

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2019**

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**<sup>®</sup>

**Blackbaud, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**11-2617163**

(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)

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

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

Title of Each Class  
**Common Stock, \$0.001 Par Value**

Trading Symbol(s)  
**BLKB**

Name of Each Exchange on which Registered  
**The Nasdaq Stock Market LLC  
(Nasdaq Global Select Market)**

The number of shares of the registrant's Common Stock outstanding as of April 24, 2019 was 49,186,460.



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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, 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, and potential litigation involving us, all of which are based on current expectations, estimates, and forecasts, and the beliefs and assumptions of our management. Words such as "believes," "seeks," "expects," "may," "might," "should," "intends," "could," "would," "likely," "will," "targets," "plans," "anticipates," "aims," "projects," "estimates" or any variations of such words and similar expressions are also intended to identify such forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict. Accordingly, they should not be viewed as assurances of future performance, and actual results may differ materially and adversely from those expressed in any forward-looking statements.

Important factors that could cause actual results to differ materially from our expectations expressed in forward-looking statements include, but are not limited to, those summarized under "Item 1A. Risk factors" and elsewhere in this report, in our Annual Report on Form 10-K for the year ended December 31, 2018 and in our other SEC filings. Forward-looking statements represent our management's beliefs and assumptions only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update or revise any forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statement, whether as a result of new information, future events or otherwise.

# ▶ PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

### Blackbaud, Inc. Consolidated balance sheets (Unaudited)

(dollars in thousands)	March 31, 2019	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 25,187	\$ 30,866
Restricted cash due to customers	219,396	418,980
Accounts receivable, net of allowance of \$5,128 and \$4,722 at March 31, 2019 and December 31, 2018, respectively	90,727	86,595
Customer funds receivable	5,474	1,753
Prepaid expenses and other current assets	73,099	59,788
Total current assets	413,883	597,982
Property and equipment, net	38,757	40,031
Operating lease right-of-use assets	110,485	—
Software development costs, net	81,231	75,099
Goodwill	634,845	545,213
Intangible assets, net	355,751	291,617
Other assets	67,461	65,363
<b>Total assets</b>	\$ 1,702,413	\$ 1,615,305
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Trade accounts payable	\$ 32,640	\$ 34,538
Accrued expenses and other current liabilities	54,983	46,893
Due to customers	224,870	420,733
Debt, current portion	7,500	7,500
Deferred revenue, current portion	281,082	295,991
Total current liabilities	601,075	805,655
Debt, net of current portion	576,068	379,624
Deferred tax liability	48,050	44,291
Deferred revenue, net of current portion	4,290	2,564
Operating lease liabilities, net of current portion	102,880	—
Other liabilities	4,302	9,388
<b>Total liabilities</b>	1,336,665	1,241,522
Commitments and contingencies (see Note 10)		
Stockholders' equity:		
Preferred stock; 20,000,000 shares authorized, none outstanding	—	—
Common stock, \$0.001 par value; 180,000,000 shares authorized, 60,182,678 and 59,327,633 shares issued at March 31, 2019 and December 31, 2018, respectively	60	59
Additional paid-in capital	412,937	399,241
Treasury stock, at cost; 10,999,885 and 10,760,574 shares at March 31, 2019 and December 31, 2018, respectively	(285,284)	(266,884)
Accumulated other comprehensive loss	(1,452)	(5,110)
Retained earnings	239,487	246,477
<b>Total stockholders' equity</b>	365,748	373,783
<b>Total liabilities and stockholders' equity</b>	\$ 1,702,413	\$ 1,615,305

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

**Blackbaud, Inc.**  
**Consolidated statements of comprehensive income**  
**(Unaudited)**

(dollars in thousands, except per share amounts)	Three months ended March 31,	
	2019	2018
<b>Revenue</b>		
Recurring	\$ 198,094	\$ 180,846
One-time services and other	17,736	23,338
<b>Total revenue</b>	<b>215,830</b>	<b>204,184</b>
<b>Cost of revenue</b>		
Cost of recurring	84,711	69,079
Cost of one-time services and other	14,572	18,958
<b>Total cost of revenue</b>	<b>99,283</b>	<b>88,037</b>
<b>Gross profit</b>	<b>116,547</b>	<b>116,147</b>
<b>Operating expenses</b>		
Sales, marketing and customer success	55,455	45,477
Research and development	28,461	25,958
General and administrative	27,117	25,051
Amortization	1,376	1,269
Restructuring	1,953	811
<b>Total operating expenses</b>	<b>114,362</b>	<b>98,566</b>
<b>Income from operations</b>	<b>2,185</b>	<b>17,581</b>
Interest expense	(5,323)	(3,517)
Other income, net	182	160
<b>(Loss) income before provision for income taxes</b>	<b>(2,956)</b>	<b>14,224</b>
Income tax benefit	(1,834)	(3,527)
<b>Net (loss) income</b>	<b>\$ (1,122)</b>	<b>\$ 17,751</b>
<b>(Loss) earnings per share</b>		
Basic	\$ (0.02)	\$ 0.38
Diluted	\$ (0.02)	\$ 0.37
<b>Common shares and equivalents outstanding</b>		
Basic weighted average shares	47,516,912	47,019,603
Diluted weighted average shares	47,516,912	48,009,395
<b>Other comprehensive income (loss)</b>		
Foreign currency translation adjustment	4,590	6,437
Unrealized (loss) gain on derivative instruments, net of tax	(932)	1,079
<b>Total other comprehensive income</b>	<b>3,658</b>	<b>7,516</b>
<b>Comprehensive income</b>	<b>\$ 2,536</b>	<b>\$ 25,267</b>

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

**Blackbaud, Inc.**  
**Consolidated statements of cash flows**  
**(Unaudited)**

(dollars in thousands)	Three months ended March 31,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net (loss) income	\$ (1,122)	\$ 17,751
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	21,724	19,820
Provision for doubtful accounts and sales returns	2,032	1,774
Stock-based compensation expense	13,726	11,092
Deferred taxes	(1,155)	902
Amortization of deferred financing costs and discount	188	188
Other non-cash adjustments	1,820	(197)
Changes in operating assets and liabilities, net of acquisition and disposal of businesses:		
Accounts receivable	(1,797)	5,088
Prepaid expenses and other assets	(12,107)	(10,052)
Trade accounts payable	(3,624)	(1,655)
Accrued expenses and other liabilities	(11,690)	(14,092)
Deferred revenue	(18,006)	(18,866)
<b>Net cash (used in) provided by operating activities</b>	<b>(10,011)</b>	<b>11,753</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(1,152)	(5,771)
Capitalized software development costs	(11,319)	(7,103)
Purchase of net assets of acquired companies, net of cash and restricted cash acquired	(109,386)	(5,036)
<b>Net cash used in investing activities</b>	<b>(121,857)</b>	<b>(17,910)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of debt	271,500	81,700
Payments on debt	(75,175)	(52,875)
Employee taxes paid for withheld shares upon equity award settlement	(18,400)	(22,511)
Proceeds from exercise of stock options	3	9
Change in due to customers	(242,885)	(434,640)
Change in customer funds receivable	(3,573)	(4,783)
Dividend payments to stockholders	(5,901)	(5,825)
<b>Net cash used in financing activities</b>	<b>(74,431)</b>	<b>(438,925)</b>
Effect of exchange rate on cash, cash equivalents, and restricted cash	1,036	713
<b>Net decrease in cash, cash equivalents, and restricted cash</b>	<b>(205,263)</b>	<b>(444,369)</b>
<b>Cash, cash equivalents, and restricted cash, beginning of period</b>	<b>449,846</b>	<b>640,174</b>
<b>Cash, cash equivalents, and restricted cash, end of period</b>	<b>\$ 244,583</b>	<b>\$ 195,805</b>

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

(dollars in thousands)	March 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 25,187	\$ 30,866
Restricted cash due to customers	219,396	418,980
<b>Total cash, cash equivalents and restricted cash in the statement of cash flows</b>	<b>\$ 244,583</b>	<b>\$ 449,846</b>

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

**Blackbaud, Inc.**  
**Consolidated statements of stockholders' equity**  
(Unaudited)

(dollars in thousands)	Common stock		Additional paid-in capital	Treasury stock	Accumulated other comprehensive Income (loss)	Retained earnings	Total stockholders' equity
	Shares	Amount					
<b>Balance at December 31, 2018</b>	59,327,633	\$ 59	\$ 399,241	\$ (266,884)	\$ (5,110)	\$ 246,477	\$ 373,783
Net loss	—	—	—	—	—	(1,122)	(1,122)
Payment of dividends (\$0.12 per share)	—	—	—	—	—	(5,901)	(5,901)
Exercise of stock options and stock appreciation rights and vesting of restricted stock units	234,453	—	3	—	—	—	3
Employee taxes paid for 239,311 withheld shares upon equity award settlement	—	—	—	(18,400)	—	—	(18,400)
Stock-based compensation	—	—	13,693	—	—	33	13,726
Restricted stock grants	663,906	1	—	—	—	—	1
Restricted stock cancellations	(43,314)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	3,658	—	3,658
<b>Balance at March 31, 2019</b>	60,182,678	\$ 60	\$ 412,937	\$ (285,284)	\$ (1,452)	\$ 239,487	\$ 365,748

(dollars in thousands)	Common stock		Additional paid-in capital	Treasury stock	Accumulated other comprehensive Income (loss)	Retained earnings	Total stockholders' equity
	Shares	Amount					
<b>Balance at December 31, 2017</b>	58,551,761	\$ 59	\$ 351,042	\$ (239,199)	\$ (642)	\$ 225,029	\$ 336,289
Net income	—	—	—	—	—	17,751	17,751
Payment of dividends (\$0.12 per share)	—	—	—	—	—	(5,825)	(5,825)
Exercise of stock options and stock appreciation rights and vesting of restricted stock units	279,422	—	9	—	—	—	9
Employee taxes paid for 234,454 withheld shares upon equity award settlement	—	—	—	(22,511)	—	—	(22,511)
Stock-based compensation	—	—	11,062	—	—	30	11,092
Restricted stock grants	437,878	—	—	—	—	—	—
Restricted stock cancellations	(35,218)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	7,516	—	7,516
Reclassification upon early adoption of ASU 2018-02	—	—	—	—	167	(167)	—
<b>Balance at March 31, 2018</b>	59,233,843	\$ 59	\$ 362,113	\$ (261,710)	\$ 7,041	\$ 236,818	\$ 344,321

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



**Blackbaud, Inc.**  
**Notes to consolidated financial statements**  
**(Unaudited)**

## 1. Organization

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We are the world's leading cloud software company powering social good. Serving the entire social good community—nonprofits, foundations, companies, education institutions, healthcare organizations 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 more than three 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

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### Unaudited interim consolidated financial statements

The accompanying interim consolidated 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 statement 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, 2018, has been derived from the audited consolidated financial statements at that date. Operating results and cash flows for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2019, 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 interim consolidated 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, 2018, and other forms filed with the SEC from time to time.

