blackbaud

Blackbaud Q4 Investor Presentation

Ticker: BLKB
February 6, 2019

Forward-Looking Statements

Forward-Looking Statements: This presentation contains forward-looking statements within the meaning of 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 in this presentation consist of, among other things, statements regarding future operating results, all of which are based on current expectations, estimates, and forecasts, and the beliefs and assumptions of the Company's management. Words such as "expects," "anticipates," "aims," "projects," "intends," "plans," "likely," "will," "should," "believes," "estimates," "seeks," variations of such words, and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that could cause actual results to differ materially from the Company's expectations expressed in this presentation include: expectations for achievement of 2019 financial guidance; risks associated with fluctuations in foreign exchange rates and the related impact on 2019 financial guidance; expectations for continuing to successfully execute the Company's growth and operational improvement strategies; expectations of future growth in the global giving software solutions market, segments within that market and the Company's total addressable market; expectations that achieving the Company's goals will extend its competitive advantage and provide improved product quality and innovative solutions for its customers; expectations that the consolidation of legacy systems into best-of-breed platforms will drive increasing operating efficiency and contribute to margin improvement; expectations that the Company's financial position provides flexibility to fuel future growth through acquisitions or other opportunities; expectations that past acquisitions have expanded the Company's customer and market opportunities; risks associated with acquisitions; uncertainty regarding increased business and renewals from existing customers; risks associated with implementation of software products; the ability to attract and retain key personnel; risks related to the Company's leverage, credit facility, dividend policy and share repurchase program; lengthy sales and implementation cycles; technological changes that make the Company's products and services less competitive; risk related to the adequacy of our data security procedures and the other risk factors set forth from time to time in the Company's SEC filings. Factors that could cause or contribute to such differences include, but are not limited to, those summarized under Risk Factors in the Company's most recent annual report on Form 10-K, and any quarterly reports on Forms 10-Q thereafter, copies of which are available free of charge at the SEC's website at www.sec.gov or upon request from the Company's investor relations department. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent the Company's beliefs and assumptions only as of the date of this presentation. Except as required by law, the Company does not intend, and undertakes no obligation, to revise or update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

Historical Financials and Non-GAAP Financial Measures

Use of Non-GAAP Financial Measures: The Company has provided in this presentation financial information that has not been prepared in accordance with GAAP. The Company uses these non-GAAP financial measures internally in analyzing its financial results and believes they are useful to investors, as a supplement to GAAP measures, in evaluating the Company's ongoing operational performance. The Company believes that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing its financial results from period to period with other companies in the Company's industry, many of which present similar non-GAAP financial measures to investors. 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 Company believes that these non-GAAP financial measures reflect the Company's ongoing business in a manner that allows for meaningful period-to-period comparison and analysis of trends in the Company's business. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Investors are encouraged to review the reconciliation of these non-GAAP measures to their most directly comparable GAAP financial measures.

Blackbaud discusses non-GAAP organic revenue growth measures, including non-GAAP organic revenue growth, non-GAAP organic revenue growth on a constant currency basis and non-GAAP organic recurring revenue growth, which Blackbaud believes provide useful information for evaluating the periodic growth of its business as well as growth on a consistent basis. Each measure of non-GAAP organic revenue growth excludes incremental acquisition-related revenue attributable to companies acquired in the current fiscal year. For companies acquired in the immediately preceding fiscal year, if any, each measure of non-GAAP organic revenue growth 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 current period 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 measure of non-GAAP organic revenue growth excludes prior period revenue associated with divested businesses. The exclusion of the prior period revenue is intended 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. Blackbaud believes this presentation provides a more comparable representation of our current business' organic revenue growth and revenue run-rate. In these materials, Blackbaud is presenting the following unaudited information: historical recurring and total revenue for the fiscal years ended December 31, 2018 and 2017 and the interim periods therein; calculations for recurring revenue growth and total revenue growth for the twelve month period ended December 31, 2018 and the interim periods therein; and calculations of non-GAAP organic recurring revenue growth, non-GAAP organic revenue growth and non-GAAP organic revenue growth on a constant currency basis for the same periods.

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.

Historical Financial Statements Being Presented: In these materials, Blackbaud is presenting the following unaudited historical financial information: historical consolidated balance sheets as of the fiscal years ended December 31, 2018, 2017 and 2016 and interim consolidated balance sheets for each of the quarters within fiscal 2018 and 2017; historical consolidated statements of comprehensive income for the fiscal years ended December 31, 2018, 2017 and 2016 and interim consolidated statements of comprehensive income for each of the quarters within fiscal 2018 and 2017; historical consolidated statements of cash flows for the fiscal years ended December 31, 2018, 2017 and 2016 and interim consolidated statements of cash flows for each of the interim year-to-date periods within fiscal 2018 and 2017; and historical non-GAAP financial information for the fiscal years ended December 31, 2018, 2017 and 2016 and for each of the quarters within fiscal 2018 and 2017 as well as reconciliations of the non-GAAP measures to their most directly comparable GAAP measures and related non-GAAP adjustments. Blackbaud is providing this unaudited financial information to allow investors and analysts to more easily access and review the Company's historical consolidated financial data by including such information in one document. In order to provide comparability between periods presented, certain previously reported historical financial information has been reclassified to conform to the presentation of the most recent reporting period, which is discussed in more detail with that information. In addition, certain of the unaudited historical financial statements have been adjusted for the effects of recently adopted accounting pronouncements, which are discussed in more detail with that information.

Reconciliation of GAAP to Non-GAAP Financial Measures: Reconciliations of the most directly comparable GAAP measures to non-GAAP financial measures and related adjustments, as well as details of Blackbaud's methodology for calculating non-GAAP organic revenue growth, non-GAAP organic revenue growth on a constant currency basis and non-GAAP organic recurring revenue growth can be found in the Appendix to these materials and on the "Investor Relations" page of the Company's website.

Blackbaud has not reconciled forward-looking non-GAAP financial measures contained in this investor material to their most directly comparable GAAP measures. Such reconciliations would require unreasonable efforts at this time to estimate and quantify with a reasonable degree of certainty various necessary GAAP components, including for example those related to compensation, acquisition transactions and integration, tax items or others that may arise. These components and other factors could materially impact the amount of the future directly comparable GAAP measures, which may differ significantly from their non-GAAP counterparts.

Key Messages

01

The leader in a large and growing market

02

Highly differentiated from the competition

03

Executing a clear four-point growth strategy

01

Our Markets

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Key Differentiators

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Strategy for Growth

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Financial Strategy

Social good is a significant global sector spanning beyond the nonprofit industry.

SourceIRS.gov, NationalService.gov 2018 Report on Volunteering in America

Blackbaud is **the world's leading cloud software company powering social good**

PROVEN LEADERSHIP

Reinvented company with the leading cloud powering the social good community.

FORTUNE® CHANGE THE WORLD RISING STARS 2017

IDC Analyze the Future
24th Largest Cloud Software Provider Worldwide
2018

Forbes
America's Best Mid-Sized Employers
2018

Forbes
The World's Most Innovative Growth Companies
2016, 2017

ANITA B.ORG TOP COMPANIES FOR WOMEN TECHNOLOGISTS 2018 WINNER

FINANCE MONTHLY CFO AWARDS 2016 WINNER

2017 SOFTWARE 500 COMPANIES

UNMATCHED SOLUTIONS

We are proud to be recognized for our outstanding, purpose-built solutions and support.

CogX AI Innovation Awards 2017 WINNER
Best AI Innovation in Charity

Gainsight
Sally Award for Customer Service Excellence
2017

2018 STEVIE® BRONZE WINNER FOR SALES & CUSTOMER SERVICE

TrustRadius TOP RATED 2018
Top Rated Nonprofit CRM Solution

TrustRadius TOP RATED 2018
Top Rated Financial Accounting Solution

Gartner 2017 FrontRunners LEADER Software Advice

CRM WATCHLIST With Distinction WINNER 2017

#1 ON Capterra's Top 20 Nonprofit Software Infographic

HostingAdvice BLACKBAUD Must-Have Software for Nonprofits

UNRIVALED EXPERTISE

Over 45,000 organizations are advancing their missions with Blackbaud.

80% of the "most influential" nonprofits[1]

93% of higher education institutions with billion-dollar campaigns[3]

$100B+ raised, granted, and invested in their programming by our customers each year[2]

80% of the largest U.S. nonprofit hospital systems[4]

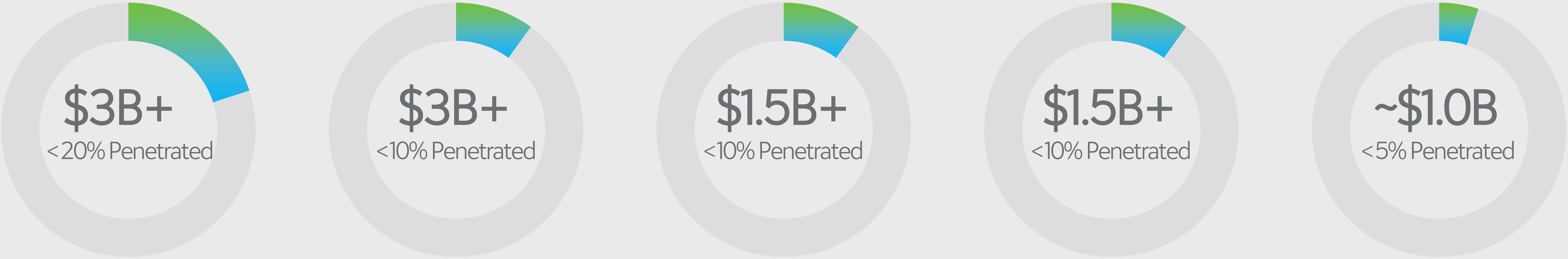
Source: (1) Top 50 listed by The Street.com featured by MSN 5/2016; validated 1/2018 (2) Internal Statistics, (3) Council for Advancement and Support of Education, (4) Becker's Hospital Review

Substantial TAM with **significant penetration opportunity**

$10B+
2019 TAM

<10%
Revenue Penetration

Fundraising, Relationship Management and Engagement | Payment Services | Financial Management, Grant and Award Management | Organizational and Program Management | Social Responsibility



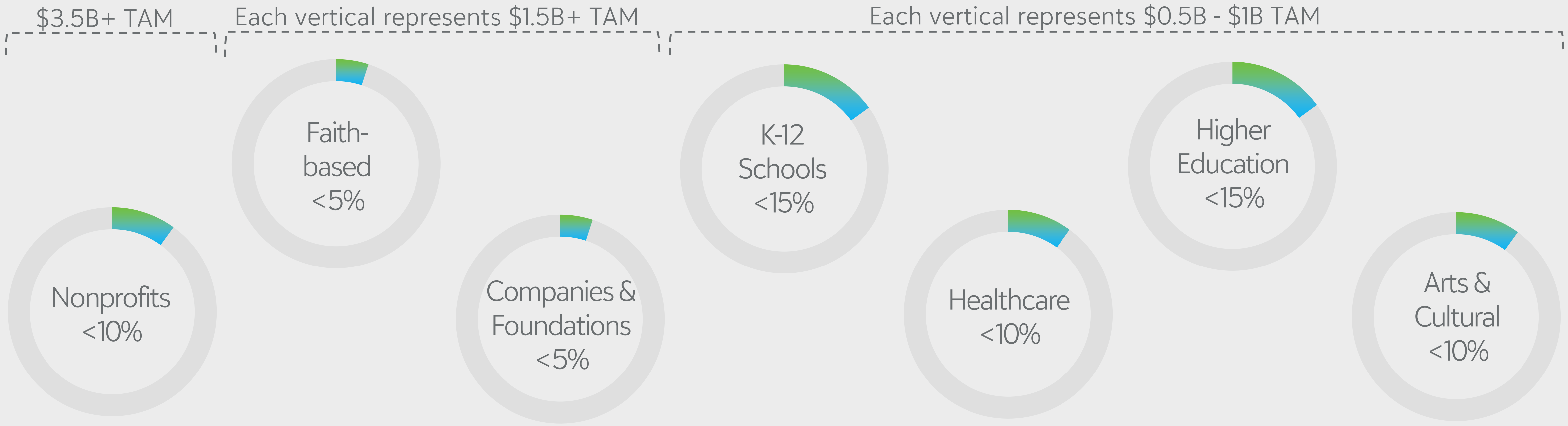
Sources: FY 2018 Blackbaud Revenue. TAM based on IRS data, on 2013 data derived from primary research, Boston Analytics and Blackbaud, Canadian Customs & Revenue Agency, Caritas, Private School Universe, Carnegie Higher Education, Guidestar; OECD, CIA World Factbook, Johns Hopkins University, NTEN 2014 Nonprofit Technology Staffing and Investments Report, Blackbaud internal data

