amendment effected, the Administrative Agent shall post each such amendment implementing such Conforming Changes to the Borrower and the Lenders reasonably promptly after such amendment becomes effective.

(iii) Committed Loan Notice. For purposes of a Borrowing of Alternative Currency Loans, the Borrower shall use the Committed Loan Notice attached hereto as Exhibit A.

(f) Interest.

(i) Subject to the provisions of the Credit Agreement with respect to default interest, each Alternative Currency Daily Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Alternative Currency Daily Rate plus the Applicable Rate.

(ii) Interest on each Alternative Currency Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified the Credit Agreement. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any debtor relief law.

(g) Computations. All computations of interest for Alternative Currency Loans shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed, or, in the case of interest in respect of Alternative Currency Loans as to which market practice differs from the foregoing, in accordance with such market practice. Interest shall accrue on each Alternative Currency Loans for the day on which the Alternative Currency Loans is made, and shall not accrue on an Alternative Currency Loans, or any portion thereof, for the day on which the Alternative Currency Loans or such portion is paid, provided that any Alternative Currency Loans that is repaid on the same day on which it is made shall, subject to the terms of the Credit Agreement, bear interest for one day. Each determination by the Administrative Agent of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

(h) Successor Rates. The provisions in the Credit Agreement addressing the replacement of a current Successor Rate for a currency shall be deemed to apply to Alternative Currency Loans and SONIA and the related defined terms shall be deemed to include Sterling.

Exhibit A

**FORM OF COMMITTED LOAN NOTICE**
(Alternative Currency Loans)

TO: Bank of America, N.A., as Administrative Agent

RE: Amended and Restated Credit Agreement, dated as of October 30, 2020, by and among Blackbaud, Inc., a Delaware corporation (the "Company"), certain Subsidiaries of the Company from time to time party thereto as subsidiary borrowers (the "Subsidiary Borrowers" and, together with the Company, each a "Borrower" and collectively the "Borrowers"), the Lenders and Bank of America, N.A., as Administrative Agent, Swingline Lender and an Issuing Lender (as amended, restated, amended and restated, modified, extended, restated, replaced, or supplemented from time to time, the "Credit Agreement"; capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Credit Agreement)

DATE: [Date]

—

The undersigned hereby requests (select one):

☐ A Borrowing of Alternative Currency Loans

1. On ______ (the "Credit Extension Date").

2. In the amount of [$]______ in the following currency: Sterling.

3. Comprised of: ☐ Alternative Currency Daily Rate Loans

[The Revolving Credit Loan(s) requested herein complies with the proviso to the first sentence of Section [2.1(a)/2.1(b)] of the Credit Agreement.][1]

[The undersigned Borrower hereby represents and warrants that the conditions specified in Section 5.2 of the Credit Agreement shall be satisfied on and as of the date of the Credit Extension Date.][2]

Delivery of an executed counterpart of a signature page of this notice by fax transmission or other electronic mail transmission (e.g. "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this notice.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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1 Include this sentence in the case of a Revolving Credit Loan.
2 Include this sentence in the case of request for an Extension of Credit.

[______________________],
a [___________________________]

By:_____________
Name:_____________
Title:_____________

**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: November 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: November 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 September 30, 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: | November 4, 2021 | By: | /s/ Michael P. Gianoni |
| | | | Michael P. Gianoni<br>President and Chief Executive Officer<br>(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 September 30, 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: November 4, 2021

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