### Basis of consolidation

The 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").

### Recently adopted accounting pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 requires lessees to record most leases on their balance sheet but recognize expenses in the income statement in a manner similar to previous guidance. The way in which entities classify leases determines how to recognize lease-related revenue and expense.

We adopted ASU 2016-02 as of January 1, 2019 using the transition method that allowed us to initially apply the guidance at the adoption date of January 1, 2019 without adjusting comparative periods presented. We elected to use the package of practical expedients that allowed us to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any existing leases. We did not elect

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

to use the hindsight practical expedient, which permits entities to use hindsight in determining the lease term and assessing impairment. Additionally, we elected not to apply the recognition requirements of the new lease accounting standard to short-term leases. Adopting ASU 2016-02 had a material impact on our consolidated balance sheet as of January 1, 2019, as we recognized \$121.6 million of lease liabilities and \$113.4 million of right-of-use ("ROU") assets for those leases classified as operating leases.

#### **Summary of significant accounting policies**

Except for the accounting policy added for leases below as a result of adopting ASU 2016-02, there have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 20, 2019, that have had a material impact on our consolidated financial statement.

#### Leases

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets, accrued expense and other current liabilities, and operating lease liabilities, net of current portion in our consolidated balance sheet as of March 31, 2019.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. The operating lease ROU asset also includes any initial direct costs and lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments related to our operating leases is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components, which are generally accounted for separately. We do not recognize short-term leases (those that, at the commencement date, have a lease term of 12 months or less) on our consolidated balance sheets.

### **3. Business Combinations**

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#### **YourCause acquisition**

On January 2, 2019, we acquired all of the outstanding equity securities, including all voting equity interests, of YourCause Holdings, LLC, a Delaware limited liability company ("YourCause"), pursuant to a purchase agreement and plan of merger. The acquisition expands our footprint in corporate social responsibility and employee engagement and enhances our position as a leader in providing solutions to both nonprofit organizations and for-profit companies committed to addressing social issues. We acquired the equity securities for an aggregate purchase price of \$157.7 million in cash, subject to certain adjustments set forth in the agreement and plan of merger. The purchase price and related expenses were funded primarily through borrowings under the 2017 Credit Facility (as defined below). As a result of the acquisition, YourCause has become a wholly-owned subsidiary of ours. The operating results of YourCause have been included in our consolidated financial statements from the date of acquisition. During the three months ended March 31, 2019, we incurred insignificant acquisition-related expenses associated with the acquisition, which were recorded in general and administrative expense.

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

The fair values assigned to the assets acquired and liabilities assumed in the table below are based on our best estimates and assumptions as of the reporting date and are considered preliminary pending finalization. The estimates and assumptions are subject to change as we obtain additional information during the measurement period, which may be up to one year from the acquisition date. The assets and liabilities, pending finalization, include the valuation of intangible assets as well as the assumed deferred revenue and deferred income tax balances.

(in thousands)	Purchase price allocation
Net working capital, excluding deferred revenue	\$ 3,332
Other long-term assets	2,574
Identifiable intangible assets	74,690
Deferred tax liability	(4,615)
Deferred revenue	(4,300)
Other long-term liabilities	(1,650)
Goodwill	87,717
Total purchase price	\$ 157,748

The estimated fair value of accounts receivable acquired approximates the contractual value of \$4.1 million and \$54.7 million of the goodwill arising in the acquisition is deductible for income tax purposes. The estimated goodwill recognized is attributable primarily to the opportunities for expected synergies from combining the operations and assembled workforce of YourCause.

The YourCause acquisition resulted in the identification of the following identifiable intangible assets:

YourCause	Intangible assets acquired (in thousands)	Weighted average amortization period (in years)
Acquired technology	\$ 47,800	12
Customer relationships	25,900	15
Marketing assets	830	2
Non-compete agreements	160	0
Total intangible assets	\$ 74,690	13

The estimated fair values of the intangible assets were based on variations of the income approach, which estimates fair value based upon the present value of cash flows that the assets are expected to generate, and which included the relief-from-royalty method, incremental cash flow method, including the comparative (with and without) method and multi-period excess earnings method, depending on the intangible asset being valued. The method of amortization of identifiable finite-lived intangible assets is based on the expected pattern in which the estimated economic benefits of the respective assets are consumed or otherwise used up. Customer relationships and acquired technology assets are being amortized on an accelerated basis. Marketing assets are being amortized on a straight-line basis. The non-compete agreements were fully amortized as of March 31, 2019, based on the insignificance of the acquired assets.

We determined that the impact of this acquisition was not material to our consolidated financial statements; therefore, separate presentation of revenue and earnings since the acquisition date and pro forma information are not required nor included herein.

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

#### 4. Goodwill and Other Intangible Assets

The change in goodwill during the three months ended March 31, 2019, consisted of the following:

(dollars in thousands)	Total
<b>Balance at December 31, 2018</b>	\$ 545,213
Additions related to current year business combinations	87,717
Effect of foreign currency translation	1,915
<b>Balance at March 31, 2019</b>	<b>\$ 634,845</b>

#### 5. (Loss) Earnings Per Share

We compute basic earnings (loss) per share by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income available to common stockholders by the weighted average number of common shares and dilutive potential common shares outstanding during the period. Diluted earnings (loss) per share reflect the assumed exercise, settlement and vesting of all dilutive securities using the "treasury stock method" except when the effect is anti-dilutive. Potentially dilutive securities consist of shares issuable upon the exercise of stock options, settlement of stock appreciation rights and vesting of restricted stock awards and units. Diluted loss per share for the three months ended March 31, 2019 is the same as basic loss per share as there is a net loss in the period and inclusion of potentially dilutive securities is anti-dilutive.

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

(dollars in thousands, except per share amounts)	Three months ended March 31,	
	2019	2018
<b>Numerator:</b>		
Net (loss) income	\$ (1,122)	\$ 17,751
<b>Denominator:</b>		
Weighted average common shares	47,516,912	47,019,603
Add effect of dilutive securities:		
Stock-based awards	—	989,792
Weighted average common shares assuming dilution	47,516,912	48,009,395
<b>(Loss) earnings per share:</b>		
Basic	\$ (0.02)	\$ 0.38
Diluted	\$ (0.02)	\$ 0.37
Anti-dilutive shares excluded from calculations of diluted (loss) earnings per share	740,119	24

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

## 6. 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			Total
	Level 1	Level 2	Level 3	
<b>Fair value as of March 31, 2019</b>				
Financial assets:				
Derivative instruments	\$ —	\$ 1,239	\$ —	\$ 1,239
Total financial assets	\$ —	\$ 1,239	\$ —	\$ 1,239
<b>Fair value as of March 31, 2019</b>				
Financial liabilities:				
Derivative instruments	\$ —	\$ 433	\$ —	\$ 433
Total financial liabilities	\$ —	\$ 433	\$ —	\$ 433
<b>Fair value as of December 31, 2018</b>				
Financial assets:				
Derivative instruments	\$ —	\$ 2,260	\$ —	\$ 2,260
Total financial assets	\$ —	\$ 2,260	\$ —	\$ 2,260
<b>Fair value as of December 31, 2018</b>				
Financial liabilities:				
Derivative instruments	\$ —	\$ 186	\$ —	\$ 186
Total financial liabilities	\$ —	\$ 186	\$ —	\$ 186

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

The fair value of our interest rate swaps was based on model-driven valuations using LIBOR rates, which are observable at commonly quoted intervals. Accordingly, our interest rate swaps are classified within Level 2 of the fair value hierarchy.

We believe the carrying amounts of our cash and cash equivalents, restricted cash due to customers, accounts receivable, trade accounts payable, accrued expenses and other current liabilities and due to customers approximate their fair values at March 31, 2019 and December 31, 2018, due to the immediate or short-term maturity of these instruments.

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

We believe the carrying amount of our debt approximates its fair value at March 31, 2019 and December 31, 2018, as the debt bears interest rates that approximate market value. As LIBOR rates are observable at commonly quoted intervals, our debt is classified within Level 2 of the fair value hierarchy.

We did not transfer any assets or liabilities among the levels within the fair value hierarchy during the three months ended March 31, 2019. Additionally, we did not hold any Level 3 assets or liabilities during the three months ended March 31, 2019.

#### Non-recurring fair value measurements

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets, goodwill and operating lease ROU assets, which 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 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 the intangible 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.

During the three months ended March 31, 2019, we recorded \$1.3 million in impairments of operating lease ROU assets associated with certain leased office spaces we ceased using as part of our facilities optimization restructuring. These impairments were recorded as restructuring expense on our consolidated statements of comprehensive income. See Note 15 to these consolidated financial statements for additional details regarding our facilities optimization restructuring.

There were no non-recurring fair value adjustments to intangible assets and goodwill during the three months ended March 31, 2019.

## 7. Consolidated Financial Statement Details

#### Prepaid expenses and other assets

(dollars in thousands)	March 31, 2019	December 31, 2018
Costs of obtaining contracts <sup>(1)(2)</sup>	\$ 88,812	\$ 85,590
Prepaid software maintenance and subscriptions	27,598	21,134
Unbilled accounts receivable	6,043	4,161
Taxes, prepaid and receivable	3,954	2,055
Derivative instruments	1,239	2,260
Security deposits	1,228	1,020
Other assets	11,686	8,931
Total prepaid expenses and other assets	140,560	125,151
Less: Long-term portion	67,461	65,363
Prepaid expenses and other current assets	\$ 73,099	\$ 59,788

(1) Amortization expense from costs of obtaining contracts was \$9.6 million for the three months ended March 31, 2019.

(2) The current portion of costs of obtaining contracts as of March 31, 2019 and December 31, 2018 was \$32.1 million and \$31.7 million, respectively.

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

**Accrued expenses and other liabilities**

(dollars in thousands)	March 31, 2019	December 31, 2018
Operating lease liabilities, current portion	\$ 16,755	\$ —
Accrued bonuses	8,586	14,868
Accrued commissions and salaries	8,546	9,934
Taxes payable	4,843	6,204
Customer credit balances	4,027	4,076
Unrecognized tax benefit	3,609	2,719
Accrued vacation costs	2,101	2,352
Accrued health care costs	1,841	1,497
Other liabilities	8,977	14,631
Total accrued expenses and other liabilities	59,285	56,281
Less: Long-term portion	4,302	9,388
Accrued expenses and other current liabilities	\$ 54,983	\$ 46,893

**8. Debt**

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

(dollars in thousands)	Debt balance at		Weighted average effective interest rate at	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Credit facility:				
Revolving credit loans	\$ 298,200	\$ 100,000	3.90%	4.13%
Term loans	286,875	288,750	3.43%	3.44%
Total debt	585,075	388,750	3.67%	3.61%
Less: Unamortized discount and debt issuance costs	1,507	1,626		
Less: Debt, current portion	7,500	7,500	3.75%	3.77%
Debt, net of current portion	\$ 576,068	\$ 379,624	3.67%	3.61%

In June 2017, we entered into a five-year \$700.0 million senior credit facility (the "2017 Credit Facility"). As of March 31, 2019, the required annual maturities related to the 2017 Credit Facility were as follows:

Years ending December 31, (dollars in thousands)	Annual maturities
2019 - remaining	\$ 5,625
2020	7,500
2021	7,500
2022	564,450
2023	—
Thereafter	—
Total required maturities	\$ 585,075

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

### Financing for 2019 acquisition

On January 2, 2019, we acquired YourCause for \$157.7 million in cash, subject to certain adjustments set forth in the agreement and plan of merger. We financed the acquisition with a revolving credit loan under the 2017 Credit Facility.