Headroom for growth extends across vertical markets

$10B+
2019 TAM

<10%
Revenue Penetration

Revenue Penetration by Vertical



Sources: FY 2018 Blackbaud Revenue. TAM based on IRS data, 2013 data derived from primary research, Boston Analytics and Blackbaud, Canadian Customs & Revenue Agency, Caritas, Private School Universe, Carnegie Higher Education, Guidestar; OECD, CIA World Factbook, Johns Hopkins University, NTEN 2014 Nonprofit Technology Staffing and Investments Report, Blackbaud internal data

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Our Markets

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Financial Strategy

The market's most comprehensive solutions for social good

Blackbaud is the **largest cloud software vendor** focused on the social good community[1]

Only Blackbaud offers the full portfolio of **purpose-built, integrated solutions**

Highly **fragmented competition** offers single-point solutions

Large customer base with **92% unit retention**

Strong balance sheet and cash flows to support strategic acquisitions

blackbaud

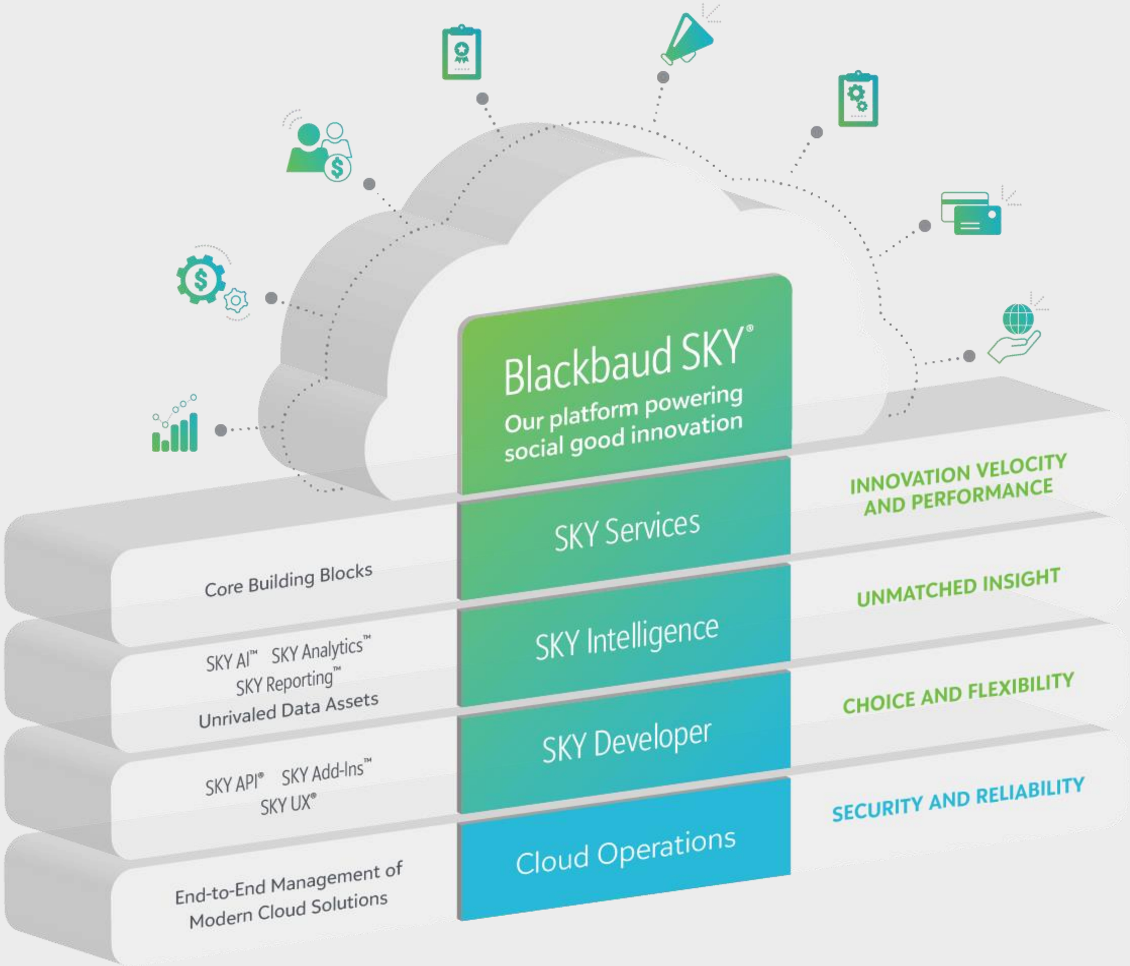
Fundraising & Relationship Management	Marketing & Engagement	Financial Management	Organizational & Program Management	Payment Services	Analytics

OUR COMPETITORS

dp donorperfect	Constant Contact	Intacct	FOUNDANT technologies	PayPal	We WealthEngine
gofundme	frontstream	NETSUITE	FACTS	iATS payments	DONOR SEARCH
salesforce.org (and partners)	Classy	abila	ellucian	Authorize.Net	Wiland DELIVERING THE FUTURE
neon	Network for Good	abacus	Ministry Brands	CyberSource	iwave
bloomerang	salsa	intuit	benevity	Moneris SOLUTIONS	

1 IDC #24th largest cloud software provider worldwide

Built on industry leading cloud technology



Power of the Platform

Common shared components

Continuous innovation and feature deployment

Fast time to market

Integrated capabilities

Enables a network effect

Leveraging **unmatched domain expertise** and capability

Cloud Software
Purpose-Built for Social Good

Data Intelligence
Intelligence for Good™

Services
Driving Impact for Customers

Expertise
Unmatched Thought Leadership

CLOUD SOFTWARE

- Vertically-optimized solutions
- End-to-end platform – we build, support, and service
- Modern cloud 2.0 architecture
- Rapid, ongoing enhancements

SERVICES

- Implementation, adoption, and managed services
- Award-winning customer support and dedicated customer success teams
- Certified training
- Online communities

DATA INTELLIGENCE

- Industry's largest dataset
- Embedded analytics and artificial intelligence
- Common reporting engine
- Powerful modeling and benchmarking

EXPERTISE

- Blackbaud Institute for Philanthropic Impact
- Thought leadership events
- Uniquely qualified experts and data scientists (Social Good Scientists™)

A culture built on **unmatched commitment to social good**

We work as one.

We bring heart.

We invent possibilities.

We expect the best.

We give back.

100,000
hours volunteered annually by employees

600+
engineers; largest R&D investment in the sector

500+
employees worked previously for social good organizations

9 out of 10
employees say Blackbaud's mission was important to their decision to join the company

8 out of 10
employees volunteer regularly

3%
Pre-tax profit donated[1]

2.5x
employees participating in matching gift program compared to national median

1 out of 4
employees serve on nonprofit boards

[1] 2.5% of 2018 pre-tax profit donated through grants, cash, volunteering and thought leadership

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Financial Strategy

Executing a clear **four-point growth strategy**

01 Deliver integrated and open solutions in the cloud

Comprehensive, purpose-built cloud solutions

02 Drive sales effectiveness

Improving sales productivity to drive recurring revenue growth

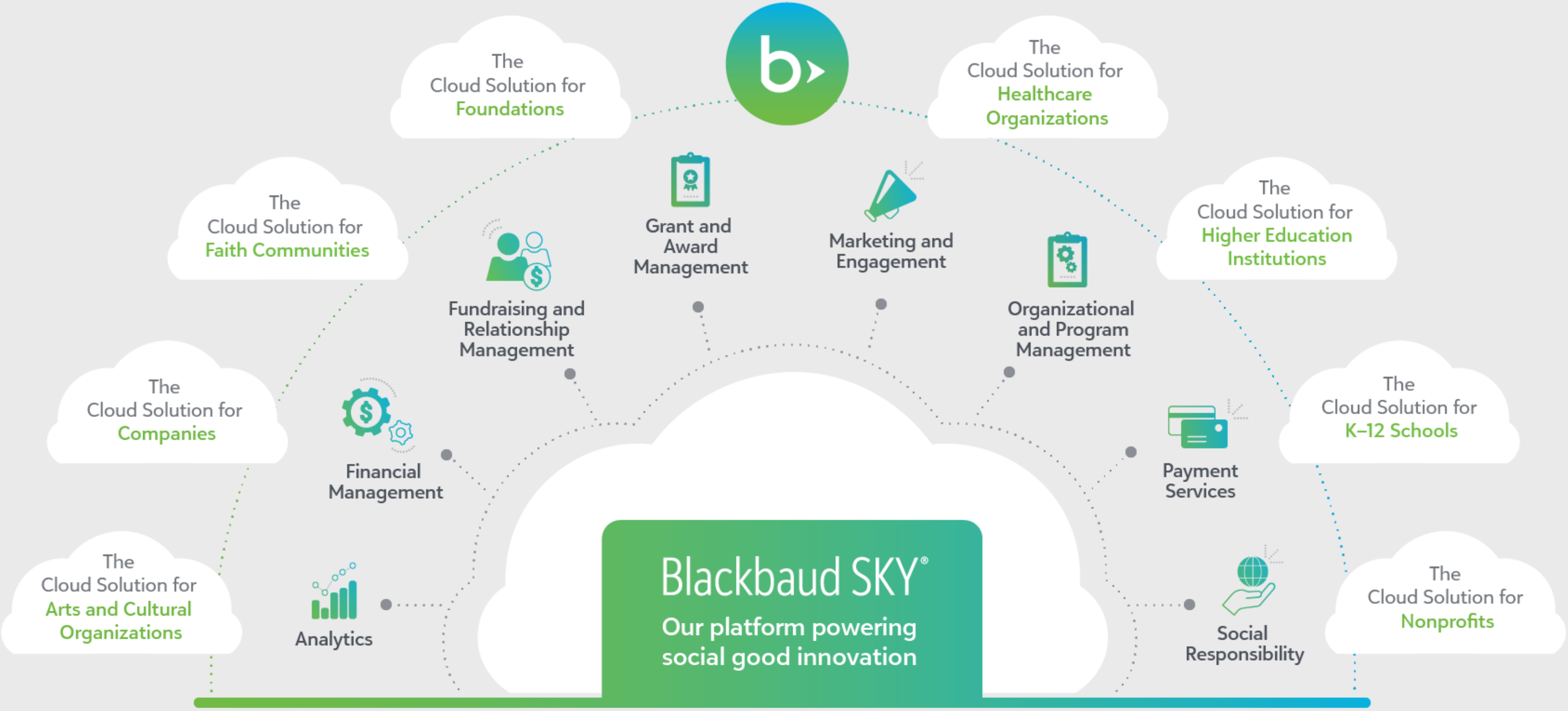
03 Expand total addressable market

Acquiring, building, and partnering into near adjacent markets

04 Improve operating efficiency

Building a world-class operating model

Deliver integrated and open solutions in the cloud



Drive sales effectiveness

STRATEGY 2

Sales Efficiency

Productivity focus
Ramping sales hiring

Deploy reps in market

Expand partner channel

Prescriptive Selling

Vertical market focus

Integrated clouds

Bifurcate hunters vs. farmers

Scalable Model

Global sales operations

Customer success organization

Best-in-breed back office systems

2015

2019

Expand total addressable market

STRATEGY 3

Acquiring, building, and partnering into near adjacent markets

$4B+ in TAM added through acquisitions and new solution builds

2014
- MicroEdge
- WhippleHill

2015
- SMART TUITION

2016
- Attentive.ly

2017
- JustGiving
- academicworks

2018
- Nonprofit Resource Management™
- Blackbaud Education Management™
- Blackbaud Church Management™
- Reeher

2019
- YourCause

- Expand TAM into near adjacencies
- Accelerate shift to the cloud
- Accelerate revenue growth
- Accretive to operating margins

Note: Criteria calls for investments to be accretive to operating margins over time.

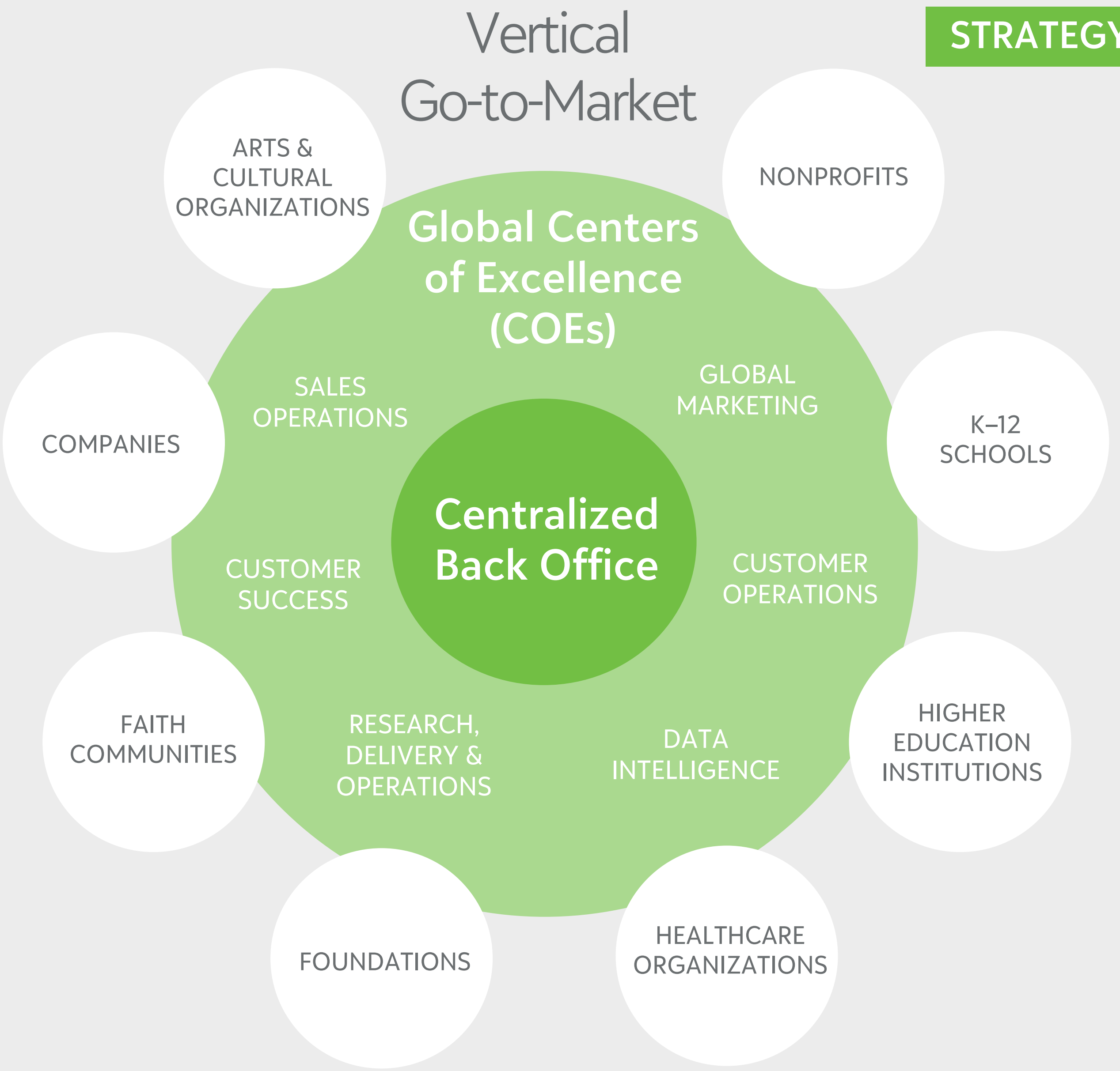
STRATEGY 4

Efficient, scalable operating model

Vertical Go-to-market
focus on customer needs and solution selling

Centers of Excellence
support functions with common systems, metrics, and measurement

Productivity Improvement
continuous improvement across all functions of the organization



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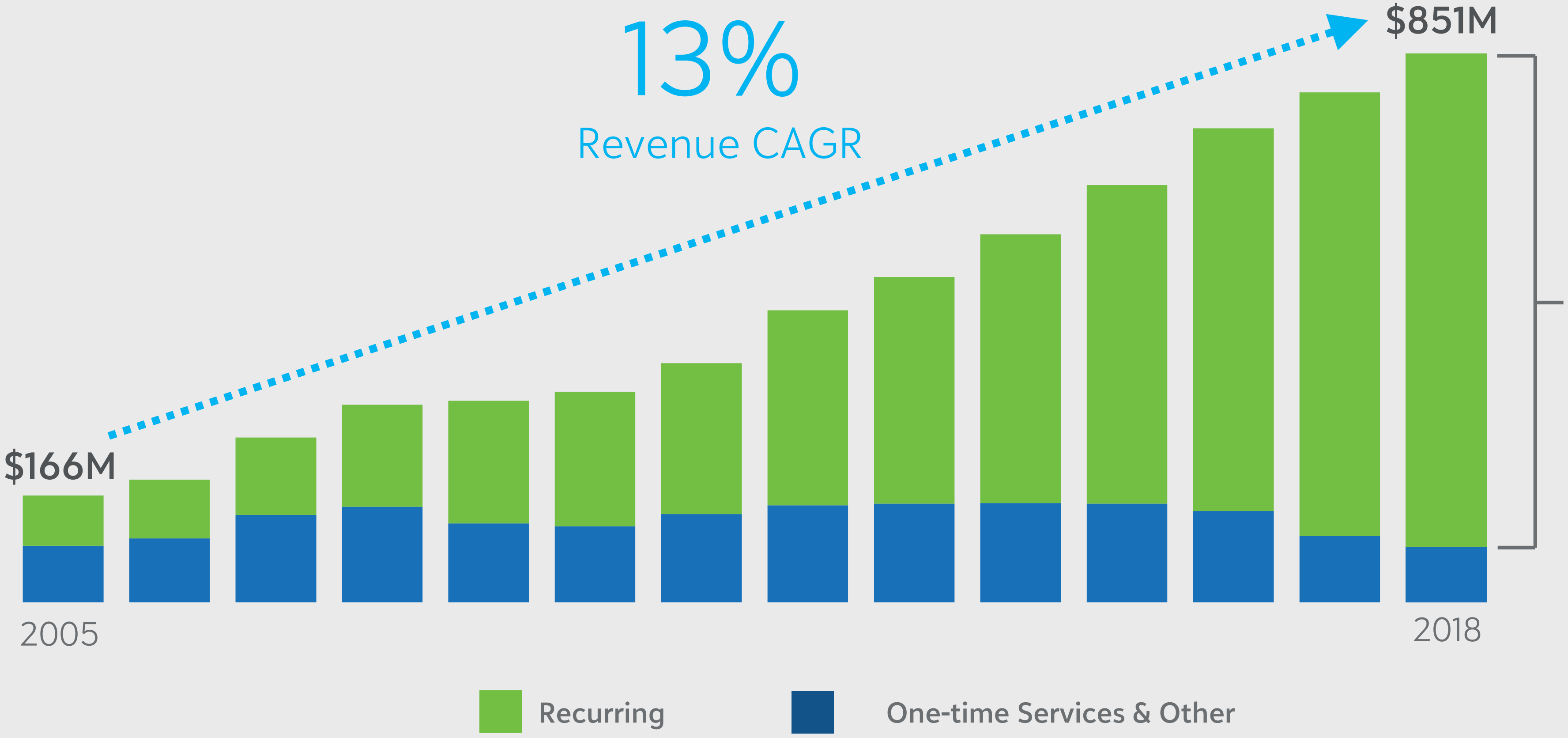
Financial Strategy

Business model drives recurring revenue



2018 Recurring Revenue

1.9x

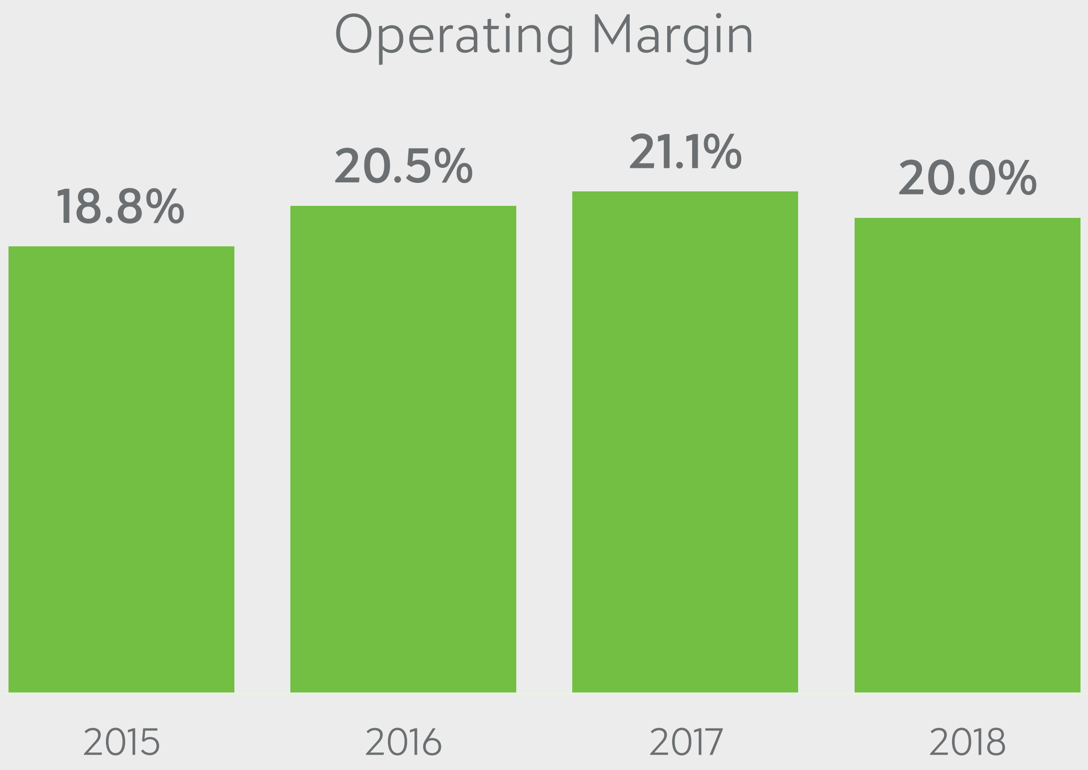
90%

CAGR
2005-2018

19%

Non-GAAP Revenue. 2016, 2017 and 2018 reflect adoption of ASC 606

Current investments support future growth



Operating Margin

Near term expansion depends on level of investments in:

Incremental Sales Hiring
Improving market coverage

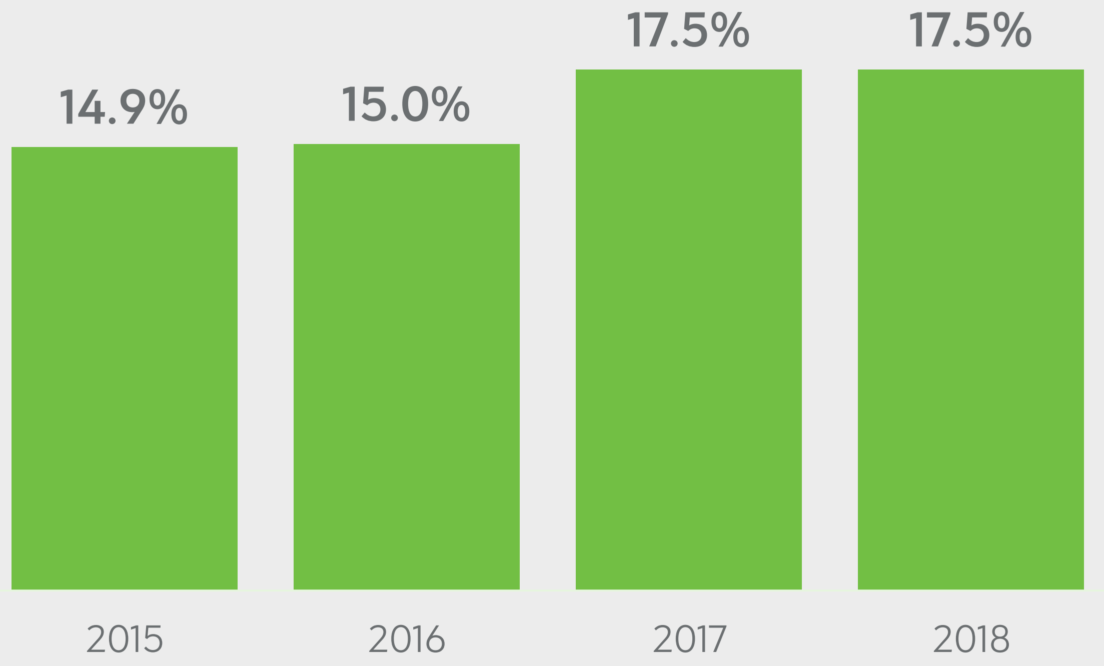
Engineering and Innovation
Invest in innovation, enhanced scalability and security

Workplace and Workforce Strategy
Increasing flexibility while driving energy and community

Non-GAAP operating margin. 2016, 2017 and 2018 reflect adoption of ASC 606

Generating healthy free cash flow margins inclusive of investments

Free Cash Flow Margin



Investments	$34M	$44M	$39M	$50M

Free Cash Flow Highlights

Strong free cash flow margins inclusive of current investments:

- Incremental sales hiring
- Innovation and new solution builds
- Cloud infrastructure
- Global workplace strategy

Estimating minimal federal cash tax payment in 2019

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.

Maintaining a disciplined capital strategy

GROWTH AND OPERATING INITIATIVES

- Capital investments consistent with solution roadmap and strategy
- Invest in operational efficiencies
- Strategic acquisitions

MAINTAIN STRONG BALANCE SHEET

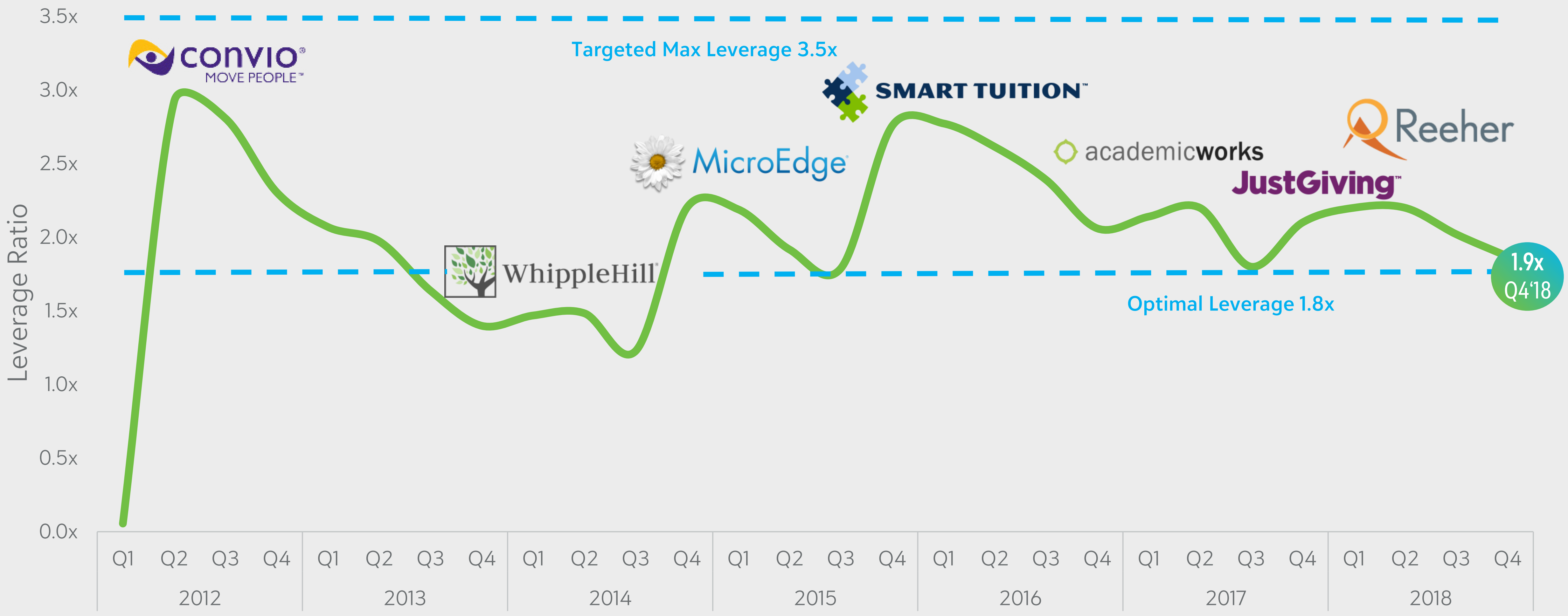
- Cash balances
- Debt maintenance
- Debt to EBITDA < 3.5X

RETURN OF CAPITAL TO SHAREHOLDERS*

- Annual dividend of $0.48 per share
- Share repurchase–$50M authorized and available

*Dividend payments are not guaranteed and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, not to declare or pay further dividends and/or repurchase our common stock.

Proven history of deleveraging

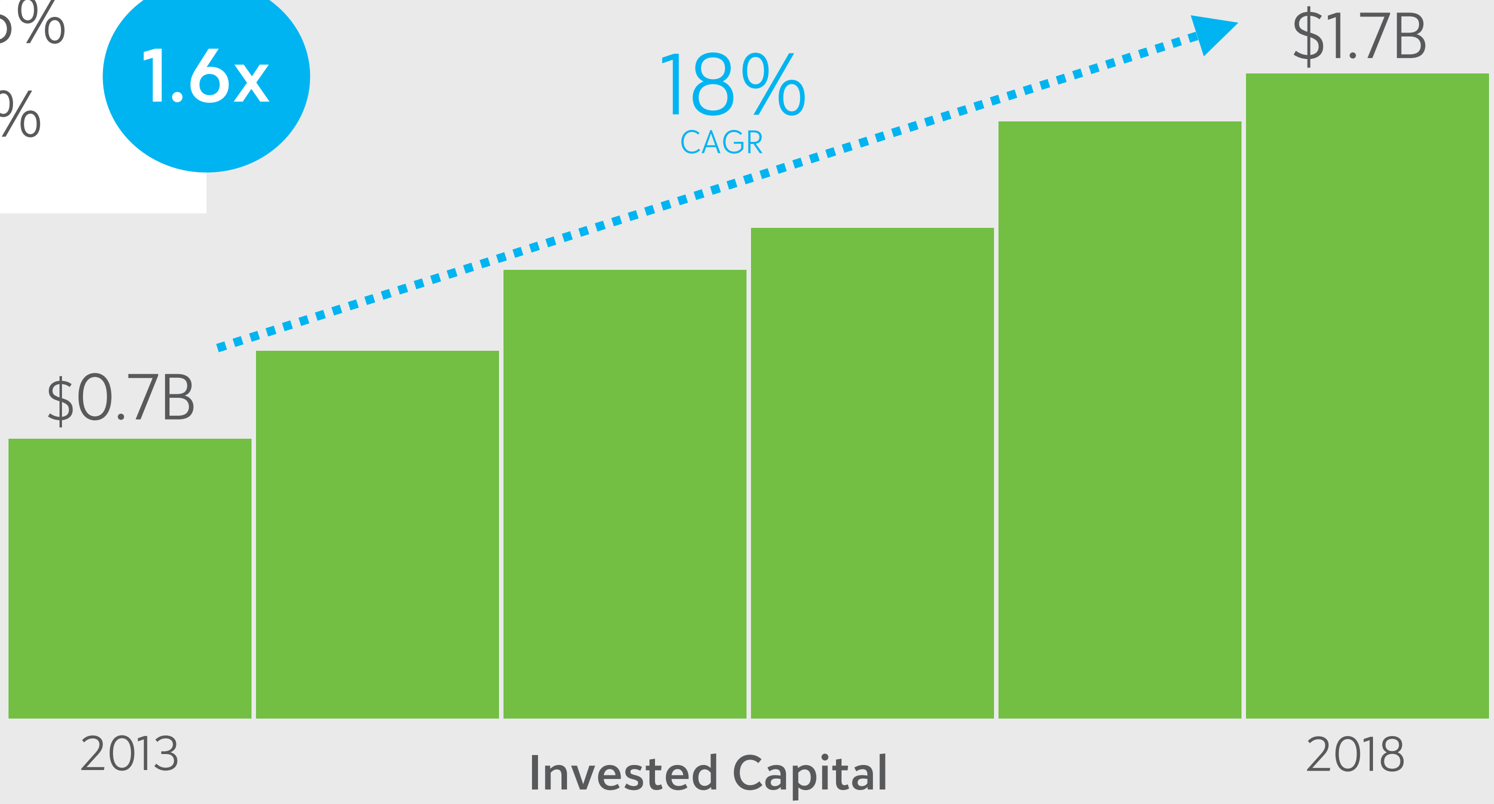


Note: Current covenant for leverage ratio is less than or equal to 3.5x. Calculation of debt over TTM EBITDA is based on credit agreement in place at the end of the respective reporting quarter.

Strong returns on increasing investment base

Strong Returns
2018 WACC: 10.6%
2018 ROIC*: 16.9%

1.6x



*See appendix for detailed ROIC calculation

Estimating solid financial performance in 2019

guidance issued February 2019

		Mid-Point
Total Revenue	\$880M – \$910M	**\$895M**
Operating Margin	16.7%–17.2%	**17.0%**
Diluted EPS	\$2.11–\$2.28	**\$2.20**
Free Cash Flow	\$124M – \$134M	**\$129M**

Non-GAAP. Guidance issued 2/6/2019. Mid-point presented for illustration only, not as a prediction of 2019 performance.