## 9. Derivative Instruments

### Cash flow hedges

We generally use derivative instruments to manage our variable interest rate risk. In July 2017, we entered into an interest rate swap agreement (the "July 2017 Swap Agreement"), which effectively converts portions of our variable rate debt under our credit facility to a fixed rate for the term of the July 2017 Swap Agreement. The notional value of the July 2017 Swap Agreement was \$150.0 million with an effective date beginning in July 2017 through July 2021. We designated the July 2017 Swap Agreement as a cash flow hedge at the inception of the contract.

In February 2018, we entered into an additional interest rate swap agreement (the "February 2018 Swap Agreement"), which effectively converts portions of our variable rate debt under our credit facility to a fixed rate for the term of the February 2018 Swap Agreement. The notional value of the February 2018 Swap Agreement was \$50.0 million with an effective date beginning in February 2018 through June 2021. We designated the February 2018 Swap Agreement as a cash flow hedge at the inception of the contract.

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

(dollars in thousands)	Balance sheet location	Asset Derivatives		Balance sheet location	Liability Derivatives	
		March 31, 2019	December 31, 2018		March 31, 2019	December 31, 2018
<b>Derivative instruments designated as hedging instruments:</b>						
Interest rate swaps, long-term portion	Other assets	1,239	2,260	Other liabilities	433	186
<b>Total derivative instruments designated as hedging instruments</b>		<b>\$ 1,239</b>	<b>\$ 2,260</b>		<b>\$ 433</b>	<b>\$ 186</b>

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
Interest rate swaps	\$ 806	Interest expense \$	229
	March 31, 2018		Three months ended March 31, 2018
Interest rate swaps	\$ 2,748	Interest expense \$	20

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 income as of March 31, 2019 that is expected to be reclassified into earnings within the next twelve months is \$0.7 million. There were no ineffective portions of our interest rate swap derivatives during the three months ended March 31, 2019.



**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

and 2018. See Note 13 to these consolidated financial statements for a summary of the changes in accumulated other comprehensive income (loss) by component.

## 10. Commitments and Contingencies

### Leases

We have operating leases for corporate offices, subleased offices and certain equipment and furniture. Our leases have remaining lease terms of less than 1 year to 20 years, some of which include options to extend the leases for up to 5 years. We do not have lease agreements with residual value guarantees, sale leaseback terms or material restrictive covenants.

In May 2016, we entered into a lease agreement for our New Headquarters Facility in Charleston, South Carolina. There are two phases for construction of the New Headquarters Facility. Phase One included a building with approximately 172,000 rentable square feet, which we began using in April 2018. The lease agreement also grants us a Phase Two option to request that the landlord construct and lease to us a second office building and related improvements. The lease agreement expires in April 2038 and provides for four renewal periods of five years each at a base rent equal to the then prevailing market rate for comparable buildings.

We continue to lease our former headquarters facility, now called our Customer Operations Center, in Charleston, South Carolina. The lease expires in October 2023 and has two five-year renewal options. We also have a lease for office space in Austin, Texas which expires in September 2023 and has two five-year renewal options.

For each of the leases discussed above, we have not included the renewal options in the lease terms for calculating the lease liability as the renewal options allow us to maintain operational flexibility and we are not reasonably certain we will exercise these options at this time.

As of March 31, 2019, we had additional operating leases, primarily for office space, that have not yet commenced with future rent payments of \$9.3 million. These operating leases will commence during fiscal year 2019 with lease terms of two to four years.

The components of lease expense for the three months ended March 31, 2019, were as follows:

(dollars in thousands)	Three months ended March 31,	
		2019
Operating lease cost <sup>(1)</sup>	\$	6,001
Variable lease cost <sup>(2)</sup>		991
Sublease income		(705)
Net lease cost	\$	6,287

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

(2) Includes costs for operating lease ROU assets that vary due to changes in facts or circumstances occurring after the commencement date, other than the passage of time. For example, the base rent of our Customer Operations Center (discussed above) escalates annually at a rate equal to the change in the consumer price index, as defined in the agreement, but not to exceed 5.5% in any year. Accordingly, variable lease costs for this lease are determined as the difference between the actual rent payment for a period and the rent payment expected for that period as of our adoption of ASU 2016-02 on January 1, 2019.

During the three months ended March 31, 2019, we recorded \$1.3 million in impairments of operating lease ROU assets associated with certain leased office spaces we ceased using as part of our facilities optimization restructuring. These impairments were recorded as restructuring expense on our consolidated statements of comprehensive income. See Note 15 to these consolidated financial statements for additional details regarding our facilities optimization restructuring.

Total rent expense as determined under ASC 840 for the three months ended March 31, 2018 was \$4.5 million.

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

Maturities of our operating lease liabilities as of March 31, 2019 were as follows:

Years ending December 31, (dollars in thousands)	Operating leases <sup>(1)</sup>
2019 – remaining	\$ 17,590
2020	21,616
2021	18,155
2022	16,405
2023	14,613
Thereafter	81,958
<b>Total lease payments</b>	<b>170,337</b>
Less: Amount representing interest	50,702
<b>Present value of future payments</b>	<b>\$ 119,635</b>

(1) Our maturities of our operating lease liabilities do not include payments related to Phase Two of our New Headquarters Facility, as that option had not been exercised as of March 31, 2019.

As determined under ASC 840, the future minimum lease payments related to lease agreements with a remaining noncancelable term in excess of one year, net of related sublease commitments and lease incentives, as of December 31, 2018 were as follows:

Years ending December 31, (dollars in thousands)	Operating leases
2019	\$ 20,808
2020	20,274
2021	16,924
2022	14,391
2023	12,923
Thereafter	81,755
<b>Total minimum lease payments</b>	<b>\$ 167,075</b>

Our ROU assets and lease liabilities are included in the following line items in our consolidated balance sheet:

(dollars in thousands)	March 31, 2019
<b>Operating leases</b>	
Operating lease right-of-use assets	\$ 110,485
Accrued expenses and other current liabilities	\$ 16,755
Operating lease liabilities, net of current portion	102,880
<b>Total operating lease liabilities</b>	<b>\$ 119,635</b>

As of March 31, 2019, the weighted average remaining lease terms and discount rates were as follows:

(dollars in thousands)	March 31, 2019
<b>Operating leases</b>	
Weighted average remaining lease term (years)	13.0
Weighted average discount rate	5.96%

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

Supplemental cash flow information related to leases during the three months ended March 31, 2019, was as follows:

(dollars in thousands)	Three months ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 5,914
Right-of-use assets obtained in exchange for lease obligations (non-cash):	
Operating leases	108,330

#### **Other commitments**

The term loans under the 2017 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 2017 Credit Facility in June 2022.

We have contractual obligations for third-party technology used in our solutions and for other services we purchase as part of our normal operations. In certain cases, these arrangements require a minimum annual purchase commitment by us. As of March 31, 2019, the remaining aggregate minimum purchase commitment under these arrangements was approximately \$111.4 million through 2023.

#### **Solution and service indemnifications**

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

#### **Legal proceedings**

We are subject to legal proceedings and claims that arise in the ordinary course of business. We make a provision for a loss contingency when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Unless otherwise specifically disclosed in this note, we have determined as of March 31, 2019, that no provision for liability nor disclosure is required related to any claim against us because (a) there is not a reasonable possibility that a loss exceeding amounts already recognized (if any) may be incurred with respect to such claim; (b) a reasonably possible loss or range of loss cannot be estimated; or (c) such estimate is immaterial.

All legal costs associated with litigation are expensed as incurred. Litigation is inherently unpredictable. However, we believe that we have valid defenses with respect to the legal matters pending against us. It is possible, nevertheless, that our consolidated financial position, results of operations or cash flows could be negatively affected in any particular period by an unfavorable resolution of one or more of such proceedings, claims or investigations.

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

## 11. Income Taxes

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

(dollars in thousands)	Three months ended March 31,	
	2019	2018
Income tax benefit	\$ (1,834)	\$ (3,527)
Effective income tax rate	62.0%	(24.8)%

We compute the year-to-date income tax provision by applying the estimated annual effective tax rate to the year-to-date pre-tax income or loss and adjusting for discrete tax items in the period. Our effective income tax rate can be more or less volatile based on the amount of pre-tax income or loss. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower. The increase in our effective income tax rate during the three months ended March 31, 2019, when compared to the same period in 2018, was partially attributable to the impact of discrete tax benefits on a pre-tax loss for the quarter as compared to pre-tax income for the same period in 2018.

The increase in our effective income tax rate during the three months ended March 31, 2019, when compared to the same period in 2018, was also due to a decrease in the discrete benefit to income tax expense relating to stock-based compensation. The impact was attributable to a decrease in the market price for shares of our common stock, when compared to the same period in 2018, as reported by the Nasdaq Stock Market LLC ("Nasdaq"). Most of our equity awards are granted during our first quarter and vest in subsequent years during the same quarter.

## 12. Stock-based Compensation

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

(dollars in thousands)	Three months ended March 31,	
	2019	2018
Included in cost of revenue:		
Cost of recurring	\$ 512	\$ 452
Cost of one-time services and other	462	643
Total included in cost of revenue	974	1,095
Included in operating expenses:		
Sales, marketing and customer success	2,911	1,825
Research and development	2,674	2,136
General and administrative	7,167	6,036
Total included in operating expenses	12,752	9,997
Total stock-based compensation expense	\$ 13,726	\$ 11,092

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

### 13. Stockholders' Equity

#### Dividends

Our Board of Directors has adopted a dividend policy, which provides for the distribution to stockholders of a portion of cash generated by us that is in excess of operational needs and capital expenditures. The 2017 Credit Facility limits the amount of dividends payable and certain state laws restrict the amount of dividends distributed.

In February 2019, our Board of Directors approved an annual dividend rate of \$0.48 per share to be made in quarterly payments. 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 and pay further dividends. The following table provides information with respect to quarterly dividends of \$0.12 per share paid on common stock during the three months ended March 31, 2019.