Improving shareholder value

- A **reinvented company** with an unmatched commitment to the social good sector
- Rapid innovation and growing M&A capacity **expanding a large, stable, and growing addressable market**
- Executing a disciplined strategy focused on **accelerating financial performance**

Appendix

Return on Invested Capital (ROIC) Calculation

(dollars in thousands)

	2018
Total Assets	$1,615
Add: Value of leased assets	286
Less: Restricted cash and customer funds receivable	(420)
Less: Non-interest bearing current liabilities	(377)
Add: Accumulated depreciation	107
Add: Accumulated amortization of software development	47
Add: Accumulated amortization of intangibles	257
Less: Purchase price of 2018 acquisition	(45)
Add: Research & development (excluding stock-based compensation) 3Y Expense [1]	255
Invested Capital	**$1,725**
Income from Operations	59
Add: Rent/Lease expense	26
Add: Depreciation	16
Add: Amortization of software development	17
Add: Amortization of intangibles	47
EBITDA[2]	165
Add: Stock-based compensation	48
Add: R&D Exp (excl SBC)	90
Adjusted EBITDA[2]	303
Less: Implied taxes (assumes 20% tax rate)	(12)
Adjusted NOPAT[2]	$291
Return on invested capital (ROIC)	**16.9%**

(1) Sum of previous three years R&D expense excluding any stock-based compensation
(2) Non-GAAP EBITDA, Adjusted EBITDA, Adjusted NOPAT

Historical Reconciliations of GAAP and Non-GAAP Organic Revenue Growth (Unaudited)

(dollars in thousands)	Years ended		Three months ended				Year ended	Three months ended			
	12/31/2018	12/31/2017	12/31/2018	09/30/2018	06/30/2018	03/31/2018	12/31/2017	12/31/2017	09/30/2017	06/30/2017	03/31/2017
GAAP revenue	$ 848,606	$ 788,487	$ 221,218	$ 209,532	$ 213,672	$ 204,184	$ 788,487	$ 217,402	$ 194,424	$ 191,589	$ 185,072
GAAP revenue growth	**7.6%**		**1.8%**	**7.8%**	**11.5%**	**10.3%**					
Add: Non-GAAP acquisition-related revenue [(1)]	(4,911)	32,832	(2,117)	(2,373)	(769)	348	32,832	1,799	10,228	11,603	9,202
Total Non-GAAP adjustments	(4,911)	32,832	(2,117)	(2,373)	(769)	348	32,832	1,799	10,228	11,603	9,202
Non-GAAP organic revenue [(2)]	$ 843,695	$ 821,319	$ 219,101	$ 207,159	$ 212,903	$ 204,532	$ 821,319	$ 219,201	$ 204,652	$ 203,192	$ 194,274
Non-GAAP organic revenue growth	**2.7%**		**—%**	**1.2%**	**4.8%**	**5.3%**					
Non-GAAP organic revenue [(2)]	$ 843,695	$ 821,319	$ 219,101	$ 207,159	$ 212,903	$ 204,532	821,319	$ 219,201	$ 204,652	$ 203,192	$ 194,274
Foreign currency impact on Non-GAAP organic revenue [(3)]	(2,402)	—	1,057	524	(1,890)	(2,093)	—	—	—	—	—
Non-GAAP organic revenue on constant currency basis [(3)]	$ 841,293	$ 821,319	$ 220,158	$ 207,683	$ 211,013	$ 202,439	$ 821,319	$ 219,201	$ 204,652	$ 203,192	$ 194,274
Non-GAAP organic revenue growth on constant currency basis	**2.4%**		**0.4%**	**1.5%**	**3.8%**	**4.2%**					
GAAP recurring revenue	762,181	684,583	199,930	188,656	192,749	180,846	684,583	190,641	167,506	166,389	160,047
GAAP recurring revenue growth	**11.3%**		**4.9%**	**12.6%**	**15.8%**	**13.0%**					
Add: Non-GAAP acquisition-related recurring revenue [(1)]	(4,782)	32,503	(2,116)	(2,319)	(650)	303	32,503	1,754	10,182	11,558	9,009
Total Non-GAAP adjustments	(4,782)	32,503	(2,116)	(2,319)	(650)	303	32,503	1,754	10,182	11,558	9,009
Non-GAAP organic recurring revenue	$ 757,399	$ 717,086	$ 197,814	$ 186,337	$ 192,099	$ 181,149	$ 717,086	$ 192,395	$ 177,688	$ 177,947	$ 169,056
Non-GAAP organic recurring revenue growth	**5.6%**		**2.8%**	**4.9%**	**8.0%**	**7.2%**					

(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 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 revenue for the prior year periods presented herein may not agree to non-GAAP 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 period's quarterly weighted average foreign currency exchange rates. The primary foreign currencies creating the impact are the Canadian Dollar, EURO, British Pound and Australian Dollar.

Reconciliation of GAAP to Non-GAAP Consolidated Statements of Operations (Unaudited)

	Three Months Ended December 31, 2018									
(in thousands, except per share amounts)	GAAP	Acquisition-related Deferred Revenue Write-down	Stock-based Compensation Expense	Amortization of Intangibles from Business Combinations	Employee Severance	Acquisition-related Integration Costs	Acquisition-related Expenses	Restructuring	Non-GAAP Adjustments Subtotal	Non-GAAP
Revenue										
Recurring	$ 199,930	$ 571	$ —	$ —	$ —	$ —	$ —	$ —	$ 571	$ 200,501
One-time services and other	21,288	—	—	—	—	—	—	—	—	21,288
Total revenue	**221,218**	**571**	**—**	**—**	**—**	**—**	**—**	**—**	**571**	**221,789**
Cost of revenue										
Cost of recurring	83,517	—	(678)	(9,990)	(32)	—	—	—	(10,700)	72,817
Cost of one-time services and other	19,779	—	(554)	(555)	(20)	—	—	—	(1,129)	18,650
Total cost of revenue	**103,296**	**—**	**(1,232)**	**(10,545)**	**(52)**	**—**	**—**	**—**	**(11,829)**	**91,467**
Gross profit	**117,922**	**571**	**1,232**	**10,545**	**52**	**—**	**—**	**—**	**12,400**	**130,322**
Recurring gross margin	*58.2%*								*5.5%*	*63.7%*
One-time services and other gross margin	*7.1%*								*5.3%*	*12.4%*
Total Gross Margin	***53.3%***								***5.5%***	***58.8%***
Operating expenses										
Sales, marketing and customer success	49,801	—	(2,419)	—	(408)	(5)	—	—	(2,832)	46,969
Research and development	23,338	—	(2,311)	—	(133)	—	—	—	(2,444)	20,894
General and administrative	27,962	—	(6,629)	—	60	(295)	(972)	—	(7,836)	20,126
Amortization	1,137	—	—	(1,137)	—	—	—	—	(1,137)	—
Restructuring	1,005	—	—	—	—	—	—	(1,005)	(1,005)	—
Total operating expenses	**103,243**	**—**	**(11,359)**	**(1,137)**	**(481)**	**(300)**	**(972)**	**(1,005)**	**(15,254)**	**87,989**
Income from operations	**14,679**	**571**	**12,591**	**11,682**	**533**	**300**	**972**	**1,005**	**27,654**	**42,333**
Total Operating Margin	***6.6%***								***12.5%***	***19.1%***
Net Income	**$ 9,334**									**$ 31,311**
Shares used in computing diluted earnings per share	48,026									48,026
Diluted earnings per share	**$ 0.19**									**$ 0.65**

Reconciliation of GAAP to Non-GAAP Consolidated Statements of Operations (Unaudited)

	Year Ended December 31, 2018									
(in thousands, except per share amounts)	GAAP	Acquisition-related Deferred Revenue Write-down	Stock-based Compensation Expense	Amortization of Intangibles from Business Combinations	Employee Severance	Acquisition-related Integration Costs	Acquisition-related Expenses	Restructuring	Non-GAAP Adjustments Subtotal	Non-GAAP
Revenue										
Recurring	$ 762,181	$ 2,319	$ —	$ —	$ —	$ —	$ —	$ —	$ 2,319	$ 764,500
One-time services and other	86,425	90	—	—	—	—	—	—	90	86,515
Total revenue	**848,606**	**2,409**	**—**	**—**	**—**	**—**	**—**	**—**	**2,409**	**851,015**
Cost of revenue										
Cost of recurring	305,481	—	(2,464)	(39,877)	(504)	(4)	—	—	(42,849)	262,632
Cost of one-time services and other	76,261	—	(2,778)	(2,356)	(414)	(21)	—	—	(5,569)	70,692
Total cost of revenue	**381,742**	**—**	**(5,242)**	**(42,233)**	**(918)**	**(25)**	**—**	**—**	**(48,418)**	**333,324**
Gross profit	**466,864**	**2,409**	**5,242**	**42,233**	**918**	**25**	**—**	**—**	**50,827**	**517,691**
Recurring gross margin	*59.9%*								*5.7%*	*65.6%*
One-time services and other gross margin	*11.8%*								*6.5%*	*18.3%*
Total Gross Margin	***55.0%***								***5.8%***	***60.8%***
Operating expenses										
Sales, marketing and customer success	192,848	—	(9,285)	—	(800)	(22)	(21)	—	(10,128)	182,720
Research and development	98,811	—	(9,048)	—	(298)	(12)	(42)	—	(9,400)	89,411
General and administrative	106,354	—	(24,699)	—	(230)	(3,624)	(2,783)	—	(31,336)	75,018
Amortization	4,844	—	—	(4,844)	—	—	—	—	(4,844)	—
Restructuring	4,590	—	—	—	—	—	—	(4,590)	(4,590)	—
Total operating expenses	**407,447**	**—**	**(43,032)**	**(4,844)**	**(1,328)**	**(3,658)**	**(2,846)**	**(4,590)**	**(60,298)**	**347,149**
Income from operations	**59,417**	**2,409**	**48,274**	**47,077**	**2,246**	**3,683**	**2,846**	**4,590**	**111,125**	**170,542**
Total Operating Margin	***7.0%***								***13.0%***	***20.0%***
Net Income	**$ 44,841**									**$ 124,598**
Shares used in computing diluted earnings per share	48,045									48,045
Diluted earnings per share	**$ 0.93**									**$ 2.59**

Reconciliation of GAAP to Non-GAAP Consolidated Statements of Operations (Unaudited)

	Three Months Ended December 31, 2017									
(in thousands, except per share amounts)	GAAP	Acquisition-related Deferred Revenue Write-down	Stock-based Compensation Expense	Amortization of Intangibles from Business Combinations	Employee Severance	Acquisition-related Integration Costs	Acquisition-related Expenses	Restructuring	Non-GAAP Adjustments Subtotal	Non-GAAP
Revenue										
Recurring	$ 190,641	$ 1,754	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,754	$ 192,395
One-time services and other	26,761	45	—	—	—	—	—	—	45	26,806
Total revenue	**217,402**	**1,799**	**—**	**—**	**—**	**—**	**—**	**—**	**1,799**	**219,201**
Cost of revenue										
Cost of recurring	80,839	—	(370)	(9,587)	(21)	—	—	—	(9,978)	70,861
Cost of one-time services and other	21,583	—	(425)	(609)	—	—	—	—	(1,034)	20,549
Total cost of revenue	**102,422**	**—**	**(795)**	**(10,196)**	**(21)**	**—**	**—**	**—**	**(11,012)**	**91,410**
Gross profit	**114,980**	**1,799**	**795**	**10,196**	**21**	**—**	**—**	**—**	**12,811**	**127,791**
Recurring gross margin	*57.6%*								*5.6%*	*63.2%*
One-time services and other gross margin	*19.3%*								*4.0%*	*23.3%*
Total Gross Margin	***52.9%***								***5.4%***	***58.3%***
Operating expenses										
Sales, marketing and customer success	43,336	—	(1,475)	—	(82)	(5)	—	—	(1,562)	41,774
Research and development	22,264	—	(1,888)	—	—	—	—	—	(1,888)	20,376
General and administrative	27,520	—	(5,418)	—	(1,248)	(348)	(2,063)	—	(9,077)	18,443
Amortization	1,107	—	—	(1,107)	—	—	—	—	(1,107)	—
Restructuring	794	—	—	—	—	—	—	(794)	(794)	—
Total operating expenses	**95,021**	**—**	**(8,781)**	**(1,107)**	**(1,330)**	**(353)**	**(2,063)**	**(794)**	**(14,428)**	**80,593**
Income from operations	**19,959**	**1,799**	**9,576**	**11,303**	**1,351**	**353**	**2,063**	**794**	**27,239**	**47,198**
Total Operating Margin	***9.2%***								***12.3%***	***21.5%***
Net Income	**$ 36,638**									**$ 30,243**
Shares used in computing diluted earnings per share	48,014									48,014
Diluted earnings per share	**$ 0.76**									**$ 0.63**

Reconciliation of GAAP to Non-GAAP Consolidated Statements of Operations (Unaudited)