Declaration Date	Dividend per Share	Record Date	Payable Date
February 6, 2019	\$ 0.12	February 27	March 15

On April 30, 2019, our Board of Directors declared a second quarter dividend of \$0.12 per share payable on June 14, 2019 to stockholders of record on May 28, 2019.

#### Changes in accumulated other comprehensive income (loss) by component

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

(dollars in thousands)	Three months ended March 31,	
	2019	2018
<b>Accumulated other comprehensive loss, beginning of period</b>	\$ (5,110)	\$ (642)
<b>By component:</b>		
<b>Gains and losses on cash flow hedges:</b>		
Accumulated other comprehensive income balance, beginning of period	\$ 1,498	\$ 748
Other comprehensive (loss) income before reclassifications, net of tax effects of \$276 and \$(392)	(763)	1,094
Amounts reclassified from accumulated other comprehensive loss to interest expense	(229)	(20)
Tax benefit included in provision for income taxes	60	5
Total amounts reclassified from accumulated other comprehensive loss	(169)	(15)
Net current-period other comprehensive (loss) income	(932)	1,079
Reclassification upon early adoption of ASU 2018-02	—	167
Accumulated other comprehensive income balance, end of period	\$ 566	\$ 1,994
<b>Foreign currency translation adjustment:</b>		
Accumulated other comprehensive loss balance, beginning of period	\$ (6,608)	\$ (1,390)
Translation adjustments	4,590	6,437
Accumulated other comprehensive (loss) income balance, end of period	(2,018)	5,047
<b>Accumulated other comprehensive (loss) income, end of period</b>	<b>\$ (1,452)</b>	<b>\$ 7,041</b>

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

## 14. Revenue Recognition

### Transaction price allocated to the remaining performance obligations

As of March 31, 2019, approximately \$739 million of revenue is expected to be recognized from remaining performance obligations. We expect to recognize revenue on approximately 60% of these remaining performance obligations over the next 12 months, with the remainder recognized thereafter.

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

### Contract balances

Our contract assets as of March 31, 2019 and December 31, 2018 were insignificant. Our opening and closing balances of deferred revenue were as follows:

(in thousands)	March 31, 2019	December 31, 2018
Total deferred revenue	285,372	298,555

The modest decrease in deferred revenue during the three months ended March 31, 2019 was primarily due to less customer contract renewals in our first quarter due to the timing of customer budget cycles. Historically, we have an increase in customer contract renewals near the beginning of our third quarter resulting in lower deferred revenue at the end of our first quarter. The amount of revenue recognized during the three months ended March 31, 2019 that was included in the deferred revenue balance at the beginning of the period was approximately \$131 million. The amount of revenue recognized during the three months ended March 31, 2019 from performance obligations satisfied in prior periods was insignificant.

### Disaggregation of revenue

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

(dollars in thousands)	Three months ended March 31,	
	2019	2018
United States	\$ 188,126	\$ 175,923
Other countries	27,704	28,261
Total revenue	\$ 215,830	\$ 204,184

The General Markets Group ("GMG"), the Enterprise Markets Group ("EMG"), and the International Markets Group ("IMG") comprise our go-to-market organizations. The following is a description of each market group:

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

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

The following table presents our revenue by market group:

(dollars in thousands)	Three months ended March 31,	
	2019	2018 <sup>(1)</sup>
GMG	\$ 92,515	\$ 88,268
EMG	95,165	86,851
IMG	28,122	28,999
Other	28	66
<b>Total revenue</b>	<b>\$ 215,830</b>	<b>\$ 204,184</b>

(1) Beginning in the first quarter of 2019, all of our Canadian operations are included in IMG. We have recast our revenue by market group for the three months ended March 31, 2018, to present them on a consistent basis with the current year.

## 15. Restructuring

During 2017, in an effort to further our organizational objectives, including improved operating efficiency, customer outcomes and employee satisfaction, we initiated a multi-year plan to consolidate and relocate some of our existing offices to highly modern and more collaborative workspaces with short-term financial commitments. These workspaces are also more centrally located for our employees and closer to our customers and prospects. Restructuring costs incurred prior to our adoption of ASU 2016-02 on January 1, 2019 consisted primarily of costs to terminate lease agreements, contractual lease payments, net of estimated sublease income, upon vacating space as part of the plan, as well as insignificant costs to relocate affected employees and write-off facilities-related fixed assets that we would no longer use.

Upon adoption of ASU 2016-02 at January 1, 2019, we reduced our operating lease ROU assets recognized at transition by the carrying amounts of the restructuring liabilities for certain leased office spaces that we ceased using prior to December 31, 2018. See additional details below.

Restructuring costs incurred during the three months ended March 31, 2019 consisted primarily of operating lease ROU asset impairment costs and, to a lesser extent, write-offs of facilities-related fixed assets that we will no longer use.

We currently expect to incur before-tax restructuring costs associated with these activities of between \$8.5 million and \$9.5 million, of which \$7.3 million has been incurred as of March 31, 2019, with substantially all of the remaining costs expected to be incurred by the end of 2019.

The following table summarizes our facilities optimization restructuring costs as of March 31, 2019:

(in thousands)	Cumulative costs incurred as of	Costs incurred during the three months ended <sup>(1)</sup>	Cumulative costs incurred as of
	December 31, 2018		March 31, 2019
<b>By component:</b>			
Contract termination costs	\$ 4,176	\$ 1,392	\$ 5,568
Other costs	1,208	561	1,769
<b>Total</b>	<b>\$ 5,384</b>	<b>\$ 1,953</b>	<b>\$ 7,337</b>

(1) Includes \$1.3 million of operating lease ROU asset impairment costs.

**Blackbaud, Inc.**  
**Notes to consolidated financial statements (continued)**  
**(Unaudited)**

The change in our liability related to our facilities optimization restructuring during the three months ended March 31, 2019, consisted of the following:

(in thousands)	Accrued at December 31, 2018	Increases for incurred costs(1)	Written off upon adoption of ASU 2016-02(2)	Costs paid	Accrued at March 31, 2019
<b>By component:</b>					
Contract termination costs	\$ 1,865	\$ 1,392	\$ (1,656)	\$ (1,536)	\$ 65
Other costs	50	561	—	(611)	—
<b>Total</b>	<b>\$ 1,915</b>	<b>\$ 1,953</b>	<b>\$ (1,656)</b>	<b>\$ (2,147)</b>	<b>\$ 65</b>

(1) Includes \$1.3 million of operating lease ROU asset impairment costs.

(2) Upon adoption of ASU 2016-02 at January 1, 2019, we reduced our operating lease ROU assets recognized at transition by the carrying amounts of the restructuring liabilities for certain leased office spaces that we ceased using prior to December 31, 2018.



## 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 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 consolidated financial statements and related notes which are primarily denominated in thousands of dollars.*

### Executive Summary

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We are the world's leading cloud software company powering social good. Serving the entire social good community—nonprofits, foundations, companies, education institutions, healthcare organizations 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 more than three 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-based and hosted environments; (ii) providing payment and transaction services; (iii) providing software maintenance and support services; and (iv) providing professional services, including implementation, consulting, training, analytic and other services.

During the first quarter of 2019, we continued to execute on our four-point growth strategy targeted to drive solution and service innovation, quality enhancement, increasing operating efficiency and financial performance:

#### Four-Point Growth Strategy

##### 1. Deliver Integrated and Open Solutions in the Cloud

During the first quarter of 2019, we announced the U.S. launch of Blackbaud Peer-to-Peer Fundraising, powered by JustGiving. This new solution enables all social good organizations to empower supporters to fundraise on their behalf. The launch elevates our peer-to-peer portfolio by providing our best-in-class cloud solution at no subscription cost.

We also introduced Blackbaud Purchase Cards integrated with Expense Management in Financial Edge NXT providing social good organizations with an efficient and convenient alternative to traditional procurement methods and paper-based payables processes such as checks, purchase orders, and invoices. The result for our customers is decentralized daily purchasing while implementing and monitoring the right controls in a scalable way, enabling them to realize benefits such as reductions in procurement cycle time, increased savings through supplier discounts, and working capital and cash flow improvements.

We continue to progress in our early adopter program for our new Cloud Solution for Faith Communities with our first wave of early adopter customers now live on our Church Management Solution using it to run their day-to-day operations in close collaboration with our product teams.

The market response to our expanded Education Management portfolio for Higher Education has been positive, with Blackbaud SKY enabling us to extend our proven K-12 Private School solutions up-market. Our Education Management portfolio consists of Student Information, Learning Management, Tuition Management as well as Financial Edge NXT and Raiser's Edge NXT.

We continue to build on our partnership with Microsoft to jointly-develop, co-market and co-sell innovative software technology that will advance the industry. Our first jointly-developed solution, Nonprofit Resource Management, is currently in development, and we are working in close collaboration with early adopters.

**Blackbaud, Inc.****2. Drive Sales Effectiveness**

Selling modern, integrated cloud-solutions that are purpose-built for our customers' needs is a key competitive differentiator for our sales teams. We spent much of 2018 working to simplify our program and refine our methodology and approach in a uniform way to better enable our salespeople with process and practice. In the second half of 2018, we ramped our direct sales hiring more significantly than in the past and those new hires are progressing well towards targeted productivity. We expect to continue making investments during the remainder of 2019 and beyond. During the first quarter of 2019, we implemented a common sales leadership framework across the Company, providing our sales managers with best practice tools and training necessary to be successful. With the sales structure transformation now largely done, the focus going forward will be adding additional sales headcount and improving productivity.

**3. Expand TAM into Near Adjacencies through Acquisitions and Product Investments**

We are continuing to expand our total addressable market ("TAM") into new and near adjacencies with acquisitions and product investments. In January 2019, we added another half-billion dollars in TAM when we completed our acquisition of YourCause, an industry leader in enterprise corporate social responsibility and employee engagement technology. Adding YourCause's capabilities in workplace giving and volunteering to Blackbaud's cloud software platform, data intelligence, services and expertise in philanthropy and engagement is expected to drive effectiveness for companies and the broader social good community. Our TAM now stands at over \$10 billion, and we remain active in the evaluation of opportunities to further expand our addressable market through acquisitions and internal product development.

**4. Improve Operating Efficiency**

We are focused on operational efficiency to strengthen the business and position us for long-term success. We continue to execute a comprehensive workplace and workforce strategy, driving towards a more scalable operating model that creates efficiency and consistency in how we execute through infrastructure investments, productivity initiatives, and organizational re-alignments. We have continued executing against our workplace strategy, working to replace and upgrade some of our existing offices and expand our footprint into new locations for customer facing roles. This has been a multi-year program for us, and we expect to be largely complete by the end of 2019.

**Total revenue**

(dollars in millions)	Three months ended March 31,		
	2019	2018	Change
Total revenue	\$ 215.8	\$ 204.2	5.7%

The increase in total revenue during the three months ended March 31, 2019, when compared to the same period in 2018, was primarily driven by growth in recurring revenue as we continue to see positive demand from customers across our portfolio of cloud-based solutions. The acquisitions of Reeher and YourCause, which occurred after March 31, 2018, also contributed to the increases in recurring and total revenue. As expected, one-time services and other revenue declined \$5.6 million during the three months ended March 31, 2019 due to our continued shift in focus towards selling cloud-based subscription solutions. In general, our cloud-based solutions include integrated analytics, training and payments services, and require less implementation services and little to no customization services. We are also selling more subscription-based contracts for professional services and services embedded in our renewable cloud-based solution contracts. As a result, we continue to expect one-time services and other revenue to decline.

**Blackbaud, Inc.****Income from operations**

(dollars in millions)	Three months ended March 31,		
	2019	2018	Change
Income from operations	\$ 2.2	\$ 17.6	(87.6)%

Income from operations decreased during the three months ended March 31, 2019, when compared to the same period in 2018. The positive impact of growth in total revenue driven by recurring subscriptions was offset primarily by investments we are making in our sales organization and innovation, which we expect to continue in 2019 and beyond. Increases in stock-based compensation of \$2.6 million, employee severance of \$2.5 million, rent expense of \$1.6 million, restructuring costs of \$1.1 million and amortization of intangible assets from business combinations of \$1.1 million also negatively impacted income from operations during the three months ended March 31, 2019. The increase in stock-based compensation expense was primarily driven by an increase in the grant date fair value of our annual equity awards granted to employees during the first quarter of 2019, when compared to the grant date fair value of the awards granted during the same period in 2018. The increase in rent expense was primarily associated with the lease for our New Headquarters Facility in Charleston, South Carolina, which commenced in April 2018.

**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-based 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-based solutions, which we believe will provide value-adding capabilities to better address our customers' needs. Due primarily to these factors, we believe a recurring revenue customer retention measure that combines recurring subscription, maintenance and service customer contracts provides a better representation of our customers' overall behavior. For the twelve months ended March 31, 2019, approximately 92% of our customers with recurring revenue contracts were retained. This customer retention rate is unchanged from our rate for the full year ended December 31, 2018 and modestly lower than our historical customer retention rates driven by our efforts to rationalize our portfolio of solutions and migrate customers from legacy solutions towards our next generation cloud-based solutions. We are investing in innovation and our customer success program, which we believe will increase customer retention over the long-term.

**Balance sheet and cash flow**

At March 31, 2019, our cash and cash equivalents were \$25.2 million and the carrying amount of our debt under the 2017 Credit Facility was \$583.6 million. Our net leverage ratio was 2.98 to 1.00.

During the three months ended March 31, 2019, we used \$10.0 million in cash for operations, had a net increase in our borrowings of \$196.3 million, which was primarily used to finance the acquisition of YourCause, returned \$5.9 million to stockholders by way of dividends and had aggregate cash outlays of \$12.5 million for purchases of property and equipment and capitalized software development costs.

**Adoption of new lease accounting standard**

On January 1, 2019, we adopted ASU 2016-02, using the transition method that allowed us to initially apply the guidance at the adoption date of January 1, 2019 without adjusting comparative periods presented. Adopting ASU 2016-02 had a material impact on our consolidated balance sheet as we recognized lease liabilities and ROU assets for those leases classified as operating leases. The impacts of adoption are reflected in the financial information herein. For additional information regarding the impact of our adoption of ASU 2016-02, see See Notes 2 and 10 of our consolidated financial statements in this report.

## Results of Operations

### Comparison of the three months ended March 31, 2019 and 2018

We have included the results of operations of YourCause in our consolidated results of operations from the date of acquisition. We determined that the YourCause acquisition was not a material business combination; therefore, separate presentation of revenue and earnings since the acquisition date are not required nor included herein.

### Operating results

#### Recurring

(dollars in millions)	Three months ended March 31,		
	2019	2018	Change
Recurring revenue	\$ 198.1	\$ 180.8	9.5%
Cost of recurring	84.7	69.1	22.6%
Recurring gross profit <sup>(1)</sup>	\$ 113.4	\$ 111.8	1.4%
Recurring gross margin	57.2%	61.8%	

(1) The individual amounts for each year may not sum to recurring gross profit due to rounding.

Recurring revenue is comprised of fees for the use of our subscription-based software solutions, which includes providing access to cloud-based 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, subscription-based contracts for professional services 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, third-party contractor expenses, third-party royalty and data expenses, hosting 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.

We continue to experience growth in sales of our cloud-based solutions as we meet the demand of our customers that increasingly prefer cloud-based 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-based solutions, which we believe will drive future revenue growth.

The increase in recurring revenue during the three months ended March 31, 2019, when compared to the same period in 2018, was primarily due to positive demand across our portfolio of cloud-based solutions as revenue from subscriptions increased \$21.8 million. The inclusion of Reeher and YourCause contributed to the increase in recurring revenue as both acquisitions were completed after March 31, 2018. We also saw increases in revenue from subscription-based professional services as well as services embedded in our renewable cloud-based solution contracts. These favorable impacts from subscriptions were partially offset by a decrease in maintenance revenue of \$4.5 million during the three months ended March 31, 2019, when compared to the same period in 2018. The decrease in maintenance revenue was primarily related to our efforts to migrate customers from legacy on-premises solutions onto our solutions powered by Blackbaud SKY, our modern cloud platform.

The increase in cost of recurring revenue during the three months ended March 31, 2019, when compared to the same period in 2018, was primarily due to increases in transaction-based costs of \$4.3 million, related to payment services integrated in our cloud-based solutions, allocations of depreciation, facilities and IT support costs of \$2.5 million, compensation costs of \$2.4 million, data center costs of \$2.0 million and amortization of software development costs of \$1.0 million. The growth in compensation costs was primarily attributable to an increasing portion of our resources now providing subscription-based professional services as opposed to one-time. The inclusion of Reeher and YourCause also contributed to the increase in cost of recurring revenue during the three months ended March 31, 2019 when compared

**Blackbaud, Inc.**

to the same period in 2018. The increase in amortization of software development costs was primarily due to investments made on innovation, quality and the integration of our cloud-based solutions.

The decrease in recurring gross margin for the three months ended March 31, 2019, when compared to the same period in 2018, was primarily the result of incremental costs associated with our continued shift toward cloud-based solutions, including compensation costs, hosting and data center costs, and amortization of software development costs, as well as a one-time third-party refund related to our integrated payment services during the three months ended March 31, 2018 that did not recur in 2019.

**One-time services and other**

(dollars in millions)	Three months ended March 31,		
	2019	2018	Change
One-time services and other revenue	\$ 17.7	\$ 23.3	(24.0)%
Cost of one-time services and other	14.6	19.0	(23.1)%
One-time services and other gross profit <sup>(1)</sup>	\$ 3.2	\$ 4.4	(27.8)%
One-time services and other gross margin	17.8%	18.8%	

(1) The individual amounts for each year may not sum to one-time services and other gross profit due to rounding.

One-time services and other revenue is comprised of fees for one-time consulting, analytic and onsite training services, as well as 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 during the three months ended March 31, 2019, when compared to the same period in 2018, primarily due to decreases in one-time consulting revenue of \$3.8 million and analytics revenue of \$1.0 million. We expect that the shift in our go-to-market strategy towards cloud-based subscription offerings, which generally include integrated analytics and require less implementation and customization services, will continue to negatively impact one-time services and other revenue. We also continue to sell more subscription-based contracts for professional services and services embedded in our renewable cloud-based solution contracts, both of which are recorded as recurring revenue.

Cost of one-time services and other decreased during the three months ended March 31, 2019, when compared to the same period in 2018, primarily due to a decrease in compensation costs of \$3.0 million, which is in line with the ongoing shift in our go-to-market strategy as discussed above as an increasing portion of our resources are now providing subscription-based professional services as opposed to one-time.

One-time services and other gross margin decreased during the three months ended March 31, 2019, when compared to the same period in 2018, as the declines in one-time consulting revenue and higher margin analytics revenue associated with the shift in our go-to-market strategy outpaced the reductions in costs of one-time services and other discussed above. This is a trend we expect to continue in the near term as we complete the transition of our solution portfolio to a cloud-based subscription delivery model.

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### Operating expenses

#### Sales, marketing and customer success

(dollars in millions)	Three months ended March 31,		
	2019	2018	Change
Sales, marketing and customer success expense	\$ 55.5	\$ 45.5	21.9%
% of total revenue	25.7%	22.3%	

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

We continue to make investments to drive sales effectiveness, which is a component of our four-point growth strategy. The increase in sales, marketing and customer success expense in dollars and as a percentage of total revenue during the three months ended March 31, 2019, when compared to the same period in 2018, was primarily due to increases in compensation costs of \$6.5 million and commissions expense of \$1.3 million. Compensation costs increased as a result of our efforts during the second half of 2018 to increase our direct sales force and we expect to continue making investments during the remainder of 2019 and beyond. These incremental investments are intended to address the large market opportunity that we see for ourselves and fuel future revenue growth. In addition, compensation costs increased due to incremental headcount associated with the inclusion of Reeher and YourCause. The increase in commission expense was primarily driven by an increase in commissionable sales.

#### Research and development

(dollars in millions)	Three months ended March 31,		
	2019(1)	2018(1)	Change
Research and development expense	\$ 28.5	\$ 26.0	9.6%
% of total revenue	13.2%	12.7%	

(1) Not included in research and development expense for the three months ended March 31, 2019 and 2018 were \$11.1 million and \$6.9 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 related to development of our next generation cloud-based solutions. Qualifying capitalized software development costs associated with our cloud-based 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.

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, upgrading and enhancing existing solutions, and allocated depreciation, facilities and IT support costs.

We continue to make investments to deliver integrated and open solutions in the cloud, which is a component of our four-point growth strategy. The increase in research and development expense in dollars and as a percentage of total revenue during the three months ended March 31, 2019, when compared to the same period in 2018, was primarily due to increases in compensation costs of \$3.3 million and third-party contractor expenses of \$1.1 million. The increases in compensation costs were primarily associated with the inclusion of Reeher's and YourCause's engineering resources. The incremental third-party contractor expenses were intended to help drive our solution development efforts, including our new Cloud Solutions for Faith Communities and Higher Education and the Integrated Cloud Initiative for Nonprofits. The increase in research and development expense dollars was partially offset by an increase in the amount of software development costs that were required to be capitalized under the internal-use software guidance. We expect that the amount of software development costs capitalized will continue to increase modestly in the near-term as we make investments in innovation, quality and the integration of our solutions, which we believe will drive long-term revenue growth.

**Blackbaud, Inc.**
**General and administrative**

(dollars in millions)	Three months ended March 31,		
	2019	2018	Change
General and administrative expense	\$ 27.1	\$ 25.1	8.2%
% of total revenue	12.6%	12.3%	

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.