	Year Ended December 31, 2017									
(in thousands, except per share amounts)	GAAP	Acquisition-related Deferred Revenue Write-down	Stock-based Compensation Expense	Amortization of Intangibles from Business Combinations	Employee Severance	Acquisition-related Integration Costs	Acquisition-related Expenses	Restructuring	Non-GAAP Adjustments Subtotal	Non-GAAP
Revenue										
Recurring	$ 684,583	$ 2,360	$ —	$ —	$ —	$ —	$ —	$ —	$ 2,360	$ 686,943
One-time services and other	103,904	136	—	—	—	—	—	—	136	104,040
Total revenue	**788,487**	**2,496**	**—**	**—**	**—**	**—**	**—**	**—**	**2,496**	**790,983**
Cost of revenue										
Cost of recurring	277,639	—	(1,627)	(37,557)	(454)	(44)	—	—	(39,682)	237,957
Cost of one-time services and other	84,265	—	(1,843)	(2,542)	(540)	(42)	—	—	(4,967)	79,298
Total cost of revenue	**361,904**	**—**	**(3,470)**	**(40,099)**	**(994)**	**(86)**	**—**	**—**	**(44,649)**	**317,255**
Gross profit	**426,583**	**2,496**	**3,470**	**40,099**	**994**	**86**	**—**	**—**	**47,145**	**473,728**
Recurring gross margin	*59.4%*								*6.0%*	*65.4%*
One-time services and other gross margin	*18.9%*								*4.9%*	*23.8%*
Total Gross Margin	***54.1%***								***5.8%***	***59.9%***
Operating expenses										
Sales, marketing and customer success	169,559	—	(6,381)	—	(656)	(23)	—	—	(7,060)	162,499
Research and development	89,911	—	(7,765)	—	(629)	(32)	—	—	(8,426)	81,485
General and administrative	94,870	—	(23,015)	—	(2,066)	(825)	(5,914)	—	(31,820)	63,050
Amortization	3,271	—	—	(3,271)	—	—	—	—	(3,271)	—
Restructuring	794	—	—	—	—	—	—	(794)	(794)	—
Total operating expenses	**358,405**	**—**	**(37,161)**	**(3,271)**	**(3,351)**	**(880)**	**(5,914)**	**(794)**	**(51,371)**	**307,034**
Income from operations	**68,178**	**2,496**	**40,631**	**43,370**	**4,345**	**966**	**5,914**	**794**	**98,516**	**166,694**
Total Operating Margin	***8.6%***								***12.5%***	***21.1%***
Net Income	**$ 73,633**									**$ 106,552**
Shares used in computing diluted earnings per share	47,776									47,776
Diluted earnings per share	**$ 1.54**									**$ 2.23**

Adjusted Unaudited Historical Financial Statements and Non-GAAP Financial Information Being Presented

Recently adopted accounting pronouncements

On January 1, 2018, the Company, adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), using the full retrospective method of transition, which requires that the standard be applied to all periods presented. Adoption of ASU 2014-09 had a material impact on the Company's consolidated balance sheets and statements of comprehensive income, but had no impact on net cash provided by or used in operating, investing or financing activities on the consolidated statements of cash flows. The primary impacts of adopting ASU 2016-09 relate to the deferral of incremental commission and other costs of obtaining contracts with customers and the increase to the amortization period for those costs. Previously, the Company deferred only direct and incremental commission costs to obtain a contract and amortized those costs over the contract term, generally three years, as the revenue was recognized. Under the new standard, the Company defers all incremental commission and related fringe benefit costs to obtain a contract and amortizes these costs in a manner that aligns with the expected period of benefit, which was determined to be five years.

Reclassifications to the unaudited historical financial information

In order to provide comparability between periods presented, certain previously reported historical financial information has been reclassified to conform to the presentation of the most recent reporting period. A summary of those prior period reclassifications is as follows:

- Our revenue from "subscriptions" and "maintenance" and a portion of our "services and other" revenue have been combined within "recurring" revenue in the consolidated statements of comprehensive income. Similarly, "cost of subscriptions" and "cost of maintenance" and a portion of "cost of services and other" have been combined within "cost of recurring" in the consolidated statements of comprehensive income.
- "Services and other" revenue has been renamed as "one-time services and other" and consists of revenue that did not meet the description of "recurring" revenue in the consolidated statements of comprehensive income. "Cost of services and other" has been renamed as "cost of one-time services and other" and consists of costs that did not meet the description of those related to "recurring" revenue in the consolidated statements of comprehensive income.

Historical Consolidated Balance Sheets (Unaudited)

(in thousands)	Restated for ASU 2014-09 Q4 2016	Restated for ASU 2014-09 Q4 2017	Previously Reported Q4 2016	Previously Reported Q4 2017	Change Q4 2016	Change Q4 2017
Assets						
Current assets:						
Cash and cash equivalents	$ 16,902	$ 29,830	$ 16,902	$ 29,830	$ —	$ —
Restricted cash due to customers	353,771	610,344	353,771	610,344	—	—
Accounts receivable, net of allowance	88,261	95,679	88,932	96,293	(671)	(614)
Customer funds receivable	—	1,536	—	1,536	—	—
Prepaid expenses and other current assets	54,211	61,978	48,314	56,099	5,897	5,879
Deferred tax asset, current portion	—	—	—	—	—	—
Total current assets	513,145	799,367	507,919	794,102	5,226	5,265
Property and equipment, net	50,269	42,243	50,269	42,243	—	—
Software development costs, net	37,582	54,098	37,582	54,098	—	—
Goodwill	438,240	530,249	438,240	530,249	—	—
Intangible assets, net	253,676	314,651	253,676	314,651	—	—
Other assets	52,097	57,238	22,524	24,083	29,573	33,155
Total assets	$ 1,345,009	$ 1,797,846	$ 1,310,210	$ 1,759,426	$ 34,799	$ 38,420
Liabilities and stockholders' equity						
Current liabilities:						
Trade accounts payable	$ 23,274	$ 24,693	$ 23,274	$ 24,693	$ —	$ —
Accrued expenses and other current liabilities	54,196	54,399	54,196	54,399	—	—
Due to customers	353,771	611,880	353,771	611,880	—	—
Debt, current portion	4,375	8,576	4,375	8,576	—	—
Deferred revenue, current portion	243,849	275,063	244,500	276,456	(651)	(1,393)
Total current liabilities	679,465	974,611	680,116	976,004	(651)	(1,393)
Debt, net of current portion	338,018	429,648	338,018	429,648	—	—
Deferred tax liability	43,475	48,023	29,558	37,597	13,917	10,426
Deferred revenue, net of current portion	6,440	3,643	6,440	3,643	—	—
Other liabilities	8,533	5,632	8,533	5,632	—	—
Total liabilities	1,075,931	1,461,557	1,062,665	1,452,524	13,266	9,033
Commitments and contingencies						
Stockholders' equity:						
Preferred stock	—	—	—	—	—	—
Common stock, $0.001 par value	58	59	58	59	—	—
Additional paid-in capital	310,452	351,042	310,452	351,042	—	—
Treasury stock, at cost	(215,237)	(239,199)	(215,237)	(239,199)	—	—
Accumulated other comprehensive loss	(604)	(642)	(457)	(649)	(147)	7
Retained earnings	174,409	225,029	152,729	195,649	21,680	29,380
Total stockholders' equity	269,078	336,289	247,545	306,902	21,533	29,387
Total liabilities and stockholders' equity	$ 1,345,009	$ 1,797,846	$ 1,310,210	$ 1,759,426	$ 34,799	$ 38,420

Historical Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands, except share and per share amounts)	Restated for ASU 2014-09 FY 2016	Restated for ASU 2014-09 FY 2017	Previously Reported[2] FY 2016	Previously Reported[2] FY 2017	Change FY 2016	Change FY 2017
Revenue						
Recurring	$ 609,063	$ 684,583	$ 575,933	$ 651,031	$ 33,130	$ 33,552
One-time services and other	122,579	103,904	154,882	137,275	(32,303)	(33,371)
Total revenue	731,642	788,487	730,815	788,306	827	181
Cost of revenue						
Cost of recurring	246,669	277,639	235,977	265,713	10,692	11,926
Cost of one-time services and other	92,551	84,265	103,243	96,191	(10,692)	(11,926)
Total cost of revenue	339,220	361,904	339,220	361,904	—	—
Gross profit	392,422	426,583	391,595	426,402	827	181
Operating expenses						
Sales, marketing and customer success	150,157	169,559	155,754	173,525	(5,597)	(3,966)
Research and development	89,870	89,911	89,870	89,911	—	—
General and administrative	81,331	94,870	81,331	94,870	—	—
Amortization	2,840	3,271	2,840	3,271	—	—
Restructuring	—	794	—	794	—	—
Total operating expenses	324,198	358,405	329,795	362,371	(5,597)	(3,966)
Income from operations	68,224	68,178	61,800	64,031	6,424	4,147
Interest expense	(10,583)	(12,097)	(10,583)	(12,097)	—	—
Other income (expense), net	(291)	2,260	(291)	2,260	—	—
Income before provision (benefit) for income taxes	57,350	58,341	50,926	54,194	6,424	4,147
Income tax provision (benefit)	11,946	(15,292)	9,411	(11,739)	2,535	(3,553)
Net income	$ 45,404	$ 73,633	$ 41,515	$ 65,933	$ 3,889	$ 7,700
Earnings per share						
Basic	$ 0.98	$ 1.58	$ 0.90	$ 1.41	$ 0.08	$ 0.17
Diluted	$ 0.96	$ 1.54	$ 0.88	$ 1.38	$ 0.08	$ 0.16
Common shares and equivalents outstanding						
Basic weighted average shares	46,132,389	46,669,440	46,132,389	46,669,440	—	—
Diluted weighted average shares	47,316,538	47,775,702	47,316,538	47,775,702	—	—
Dividends per share	$ 0.48	$ 0.48	$ 0.48	$ 0.48	$ —	$ —
Other comprehensive income (loss)					—	—
Foreign currency translation adjustment	205	(789)	324	(943)	(119)	154
Unrealized gain (loss) on derivative instruments, net of tax	44	751	44	751	—	—
Total other comprehensive income (loss)	249	(38)	368	(192)	(119)	154
Comprehensive income	$ 45,653	$ 73,595	$ 41,883	$ 65,741	$ 3,770	$ 7,854

Note 1: The individual amounts for each quarter may not sum to full year totals due to rounding.
Note 2: See the discussion of our reclassifications of previously reported revenue and costs of revenue above.

Historical Reconciliations of GAAP to Non-GAAP Financial Measures (Unaudited)

	Restated for ASU 2014-09		Previously Reported		Change	
(in thousands, except share and per share amounts)	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017
GAAP Revenue	$ 731,642	$ 788,487	$ 730,815	$ 788,306	$ 827	$ 181
Non-GAAP adjustments:						
Add: Acquisition-related deferred revenue write-down	3,639	2,496	3,639	2,496	—	—
Non-GAAP revenue	$ 735,281	$ 790,983	$ 734,454	$ 790,802	$ 827	$ 181
GAAP gross profit	$ 392,422	$ 426,583	$ 391,595	$ 426,402	$ 827	$ 181
GAAP gross margin	53.6%	54.1%	53.6%	54.1%	—%	—%
Non-GAAP adjustments:					—	—
Add: Acquisition-related deferred revenue write-down	3,639	2,496	3,639	2,496	—	—
Add: Stock-based compensation expense	3,297	3,470	3,297	3,470	—	—
Add: Amortization of intangibles from business combinations	39,558	40,099	39,558	40,099	—	—
Add: Employee severance	382	994	382	994	—	—
Add: Acquisition-related integration costs	—	86	—	86	—	—
Subtotal	46,876	47,145	46,876	47,145	—	—
Non-GAAP gross profit	$ 439,298	$ 473,728	$ 438,471	$ 473,547	$ 827	$ 181
Non-GAAP gross margin	59.7%	59.9%	59.7%	59.9%	—%	—%
GAAP income from operations	$ 68,224	$ 68,178	$ 61,800	$ 64,031	$ 6,424	$ 4,147
GAAP operating margin	9.3%	8.6%	8.5%	8.1%	0.8%	0.5%
Non-GAAP adjustments:						
Add: Acquisition-related deferred revenue write-down	3,639	2,496	3,639	2,496	—	—
Add: Stock-based compensation expense	32,638	40,631	32,638	40,631	—	—
Add: Amortization of intangibles from business combinations	42,398	43,370	42,398	43,370	—	—
Add: Employee severance	1,995	4,345	1,995	4,345	—	—
Add: Acquisition-related integration costs	1,419	966	1,419	966	—	—
Add: Acquisition-related expenses	301	5,914	301	5,914	—	—
Add: Restructuring costs	—	794	—	794	—	—
Subtotal	82,390	98,516	82,390	98,516	—	—
Non-GAAP income from operations	$ 150,614	$ 166,694	$ 144,190	$ 162,547	$ 6,424	$ 4,147
Non-GAAP operating margin	20.5%	21.1%	19.6%	20.6%	0.9%	0.5%
GAAP income before provision for income taxes	$ 57,350	$ 58,341	$ 50,926	$ 54,194	$ 6,424	$ 4,147
GAAP net income	$ 45,405	$ 73,633	$ 41,515	$ 65,933	$ 3,890	$ 7,700
Shares used in computing GAAP diluted earnings per share	47,316,538	47,775,702	47,316,538	47,775,702	—	—
GAAP diluted earnings per share	$ 0.96	$ 1.54	$ 0.88	$ 1.38	$ 0.08	$ 0.16
Non-GAAP adjustments:						
Add: GAAP income tax provision (benefit)	11,946	(15,292)	9,411	(11,739)	2,535	(3,553)
Add: Total Non-GAAP adjustments affecting income from operations	82,390	98,516	82,390	98,516	—	—
(Less) add: (Gain) loss on derivative instruments	—	(462)	—	(462)	—	—
Add: Loss on debt extinguishment	—	299	—	299	—	—
Non-GAAP income before provision for income taxes	139,740	156,694	133,316	152,547	6,424	4,147
Assumed non-GAAP income tax provision (2)	44,717	50,142	42,661	48,815	2,056	1,327
Non-GAAP net income	$ 95,023	$ 106,552	$ 90,655	$ 103,732	$ 4,368	$ 2,820
Shares used in computing Non-GAAP diluted earnings per share	47,316,538	47,775,702	47,316,538	47,775,702	—	—
Non-GAAP diluted earnings per share	$ 2.01	$ 2.23	$ 1.92	$ 2.17	$ 0.09	$ 0.06

Note 1: The individual amounts for each quarter may not sum to full year totals due to rounding.
Note 2: Beginning in 2018, we now apply a non-GAAP effective tax rate of 20.0% in our determination of non-GAAP net income. All 2016 and 2017 measures of the tax impact related to non-GAAP adjustments, non-GAAP net income and non-GAAP diluted earnings per share included in these materials are calculated under Blackbaud's historical non-GAAP effective tax rate of 32.0%.

Historical Consolidated Balance Sheets Reflecting the Adoption of ASU 2014-09 (Unaudited)

(in thousands)	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Assets									
Current assets:									
Cash and cash equivalents	$ 16,902	$ 13,872	$ 17,268	$ 17,050	$ 29,830	$ 25,013	$ 29,194	$ 25,352	$ 30,866
Restricted cash due to customers	353,771	157,574	267,940	139,095	610,344	170,792	295,463	179,729	418,980
Accounts receivable, net of allowance	88,261	89,823	129,129	100,097	95,679	88,911	130,509	95,858	86,595
Customer funds receivable	—	—	—	—	1,536	6,373	5,528	5,501	1,753
Prepaid expenses and other current assets	54,211	59,012	59,780	56,638	61,978	68,474	75,816	68,842	59,788
Total current assets	513,145	320,281	474,117	312,880	799,367	359,563	536,510	375,282	597,982
Property and equipment, net	50,269	47,200	45,679	43,903	42,243	44,647	44,531	42,901	40,031
Software development costs, net	37,582	41,139	44,962	48,618	54,098	57,062	62,023	68,289	75,099
Goodwill	438,240	438,307	472,643	472,776	530,249	537,433	547,312	547,338	545,213
Intangible assets, net	253,676	243,263	263,347	252,713	314,651	306,776	317,220	305,394	291,617
Other assets	52,097	50,577	51,902	54,095	57,238	62,453	64,089	65,512	65,363
Total assets	$ 1,345,009	$ 1,140,767	$ 1,352,650	$ 1,184,985	$ 1,797,846	$ 1,367,934	$ 1,571,685	$ 1,404,716	$ 1,615,305
Liabilities and stockholders' equity									
Current liabilities:									
Trade accounts payable	$ 23,274	$ 20,666	$ 17,660	$ 17,830	$ 24,693	$ 23,619	$ 31,141	$ 25,453	$ 34,538
Accrued expenses and other current liabilities	54,196	39,072	46,508	45,650	54,399	40,113	46,182	44,391	46,893
Due to customers	353,771	157,574	267,940	139,095	611,880	177,165	300,991	185,230	420,733
Debt, current portion	4,375	4,375	7,500	8,576	8,576	8,576	8,576	8,576	7,500
Deferred revenue, current portion	243,849	236,143	279,637	275,687	275,063	254,877	306,365	302,840	295,991
Total current liabilities	679,465	457,830	619,245	486,838	974,611	504,350	693,255	566,490	805,655
Debt, net of current portion	338,018	351,995	380,162	329,380	429,648	458,592	471,236	416,680	379,624
Deferred tax liability	43,475	44,195	54,405	55,196	48,023	48,080	48,055	47,405	44,291
Deferred revenue, net of current portion	6,440	7,681	6,067	5,412	3,643	5,075	3,442	3,429	2,564
Other liabilities	8,533	7,802	7,572	7,800	5,632	7,516	7,474	7,027	9,388
Total liabilities	1,075,931	869,503	1,067,451	884,626	1,461,557	1,023,613	1,223,462	1,041,031	1,241,522
Commitments and contingencies									
Stockholders' equity:									
Preferred stock	—	—	—	—	—	—	—	—	—
Common stock, $0.001 par value	58	58	58	59	59	59	59	59	59
Additional paid-in capital	310,452	319,731	330,559	341,476	351,042	362,113	375,949	386,657	399,241
Treasury stock, at cost	(215,237)	(230,065)	(231,881)	(234,329)	(239,199)	(261,710)	(264,383)	(266,597)	(266,884)
Accumulated other comprehensive loss	(604)	(270)	(623)	(998)	(642)	7,041	(1,011)	602	(5,110)
Retained earnings	174,409	181,810	187,086	194,151	225,029	236,818	237,609	242,964	246,477
Total stockholders' equity	269,078	271,264	285,199	300,359	336,289	344,321	348,223	363,685	373,783
Total liabilities and stockholders' equity	$ 1,345,009	$ 1,140,767	$ 1,352,650	$ 1,184,985	$ 1,797,846	$ 1,367,934	$ 1,571,685	$ 1,404,716	$ 1,615,305

Historical Consolidated Statements of Comprehensive Income Reflecting the Adoption of ASU 2014-09 (Unaudited)

(in thousands, except share and per share amounts)	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY 2018
Revenue											
Recurring	$ 609,063	$ 160,047	$ 166,389	$ 167,506	$ 190,641	$ 684,583	$ 180,846	$ 192,749	$ 188,656	$ 199,930	$ 762,181
One-time services and other	122,579	25,025	25,200	26,918	26,761	103,904	23,338	20,923	20,876	21,288	86,425
Total revenue	731,642	185,072	191,589	194,424	217,402	788,487	204,184	213,672	209,532	221,218	848,606
Cost of revenue											
Cost of recurring	246,669	63,875	66,178	66,747	80,839	277,639	69,079	76,350	76,535	83,517	305,481
Cost of one-time services and other	92,551	21,607	20,817	20,258	21,583	84,265	18,958	18,822	18,702	19,779	76,261
Total cost of revenue	339,220	85,482	86,995	87,005	102,422	361,904	88,037	95,172	95,237	103,296	381,742
Gross profit	392,422	99,590	104,594	107,419	114,980	426,583	116,147	118,500	114,295	117,922	466,864
Operating expenses											
Sales, marketing and customer success	150,157	40,997	42,580	42,646	43,336	169,559	45,477	48,493	49,077	49,801	192,848
Research and development	89,870	22,706	22,870	22,071	22,264	89,911	25,958	25,297	24,218	23,338	98,811
General and administrative	81,331	21,923	21,882	23,545	27,520	94,870	25,051	28,447	24,894	27,962	106,354
Amortization	2,840	691	739	734	1,107	3,271	1,269	1,201	1,237	1,137	4,844
Restructuring	—	—	—	—	794	794	811	3,688	(914)	1,005	4,590
Total operating expenses	324,198	86,317	88,071	88,996	95,021	358,405	98,566	107,126	98,512	103,243	407,447
Income from operations	68,224	13,273	16,523	18,423	19,959	68,178	17,581	11,374	15,783	14,679	59,417
Interest expense	(10,583)	(2,377)	(3,216)	(3,092)	(3,412)	(12,097)	(3,517)	(4,303)	(4,140)	(3,938)	(15,898)
Other (expense) income, net	(291)	286	827	468	679	2,260	160	346	(147)	744	1,103
Income before provision (benefit) for income taxes	57,350	11,182	14,134	15,799	17,226	58,341	14,224	7,417	11,496	11,485	44,622
Income tax provision (benefit)	11,946	(1,960)	3,105	2,975	(19,412)	(15,292)	(3,527)	825	332	2,151	(219)
Net income	$ 45,404	$ 13,142	$ 11,029	$ 12,824	$ 36,638	$ 73,633	$ 17,751	$ 6,592	$ 11,164	$ 9,334	$ 44,841
Earnings per share											
Basic	$ 0.98	$ 0.28	$ 0.24	$ 0.27	$ 0.78	$ 1.58	$ 0.38	$ 0.14	$ 0.24	$ 0.20	$ 0.95
Diluted	$ 0.96	$ 0.28	$ 0.23	$ 0.27	$ 0.76	$ 1.54	$ 0.37	$ 0.14	$ 0.23	$ 0.19	$ 0.93
Common shares and equivalents outstanding											
Basic weighted average shares	46,132,389	46,501,761	46,662,481	46,711,709	46,794,744	46,669,440	47,019,603	47,222,657	47,279,591	47,300,931	47,206,669
Diluted weighted average shares	47,316,538	47,482,840	47,691,340	47,846,997	48,014,250	47,775,702	48,009,395	48,053,094	48,160,146	48,025,617	48,045,084
Dividends per share	$ 0.48	$ 0.12	$ 0.12	$ 0.12	$ 0.12	$ 0.48	$ 0.12	$ 0.12	$ 0.12	$ 0.12	$ 0.48
Other comprehensive income (loss)											
Foreign currency translation adjustment	205	152	(349)	(108)	(484)	(789)	6,437	(8,817)	1,047	(3,885)	(5,218)
Unrealized gain (loss) on derivative instruments, net of tax	44	182	(4)	(267)	840	751	1,079	765	566	(1,827)	583
Total other comprehensive income (loss)	249	334	(353)	(375)	356	(38)	7,516	(8,052)	1,613	(5,712)	(4,635)
Comprehensive income	$ 45,653	$ 13,476	$ 10,676	$ 12,449	$ 36,994	$ 73,595	$ 25,267	$ (1,460)	$ 12,777	$ 3,622	$ 40,206

Note 1: The individual amounts for each quarter may not sum to full year totals due to rounding.