The increase in general and administrative expense in dollars and as a percentage of total revenue during the three months ended March 31, 2019, when compared to the same period in 2018, was primarily due to increases in rent expense of \$1.5 million, associated with the lease for our New Headquarters Facility in Charleston, South Carolina, which commenced in April 2018, and compensation costs of \$0.8 million. The increase in compensation costs was primarily related to stock-based compensation and our acquisition of YourCause.

**Restructuring**

During 2017, in an effort to further our organizational objectives including, improved operating efficiency, customer outcomes and employee satisfaction, we initiated a multi-year plan to consolidate and relocate some of our existing offices to highly modern and more collaborative workspaces with short-term financial commitments. These workspaces are also more centrally located for our employees and closer to our customers and prospects. Restructuring costs incurred prior to our adoption of ASU 2016-02 on January 1, 2019 consisted primarily of costs to terminate lease agreements, contractual lease payments, net of estimated sublease income, upon vacating space as part of the plan, as well as insignificant costs to relocate affected employees and write-off facilities-related fixed assets that we would no longer use.

Upon adoption of ASU 2016-02 at January 1, 2019, we reduced our operating lease ROU assets recognized at transition by the carrying amounts of the restructuring liabilities for certain leased office spaces that we ceased using prior to December 31, 2018. See additional details below.

Restructuring costs incurred during the three months ended March 31, 2019 consisted primarily of operating lease ROU asset impairment costs and, to a lesser extent, write-offs of facilities-related fixed assets that we will no longer use.

We currently expect to incur before-tax restructuring costs associated with these activities of between \$8.5 million and \$9.5 million, of which \$7.3 million has been incurred as of March 31, 2019, with substantially all of the remaining costs expected to be incurred by the end of 2019. These restructuring activities are currently expected to result in improved operating efficiencies and future annual before-tax savings of between \$5.0 million and \$6.0 million beginning in 2020.

The following table summarizes our facilities optimization restructuring costs as of March 31, 2019:

(in thousands)	Cumulative costs incurred as of	Costs incurred during the three months ended <sup>(1)</sup>	Cumulative costs incurred as of
	December 31, 2018		March 31, 2019
<b>By component:</b>			
Contract termination costs	\$ 4,176	\$ 1,392	\$ 5,568
Other costs	1,208	561	1,769
Total	\$ 5,384	\$ 1,953	\$ 7,337

(1) Includes \$1.3 million of operating lease ROU asset impairment costs.

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The change in our liability related to our facilities optimization restructuring during the three months ended March 31, 2019, consisted of the following:

(in thousands)	Accrued at December 31, 2018	Increases for incurred costs(1)	Written off upon adoption of ASU 2016-02(2)	Costs paid	Accrued at March 31, 2019
<b>By component:</b>					
Contract termination costs	\$ 1,865	\$ 1,392	\$ (1,656)	\$ (1,536)	\$ 65
Other costs	50	561	—	(611)	—
<b>Total</b>	<b>\$ 1,915</b>	<b>\$ 1,953</b>	<b>\$ (1,656)</b>	<b>\$ (2,147)</b>	<b>\$ 65</b>

(1) Includes \$1.3 million of operating lease ROU asset impairment costs.

(2) Upon adoption of ASU 2016-02 at January 1, 2019, we reduced our operating lease ROU assets recognized at transition by the carrying amounts of the restructuring liabilities for certain leased office spaces that we ceased using prior to December 31, 2018.

### Interest expense

(dollars in millions)	Three months ended March 31,		
	2019	2018	Change
Interest expense	\$ 5.3	\$ 3.5	51.4%
% of total revenue	2.5%	1.7%	

Interest expense increased during the three months ended March 31, 2019, when compared to the same period in 2018, primarily due to increases in our average daily borrowings related to our acquisitions of Reeher in April 2018 and YourCause in January 2019. Also contributing to the increases in interest expense during the three months ended March 31, 2019 were modest increases in our weighted average effective interest rates.

### Deferred revenue

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

(dollars in millions)	Timing of recognition	March 31, 2019	Change	December 31, 2018
Recurring	Over the period billed in advance, generally one year	\$ 272.7	(5.0)%	\$ 287.0
One-time services and other	As services are delivered	12.7	9.2 %	11.6
<b>Total deferred revenue(1)</b>		<b>285.4</b>	<b>(4.4)%</b>	<b>298.6</b>
Less: Long-term portion		4.3	67.3 %	2.6
<b>Current portion(1)</b>		<b>\$ 281.1</b>	<b>(5.0)%</b>	<b>\$ 296.0</b>

(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 with one to three-year renewals thereafter, billed annually in advance and non-cancelable. We generally invoice our customers with recurring revenue contracts in annual cycles 30 days prior to the end of the contract term.

Deferred revenue from recurring revenue contracts decreased modestly during the three months ended March 31, 2019, primarily due to less customer contract renewals due to the timing of customer budget cycles. Historically, we have an increase in customer contract renewals near the beginning of our third quarter resulting in lower deferred revenue at the end of our first quarter. Deferred revenue from one-time services and other increased during the three months ended March 31, 2019, primarily due to a modest increase in onsite training sales.

We have acquired businesses whose net tangible assets include deferred revenue. In accordance with GAAP reporting requirements, we recorded write-downs of deferred revenue from customer arrangements predating the acquisition to fair value, which resulted in lower recorded deferred revenue as of the acquisition date than the actual amounts paid in advance for solutions and services under those customer arrangements. Therefore, our deferred revenue after an acquisition will not reflect the full amount of deferred revenue that would have been reported if the acquired deferred revenue was



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not written down to fair value. Further explanation of this impact is included below under the caption "Non-GAAP financial measures".

***Income tax benefit***

(dollars in millions)	Three months ended March 31,		
	2019	2018	Change
Income tax benefit	\$ (1.8)	\$ (3.5)	(48.0)%
Effective income tax rate	62.0%	(24.8)%	

We compute the year-to-date income tax provision by applying the estimated annual effective tax rate to the year-to-date pre-tax income or loss and adjusting for discrete tax items in the period. Our effective income tax rate can be more or less volatile based on the amount of pre-tax income or loss. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower. The increase in our effective income tax rate during the three months ended March 31, 2019, when compared to the same period in 2018, was partially attributable to the impact of discrete tax benefits on a pre-tax loss for the quarter as compared to pre-tax income for the same period in 2018.

The increase in our effective income tax rate during the three months ended March 31, 2019, when compared to the same period in 2018, was also due to a decrease in the discrete benefit to income tax expense relating to stock-based compensation. The impact was attributable to a decrease in the market price for shares of our common stock, when compared to the same period in 2018, as reported by Nasdaq. Most of our equity awards are granted during our first quarter and vest in subsequent years during the same quarter.

**Blackbaud, Inc.**
**Non-GAAP financial measures**

The operating results analyzed below are presented on a non-GAAP basis. We use non-GAAP revenue, non-GAAP gross profit, non-GAAP gross margin, non-GAAP income from operations, non-GAAP operating margin, non-GAAP net income and non-GAAP diluted earnings per share 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.

We have acquired businesses whose net tangible assets include deferred revenue. In accordance with GAAP reporting requirements, we recorded write-downs of deferred revenue under arrangements predating the acquisition to fair value, which resulted in lower recognized revenue than the contributed purchase price until the related obligations to provide services under such arrangements are fulfilled. Therefore, our GAAP revenues after the acquisitions will not reflect the full amount of revenue that would have been reported if the acquired deferred revenue was not written down to fair value. The non-GAAP measures described below reverse the acquisition-related deferred revenue write-downs so that the full amount of revenue booked by the acquired companies is included, which we believe provides a more accurate representation of a revenue run-rate in a given period and, therefore, will provide more meaningful comparative results in future periods.

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.

(dollars in millions)	Three months ended March 31,		
	2019	2018	Change
<b>GAAP Revenue</b>	\$ 215.8	\$ 204.2	5.7 %
<b>Non-GAAP adjustments:</b>			
Add: Acquisition-related deferred revenue write-down	0.7	0.3	105.7 %
<b>Non-GAAP revenue<sup>(1)</sup></b>	<u>\$ 216.5</u>	<u>\$ 204.5</u>	5.9 %
<b>GAAP gross profit</b>	\$ 116.5	\$ 116.1	0.3 %
<b>GAAP gross margin</b>	54.0%	56.9%	
<b>Non-GAAP adjustments:</b>			
Add: Acquisition-related deferred revenue write-down	0.7	0.3	105.7 %
Add: Stock-based compensation expense	1.0	1.1	(11.1)%
Add: Amortization of intangibles from business combinations	11.4	10.4	9.9 %
Add: Employee severance	1.1	0.6	94.6 %
Subtotal <sup>(1)</sup>	<u>14.2</u>	<u>12.4</u>	14.7 %
<b>Non-GAAP gross profit<sup>(1)</sup></b>	<u>\$ 130.8</u>	<u>\$ 128.6</u>	1.7 %
<b>Non-GAAP gross margin</b>	60.4%	62.9%	

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

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(dollars in millions, except per share amounts)	Three months ended March 31,		
	2019	2018	Change
<b>GAAP income from operations</b>	\$ 2.2	\$ 17.6	(87.6)%
<b>GAAP operating margin</b>	1.0%	8.6%	
<b>Non-GAAP adjustments:</b>			
Add: Acquisition-related deferred revenue write-down	0.7	0.3	105.7 %
Add: Stock-based compensation expense	13.7	11.1	23.7 %
Add: Amortization of intangibles from business combinations	12.8	11.7	9.8 %
Add: Employee severance	3.4	0.9	267.5 %
Add: Acquisition-related integration costs	0.7	0.4	65.8 %
Add: Acquisition-related expenses	0.4	0.4	12.9 %
Add: Restructuring costs	2.0	0.8	140.8 %
Subtotal(1)	33.8	25.7	31.6 %
<b>Non-GAAP income from operations(1)</b>	\$ 36.0	\$ 43.2	(16.9)%
<b>Non-GAAP operating margin</b>	16.6%	21.1%	
<b>GAAP (loss) income before provision for income taxes</b>	\$ (3.0)	\$ 14.2	(120.8)%
<b>GAAP net (loss) income</b>	\$ (1.1)	\$ 17.8	(106.3)%
Shares used in computing GAAP diluted (loss) earnings per share	47,516,912	48,009,395	(1.0)%
<b>GAAP diluted (loss) earnings per share</b>	\$ (0.02)	\$ 0.37	(105.4)%
<b>Non-GAAP adjustments:</b>			
Less: GAAP income tax benefit	(1.8)	(3.5)	(48.0)%
Add: Total non-GAAP adjustments affecting income from operations	33.8	25.7	31.6 %
<b>Non-GAAP income before provision for income taxes</b>	30.8	39.9	(22.7)%
Assumed non-GAAP income tax provision(2)	6.2	8.0	(22.8)%
<b>Non-GAAP net income(1)</b>	\$ 24.7	\$ 31.9	(22.7)%
Shares used in computing non-GAAP diluted earnings per share	48,051,289	48,009,395	0.1 %
<b>Non-GAAP diluted earnings per share</b>	\$ 0.51	\$ 0.66	(22.7)%

(1) The individual amounts for each year may not sum to subtotal, non-GAAP income from operations or non-GAAP net income due to rounding.

(2) We apply a non-GAAP effective tax rate of 20.0% in our determination of non-GAAP net income, which represents the GAAP effective tax rate, excluding the discrete tax effect of stock-based compensation.

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

(dollars in millions)	Three months ended March 31,		
	2019	Change	2018
<b>GAAP net cash provided by operating activities</b>	\$ (10.0)	(185.2)%	\$ 11.8
Less: purchase of property and equipment	(1.2)	(80.0)%	(5.8)
Less: capitalized software development costs	(11.3)	59.4 %	(7.1)
<b>Non-GAAP free cash flow</b>	(22.5)	1,905.5 %	(1.1)

**Blackbaud, Inc.**
**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 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	
	March 31,	
	2019	2018
GAAP revenue	\$ 215.8	\$ 204.2
<b>GAAP revenue growth</b>	<b>5.7%</b>	
(Less) Add: Non-GAAP acquisition-related revenue (1)	(4.4)	2.7
Non-GAAP organic revenue	\$ 211.4	\$ 206.9
<b>Non-GAAP organic revenue growth</b>	<b>2.2%</b>	
Non-GAAP organic revenue (2)	\$ 211.4	\$ 206.9
Foreign currency impact on Non-GAAP organic revenue (3)	1.8	—
Non-GAAP organic revenue on constant currency basis (3)	\$ 213.2	\$ 206.9
<b>Non-GAAP organic revenue growth on constant currency basis</b>	<b>3.1%</b>	
GAAP recurring revenue	198.1	180.8
<b>GAAP recurring revenue growth</b>	<b>9.5%</b>	
(Less) Add: Non-GAAP acquisition-related revenue (1)	(4.2)	2.6
Non-GAAP organic recurring revenue	\$ 193.9	\$ 183.4
<b>Non-GAAP organic recurring revenue growth</b>	<b>5.7%</b>	

- (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 Canadian Dollar, EURO, British Pound and Australian Dollar.

**Blackbaud, Inc.****Seasonality**

Our revenues normally fluctuate as a result of certain seasonal variations in our business. Our transaction revenue has historically been at its lowest in the first quarter due to the timing of customer fundraising initiatives and events. Our revenue from payment services has historically increased during the fourth quarter due to year-end giving. 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, the payment of bonuses, as well as merit-based salary increases, among other factors. Historically, due to lower revenues in our first quarter, combined with the payment of bonuses from the prior year in our first quarter, our cash flow from operations has been lowest in our first quarter, and due to the timing of customer contract renewals, 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 merit-based salary increases, which are generally effective in April each year. In addition, deferred revenues can vary on a seasonal basis for the same reasons. 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 or other factors. 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.

**Liquidity and Capital Resources**

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

(dollars in millions)	March 31, 2019	Change	December 31, 2018
Cash and cash equivalents	\$ 25.2	(18.4)%	\$ 30.9
Property and equipment, net	38.8	(3.2)%	40.0
Software development costs, net	81.2	8.2 %	75.1
Total carrying value of debt	583.6	50.7 %	387.1
Working capital	(187.2)	9.9 %	(207.7)

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

(dollars in millions)	Three months ended March 31,		
	2019	Change	2018
Net cash (used in) provided by operating activities	\$ (10.0)	(185.2)%	\$ 11.8
Net cash used in investing activities	(121.9)	580.4 %	(17.9)
Net cash used in financing activities	(74.4)	(83.0)%	(438.9)

Our principal sources of liquidity are operating cash flow, funds available under the 2017 Credit Facility and cash on hand. Our operating cash flow depends on continued customer renewal of our subscription and maintenance arrangements and market acceptance of our solutions and services. 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, meet our debt obligations and pay dividends. 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 and pay further dividends and/or repurchase our common stock. To the extent we undertake future material acquisitions, investments or unanticipated capital expenditures, we may require additional capital. In that context, we regularly evaluate opportunities to enhance our capital structure including through potential debt or equity issuances.

## Blackbaud, Inc.

At March 31, 2019, our total cash and cash equivalents balance included approximately \$13.4 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 decreased by \$21.8 million during the three months ended March 31, 2019, when compared to the same period in 2018, primarily due to a \$14.1 million decrease in net income adjusted for non-cash expenses, and a decrease in cash flow from operations associated with working capital. 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 sales returns and allowances; 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. Cash flow from operations associated with working capital decreased \$7.6 million during the three months ended March 31, 2019, when compared to the same period in 2018, primarily due to an increase in the collection of customer account balances in 2018. Fluctuations in the timing of vendor payments also contributed to the decrease in cash flow from operations associated with working capital.

### *Investing cash flow*

Net cash used in investing activities of \$121.9 million increased by \$103.9 million during the three months ended March 31, 2019, when compared to the same period in 2018.

During the three months ended March 31, 2019, we used net cash of \$109.4 million, for our acquisition of YourCause, compared to \$5.0 million spent on similar investments during the same period in 2018. We used \$11.3 million for software development costs, which was up \$4.2 million from cash spent during the same period in 2018. The increase in cash outlays for software development costs was primarily driven by development activities related to our cloud-based solutions, including our Church Management Solution, as well as development activities for Blackbaud SKY, our modern cloud platform.

We also spent \$1.2 million of cash for purchases of property and equipment during the three months ended March 31, 2019, which was down \$4.6 million from cash spent during the same period in 2018. The higher cash outlays for property and equipment during the same period in 2018 was primarily driven by leasehold improvements for our New Headquarters Facility in Charleston, South Carolina.

### *Financing cash flow*

During the three months ended March 31, 2019, we had a net increase in borrowings of \$196.3 million, which was primarily used to finance our acquisition of YourCause. Historically, due to lower revenues in our first quarter, combined with the payment of bonuses from the prior year in our first quarter, our cash flow from operations has been lowest in our first quarter.

We paid \$18.4 million to satisfy tax obligations of employees upon settlement or exercise of equity awards during the three months ended March 31, 2019 compared to \$22.5 million during the same period in 2018. The amount of taxes paid by us on the behalf of employees related to the settlement or exercise of equity awards varies from period to period based upon the timing of grants and vesting, employee exercise decisions, 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. In addition, during the three months ended March 31, 2019, we paid dividends of \$5.9 million, which was relatively consistent with the comparable period of 2018.

Cash used in financing activities associated with changes in restricted cash due to customers increased \$191.8 million during the three months ended March 31, 2019 when compared to the same period in 2018, as the amount of restricted cash held and payable by us to customers as of December 31, 2017 was significantly larger than at the same date in 2018.

## Blackbaud, Inc.

### 2017 Credit Facility

We have drawn on our credit facility from time to time to help us meet financial needs, such as financing for business acquisitions. At March 31, 2019, our available borrowing capacity under the 2017 Credit Facility was \$98.4 million. The 2017 Credit Facility matures in June 2022.

At March 31, 2019, the carrying amount of our debt under the 2017 Credit Facility was \$583.6 million. Our average daily borrowings during the three months ended March 31, 2019 were \$557.5 million.

The following is a summary of the financial covenants under our credit facility:

Financial Covenant	Requirement	Ratio as of March 31, 2019
Net Leverage Ratio	≤ 3.50 to 1.00	2.98 to 1.00
Interest Coverage Ratio	≥ 2.50 to 1.00	10.53 to 1.00

Under the 2017 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 2017 Credit Facility, and (ii) our pro forma net leverage ratio, as set forth in the 2017 Credit Facility, must be 0.25 less than the net leverage ratio requirement at the time of dividend declaration or share repurchase. At March 31, 2019, we were in compliance with our debt covenants under the 2017 Credit Facility.

### *Commitments and contingencies*

As of March 31, 2019, we had contractual obligations with future minimum commitments as follows:

(in millions)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
<b>Recorded contractual obligations:</b>					
Debt <sup>(1)</sup>	\$ 585.1	\$ 7.5	\$ 15.0	\$ 562.6	\$ —
Operating leases <sup>(2)</sup>	170.3	23.3	38.2	29.1	79.8
<b>Unrecorded contractual obligations:</b>					
Interest payments on debt <sup>(3)</sup>	68.1	21.6	42.8	3.8	—
Purchase obligations <sup>(4)</sup>	111.4	41.8	67.9	1.7	—
<b>Total contractual obligations</b>	<b>\$ 935.0</b>	<b>\$ 94.2</b>	<b>\$ 163.8</b>	<b>\$ 597.2</b>	<b>\$ 79.8</b>

(1) Represents principal payments only, under the following assumptions: (i) that the amounts outstanding under the 2017 Credit Facility and our other debt at March 31, 2019 will remain outstanding until maturity, with minimum payments occurring as currently scheduled, and (ii) that there are no assumed future borrowings on the 2017 Credit Facility for the purposes of determining minimum commitment amounts.

(2) Our commitments related to operating leases have not been reduced by sublease income, incentive payments and reimbursement of leasehold improvements.

(3) The actual interest expense recognized in our consolidated statements of comprehensive income will depend on the amount of debt, the length of time the debt is outstanding and the interest rate, which could be different from our assumptions described in (1) above.

(4) 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 2017 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 2017 Credit Facility in June 2022.

The total liability for uncertain tax positions as of March 31, 2019 and December 31, 2018, was \$4.7 million and \$3.7 million, respectively. Our accrued interest and penalties related to tax positions taken on our tax returns was \$1.0 million and \$0.7 million as of March 31, 2019 and December 31, 2018, respectively.

In February 2019, our Board of Directors approved our annual dividend rate of \$0.48 per share to be made in quarterly payments. Dividends at this annual rate would aggregate to \$23.5 million assuming 49.0 million shares of common stock

## Blackbaud, Inc.

are outstanding, although dividends are not guaranteed and our Board of Directors may decide, in its absolute discretion, to change or suspend dividend payments at any time for any reason. Our ability to continue to declare and pay dividends quarterly this year and beyond might be restricted by, among other things, the terms of the 2017 Credit Facility, general economic conditions and our ability to generate adequate operating cash flow.

On April 30, 2019, our Board of Directors declared a second quarter dividend of \$0.12 per share payable on June 14, 2019 to stockholders of record on May 28, 2019.

### Off-Balance Sheet Arrangements

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As of March 31, 2019, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### Foreign Currency Exchange Rates

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Approximately 13% of our total revenue for the three months ended March 31, 2019 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 loss of \$2.0 million as of March 31, 2019 and a loss of \$6.6 million as of December 31, 2018.