Historical Consolidated Statements of Cash Flows Reflecting the Adoption of ASU 2014-09 (Unaudited)

(in thousands)	12 months ending 12/31/2016	3 months ending 3/31/2017	6 months ending 6/30/2017	9 months ending 9/30/2017	12 months ending 12/31/2017	3 months ending 3/31/2018	6 months ending 6/30/2018	9 months ending 9/30/2018	12 months ending 12/31/2018
Cash flows from operating activities									
Net income	$ 45,404	$ 13,142	$ 24,171	$ 36,995	$ 73,633	$ 17,751	$ 24,343	$ 35,507	$ 44,841
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation and amortization	70,491	18,091	36,481	54,765	73,948	19,820	39,847	59,993	79,566
Provision for doubtful accounts and sales returns	3,730	2,738	5,469	7,246	11,686	1,774	3,697	4,760	6,890
Stock-based compensation expense	32,638	9,294	20,129	31,055	40,631	11,092	24,953	35,683	48,274
Deferred taxes	5,415	592	(1,524)	(568)	(17,814)	902	1,121	1,430	(619)
Amortization of deferred financing costs and discount	958	239	468	650	838	188	376	564	752
Other non-cash adjustments	(864)	(243)	(540)	572	504	(197)	(419)	(2,085)	(1,912)
Changes in operating assets and liabilities, net of acquisition of businesses:									
Accounts receivable	(13,007)	(4,027)	(44,809)	(17,097)	(15,821)	5,088	(38,092)	(4,480)	2,166
Prepaid expenses and other assets	(8,495)	(3,195)	(3,262)	(2,524)	(9,550)	(10,052)	(18,629)	(12,372)	(5,217)
Trade accounts payable	3,689	(1,267)	(3,951)	(2,891)	1,024	(1,655)	6,327	(134)	9,487
Accrued expenses and other liabilities	(751)	(15,536)	(8,467)	(9,522)	(4,973)	(14,092)	(6,675)	(6,923)	(2,027)
Deferred revenue	14,420	(7,064)	30,386	24,704	22,184	(18,866)	29,545	25,888	19,184
Net cash provided by operating activities	153,628	12,764	54,551	123,385	176,290	11,753	66,394	137,831	201,385
Cash flows from investing activities									
Purchase of property and equipment	(17,694)	(2,719)	(5,666)	(8,417)	(10,208)	(5,771)	(9,575)	(12,910)	(14,719)
Capitalized software development costs	(26,359)	(6,583)	(13,614)	(20,605)	(28,345)	(7,103)	(16,359)	(26,629)	(37,629)
Purchase of net assets of acquired companies, net of cash and restricted cash acquired	(3,377)	59	(49,729)	(49,729)	(146,789)	(5,036)	(45,315)	(45,315)	(44,943)
Purchase of derivative instruments	—	—	(516)	(516)	(568)	—	—	—	—
Proceeds from settlement of derivative instruments	—	—	—	1,030	1,030	—	—	—	—
Other investing activities	—	—	—	—	—	—	—	—	(500)
Net cash used in investing activities	(47,430)	(9,243)	(69,525)	(78,237)	(184,880)	(17,910)	(71,249)	(84,854)	(97,791)
Cash flows from financing activities									
Proceeds from issuance of debt	227,200	67,600	575,700	588,300	774,500	81,700	173,500	219,900	270,900
Payments on debt	(293,575)	(53,794)	(529,169)	(594,144)	(679,119)	(52,875)	(132,150)	(233,225)	(322,476)
Debt issuance costs	—	—	(3,085)	(3,085)	(3,085)	—	—	—	—
Employee taxes paid for withheld shares upon equity award settlement	(15,376)	(14,828)	(16,644)	(19,092)	(23,962)	(22,511)	(25,184)	(27,398)	(27,685)
Proceeds from exercise of stock options	16	11	14	14	15	9	11	11	11
Change in due to customers	96,000	(195,999)	(85,581)	(214,244)	226,717	(434,640)	(309,189)	(425,218)	(188,502)
Customer funds receivable	—	—	—	—	6,644	(4,783)	(4,391)	(4,371)	(844)
Dividend payments to stockholders	(22,811)	(5,765)	(11,530)	(17,299)	(23,069)	(5,825)	(11,653)	(17,484)	(23,312)
Net cash (used in) provided by financing activities	(8,546)	(202,775)	(70,295)	(259,550)	278,641	(438,925)	(309,056)	(487,785)	(291,908)
Effect of exchange rate on cash, cash equivalents, and restricted cash	2,622	26	(196)	(126)	(550)	713	(1,606)	(285)	(2,014)
Net increase (decrease) in cash, cash equivalents, and restricted cash	100,274	(199,228)	(85,465)	(214,528)	269,501	(444,369)	(315,517)	(435,093)	(190,328)
Cash, cash equivalents, and restricted cash, beginning of period	270,399	370,673	370,673	370,673	370,673	640,174	640,174	640,174	640,174
Cash, cash equivalents, and restricted cash, end of period	$ 370,673	$ 171,445	$ 285,208	$ 156,145	$ 640,174	$ 195,805	$ 324,657	$ 205,081	$ 449,846

Historical Reconciliations of GAAP to Non-GAAP Financial Measures Reflecting the Adoption of ASU 2014-09 (Unaudited)

(in thousands, except share and per share amounts)	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY 2018
GAAP Revenue	$ 731,642	$ 185,072	$ 191,589	$ 194,424	$ 217,402	$ 788,487	$ 204,184	$ 213,672	$ 209,532	$ 221,218	$ 848,606
Non-GAAP adjustments:											
Add: Acquisition-related deferred revenue write-down	3,639	—	348	349	1,799	2,496	348	919	571	571	2,409
Non-GAAP revenue	$ 735,281	$ 185,072	$ 191,937	$ 194,773	$ 219,201	$ 790,983	$ 204,532	$ 214,591	$ 210,103	$ 221,789	$ 851,015
GAAP gross profit	$ 392,422	$ 99,590	$ 104,594	$ 107,419	$ 114,980	$ 426,583	$ 116,147	$ 118,500	$ 114,295	$ 117,922	$ 466,864
GAAP gross margin	53.6%	53.8%	54.6%	55.2%	52.9%	54.1%	56.9%	55.5%	54.5%	53.3%	55.0%
Non-GAAP adjustments:											
Add: Acquisition-related deferred revenue write-down	3,639	—	348	349	1,799	2,496	348	919	571	571	2,409
Add: Stock-based compensation expense	3,297	791	950	934	795	3,470	1,095	1,645	1,270	1,232	5,242
Add: Amortization of intangibles from business combinations	39,558	9,855	10,072	9,976	10,196	40,099	10,386	10,677	10,625	10,545	42,233
Add: Employee severance	382	952	21	—	21	994	575	12	279	52	918
Add: Acquisition-related integration costs	—	86	—	—	—	86	—	25	—	—	25
Subtotal	46,876	11,684	11,391	11,259	12,811	47,145	12,404	13,278	12,745	12,400	50,827
Non-GAAP gross profit	$ 439,298	$ 111,274	$ 115,985	$ 118,678	$ 127,791	$ 473,728	$ 128,551	$ 131,778	$ 127,040	$ 130,322	$ 517,691
Non-GAAP gross margin	59.7%	60.1%	60.4%	60.9%	58.3%	59.9%	62.9%	61.4%	60.5%	58.8%	60.8%
GAAP income from operations	$ 68,224	$ 13,273	$ 16,523	$ 18,423	$ 19,959	$ 68,178	$ 17,581	$ 11,374	$ 15,783	$ 14,679	$ 59,417
GAAP operating margin	9.3%	7.2%	8.6%	9.5%	9.2%	8.6%	8.6%	5.3%	7.5%	6.6%	7.0%
Non-GAAP adjustments:											
Add: Acquisition-related deferred revenue write-down	3,639	—	348	349	1,799	2,496	348	919	571	571	2,409
Add: Stock-based compensation expense	32,638	9,294	10,835	10,926	9,576	40,631	11,092	13,861	10,730	12,591	48,274
Add: Amortization of intangibles from business combinations	42,398	10,546	10,811	10,710	11,303	43,370	11,655	11,878	11,862	11,682	47,077
Add: Employee severance	1,995	2,746	120	128	1,351	4,345	931	100	682	533	2,246
Add: Acquisition-related integration costs	1,419	230	—	383	353	966	433	2,194	756	300	3,683
Add: Acquisition-related expenses	301	570	1,762	1,519	2,063	5,914	394	1,211	269	972	2,846
Add: Restructuring costs	—	—	—	—	794	794	811	3,688	(914)	1,005	4,590
Subtotal	82,390	23,386	23,876	24,015	27,239	98,516	25,664	33,851	23,956	27,654	111,125
Non-GAAP income from operations	$ 150,614	$ 36,659	$ 40,399	$ 42,438	$ 47,198	$ 166,694	$ 43,245	$ 45,225	$ 39,739	$ 42,333	$ 170,542
Non-GAAP operating margin	20.5%	19.8%	21.0%	21.8%	21.5%	21.1%	21.1%	21.1%	18.9%	19.1%	20.0%
GAAP income before provision for income taxes	$ 57,350	$ 11,182	$ 14,134	$ 15,799	$ 17,226	$ 58,341	$ 14,224	$ 7,417	$ 11,496	$ 11,485	$ 44,622
GAAP net income	$ 45,405	$ 13,142	$ 11,029	$ 12,824	$ 36,638	$ 73,633	$ 17,751	$ 6,592	$ 11,164	$ 9,334	$ 44,841
Shares used in computing GAAP diluted earnings per share	47,316,538	47,482,840	47,691,340	47,846,997	48,014,250	47,775,702	48,009,395	48,053,094	48,160,146	48,025,617	48,045,084
GAAP diluted earnings per share	$ 0.96	$ 0.28	$ 0.23	$ 0.27	$ 0.76	$ 1.54	$ 0.37	$ 0.14	$ 0.23	$ 0.19	$ 0.93
Non-GAAP adjustments:											
Add: GAAP income tax provision (benefit)	11,946	(1,960)	3,105	2,975	(19,412)	(15,292)	(3,527)	825	332	2,151	(219)
Add: Total Non-GAAP adjustments affecting income from operations	82,390	23,386	23,876	24,015	27,239	98,516	25,664	33,851	23,956	27,654	111,125
(Less) add: (Gain) loss on derivative instruments	—	—	(475)	3	10	(462)	—	—	—	—	—
Add: Loss on debt extinguishment	—	—	162	137	—	299	—	—	—	—	—
Non-GAAP income before provision for income taxes	139,740	34,568	37,697	39,954	44,475	156,694	39,888	41,268	35,452	39,139	155,747
Assumed non-GAAP income tax provision (2)	44,717	11,062	12,063	12,785	14,232	50,142	7,978	8,254	7,090	7,828	31,149
Non-GAAP net income	$ 95,023	$ 23,506	$ 25,634	$ 27,169	$ 30,243	$ 106,552	$ 31,910	$ 33,014	$ 28,362	$ 31,311	$ 124,598
Shares used in computing Non-GAAP diluted earnings per share	47,316,538	47,482,840	47,691,340	47,846,997	48,014,250	47,775,702	48,009,395	48,053,094	48,160,146	48,025,617	48,045,084
Non-GAAP diluted earnings per share	$ 2.01	$ 0.50	$ 0.54	$ 0.57	$ 0.63	$ 2.23	$ 0.66	$ 0.69	$ 0.59	$ 0.65	$ 2.59

Note 1: The individual amounts for each quarter may not sum to full year totals due to rounding.

Note 2: Beginning in 2018, we now apply a non-GAAP effective tax rate of 20.0% in our determination of non-GAAP net income. All 2016 and 2017 measures of the tax impact related to non-GAAP adjustments, non-GAAP net income and non-GAAP diluted earnings per share included in these materials are calculated under Blackbaud's historical non-GAAP effective tax rate of 32.0%.

Historical Reconciliations of GAAP to Non-GAAP Financial Measures Reflecting the Adoption of ASU 2014-09 (Unaudited)

(in thousands)	12 months ending 12/31/2016	3 months ending 3/31/2017	6 months ending 6/30/2017	9 months ending 9/30/2017	12 months ending 12/31/2017	3 months ending 3/31/2018	6 months ending 6/30/2018	9 months ending 9/30/2018	12 months ending 12/31/2018
GAAP net cash provided by operating activities	153,628	12,764	54,551	123,385	176,290	11,753	66,394	137,831	201,385
Less: purchase of property and equipment	(17,694)	(2,719)	(5,666)	(8,417)	(10,208)	(5,771)	(9,575)	(12,910)	(14,719)
Less: capitalized software development costs	(26,359)	(6,583)	(13,614)	(20,605)	(28,345)	(7,103)	(16,359)	(26,629)	(37,629)
Non-GAAP free cash flow	$ 109,575	$ 3,462	$ 35,271	$ 94,363	$ 137,737	$ (1,121)	$ 40,460	$ 98,292	$ 149,037