The vast majority of our contracts are entered into by our U.S. or U.K. entities. The contracts entered into by the U.S. entity are almost always denominated in U.S. dollars or Canadian dollars, and contracts entered into by our U.K., Australian and Irish subsidiaries are generally denominated in British Pounds, Australian dollars and Euros, respectively. Historically, as the U.S. dollar weakened, foreign currency translation resulted in an increase in our revenues and expenses denominated in non-U.S. currencies. Conversely, as the U.S. dollar strengthened, foreign currency translation resulted in a decrease in our revenue and expenses denominated in non-U.S. currencies. During the three months ended March 31, 2019, foreign translation resulted in a decrease in our revenues and expenses denominated in non-U.S. currencies. Though we have exposure to fluctuations in currency exchange rates, primarily those between the U.S. dollar and both the British Pound and Canadian dollar, the impact has generally not been material to our consolidated results of operations or financial position. For the three months ended March 31, 2019, the fluctuation in foreign currency exchange rates reduced our total revenue by \$1.7 million and our income from operations by an insignificant amount. 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

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There have been no significant changes in our critical accounting policies and estimates during the three months ended March 31, 2019 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, 2018.



## Recently Issued Accounting Pronouncements

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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 of our 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

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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. Due to the nature of our debt, the materiality of the fair values of the derivative instruments and the highly liquid, short-term nature and level of our cash and cash equivalents as of March 31, 2019, 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, 2018 and March 31, 2019.

### Foreign Currency Risk

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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

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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

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No changes in internal control over financial reporting occurred during the most recent fiscal quarter ended March 31, 2019 with respect to our operations, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As discussed in Note 2 to our consolidated financial statements in this report, we adopted ASU 2016-02 effective January 1, 2019. We implemented internal controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new standard on our financial statements. There were no significant changes to our internal control over financial reporting due to the adoption of ASU 2016-02.

## ► PART II. OTHER INFORMATION

### ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our stock. There have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended December 31, 2018.

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

#### Issuer Purchases of Equity Securities

The following table provides information about shares of common stock acquired or repurchased during the three months ended March 31, 2019. All of these acquisitions were of common stock withheld by us to satisfy tax obligations of employees due upon exercise of stock appreciation rights and vesting of restricted stock awards and units. The level of acquisition activity varies from period to period based upon the timing of grants and vesting as well as employee exercise decisions.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs <sup>(1)</sup>	Approximate dollar value of shares that may yet be purchased under the plans or programs (in thousands)
Beginning balance, January 1, 2019				\$ 50,000
January 1, 2019 through January 31, 2019	5,404	\$ 65.88	—	50,000
February 1, 2019 through February 28, 2019	233,407	77.14	—	50,000
March 1, 2019 through March 31, 2019	500	80.00	—	50,000
<b>Total</b>	<b>239,311</b>	<b>\$ 76.89</b>	<b>—</b>	<b>\$ 50,000</b>

(1) In August 2010, our Board of Directors approved a stock repurchase program that authorized us to purchase up to \$50.0 million of our outstanding shares of common stock. We have not made any repurchases under the program to date, and the program does not have an expiration date.

**Blackbaud, Inc.**
**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 In			
		Filed Herewith	Form	Exhibit Number	Filing Date
<a href="#">10.96</a>	<a href="#">Offer Letter Agreement between Blackbaud, Inc. and Kevin P. Gregoire</a>	X			
<a href="#">10.97</a>	<a href="#">Form of Employee Agreement between Blackbaud, Inc. and Kevin P. Gregoire</a>	X			
<a href="#">10.98</a>	<a href="#">Form of Retention Agreement between Blackbaud, Inc. and Kevin P. Gregoire</a>		10-Q	10.92	8/4/2017
<a href="#">31.1</a>	<a href="#">Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>	X			
<a href="#">31.2</a>	<a href="#">Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>	X			
<a href="#">32.1</a>	<a href="#">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.</a>	X			
<a href="#">32.2</a>	<a href="#">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.</a>	X			
101.INS*	XBRL Instance Document.	X			
101.SCH*	XBRL Taxonomy Extension Schema Document.	X			
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.	X			
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.	X			
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.	X			
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.	X			

\* Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or otherwise subject to liability of that Section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933, as amended or the Securities Exchange Act of 1934, as amended, except as shall be expressly set forth by specific reference in such filing.

 **SIGNATURES**

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

**BLACKBAUD, INC.**

Date: May 3, 2019

By: /s/ Michael P. Gianoni

Michael P. Gianoni  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 3, 2019

By: /s/ Anthony W. Boor

Anthony W. Boor  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

January 17, 2018

Dear Kevin,

I am very pleased to offer you the position of President, Enterprise Market Groups for Blackbaud, Inc., based in Charleston, SC. This position will have a corporate title of Executive Vice President. We are excited about you joining our executive leadership team and look forward to your starting on or about April 1<sup>st</sup>, 2018, reporting to Mike Gianoni, CEO.

Your compensation will consist of the following components:

- You will receive a base salary of \$425,000 annually, to be paid on a semi-monthly basis.
- You are eligible to participate in the 2018 Corporate Incentive Plan with a target bonus opportunity of 65% of your earned salary. Upon your arrival specifics of the bonus plan will be communicated to you.
- You will also receive a LTIP grant in the amount of \$2,500,000.00 granted in the next open window following your start date. The grant will consist of 50% restricted shares that will vest equally over 4 years and 50% performance based RSUs, while if earned will vest over 3 years. Details on the performance based RSUs will be provided to you along with the grant notice. The amount of the shares and RSUs will be determined by dividing the amount the \$2,500,000.00 by the 30-day average price of Blackbaud stock. A copy of the Blackbaud Equity Plan will also be provided to you.
- If within the first two (2) years of your employment with Blackbaud, Inc., you are terminated for any reason other than cause, you will be provided with 12 months' severance (consisting of base pay) and will receive 12-month acceleration on any unvested restricted shares. (Does not include PRSUs)
- You will receive a sign-on bonus in the amount of \$33,000.00. This bonus, which will be paid on your first paycheck, is subject to all normal payroll taxes and will require that you sign the enclosed repayment agreement in the event you leave Blackbaud within the first year. This bonus is a combination relocation settlement and commutation allowance.
- You will be eligible for the full range of benefits offered to all Blackbaud employees, including medical, dental, life, and 401(k) beginning on your start date. A complete explanation of our benefits program will be provided to you during New Employee Orientation.
- Blackbaud will cover the cost of the move of household goods, through our selected vendor, from your New Jersey home to Charleston, South Carolina, up to \$20,000.00. It is important to note that your relocation benefits will expire one (1) year from your date of hire. We require that you sign the repayment agreement in the event you leave Blackbaud within the first year. Please contact Blackbaud's Talent Acquisition Coordinator, Charles Stephens, to begin the process of scheduling your move by calling (843) 654-2271 or emailing him at [Charles.Stephens@blackbaud.com](mailto:Charles.Stephens@blackbaud.com).
  - Additionally, Blackbaud will cover the costs of one (1) moving trip for you and your spouse to relocate to the Charleston, South Carolina area. This coverage includes reasonable transportation, hotel expenses and other relevant expenses. A portion of this moving trip will be subject to appropriate taxation in accordance with the Blackbaud Relocation Policy.
  - Blackbaud will reimburse you for the costs of one (1) hunting trip for you and your spouse from New Jersey, to Charleston, SC in accordance with Blackbaud's Travel Policy. This includes economy class airfare, local transportation, hotel expenses, and normal and reasonable meal expenses. Please be aware that Blackbaud is required to reflect this payment in your semi-monthly pay and it will subject to all normal payroll taxes.
  - Additionally, we will provide up to six (6) months of temporary housing, with a maximum of \$3,500 per month. Please be aware that housing allowances of any kind are now considered taxable income by the IRS. Blackbaud is required to reflect this payment in your semi-monthly pay and it will subject to all normal payroll taxes.

This offer is contingent upon successful completion of all background and reference checks, and execution of enclosed employment agreement, which includes, among other things, a non-compete and a non-solicitations covenant.

We expect that you will play an important role in our success, and we are eager for you to join us. Please call me at (843) 654-3524 if you have any questions about these documents or any other aspect of this offer.

Sincerely,

/s/ John Mistretta

John Mistretta EVP, Human Resources

Obtaining proprietary information by inducing disclosures by past or present employees of other companies I accept the terms and conditions of this offer letter as stated above. I confirm that I have not disclosed any confidential information to Blackbaud in violations of any non-disclosure of confidentiality agreement with a previous employer during the interview process.

Please signify acceptance of this offer by signing and returning the offer and employment agreement (all pages) to John Mistretta either via scan/email or faxing to our secure HR fax line at (843) 216-6101. Please be aware that you cannot be put into the payroll system until this information has been returned to the payroll department.

2/16/2018

\_\_\_\_\_  
Date

/s/ Kevin P. Gregoire

\_\_\_\_\_  
Kevin Gregoire

## Employee Agreement

This Employee Agreement (this "Agreement"), effective as of the commencement of Employee's employment with the Company, is entered into by and between Blackbaud, Inc. (the "Company"), and the employee ("Employee").

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

Whereas, the parties agree that this Agreement provides sufficient consideration for restrictions, covenants, promises, and other terms contained herein; and

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

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

1. **Nature of the Business.** For purposes of this Agreement, the "Business" means (A) (i) the design, development, marketing, licensing, leasing, rental or sale of products and/or services in respect of software, software applications, internet applications, mobile applications, donor research and management, prospective donor analysis, business performance analytics, payment processing, e-commerce solutions, tuition payment portal or financial aid, scholarship management solutions, peer-to-peer fundraising, donation-based crowd funding or, in each case, services and/or consulting with respect thereto, (ii) to consumers, non-profit organizations, associations, foundations, corporations, government agencies, donors, advisors, education institutions, financial institutions or faith-based organizations, and (iii) in connection with fundraising, e-commerce, accounting and financial management activities, donor management, corporate social responsibility program management, volunteer management, charitable event management, charitable mission / case / outcomes management or grant (or other charitable currency) management (including investing, managing and awarding such currency), tuition management or scholarship management or church management systems, member management, congregant engagement, child check-in, worship planning and associated production, including live-stream, and (B) design, development, marketing, licensing, leasing, rental or sale of software, software applications, internet applications, mobile applications, and analytics, in each case targeted to nonprofit organizations and charities and designed: (A) to provide performance management, activity tracking, prospect research, analytics, insights, reporting, direct marketing, benchmarking and recommended actions to gift officers and their management; or (B) to enable fundraising campaigns, provide fundraising data collection, analysis and processing for nonprofit organizations and charities, or provide best practice tools and recommendations; and (ii) consulting and/or performance of installation, training, support and other services related to any of the foregoing.
2. **Consideration.** In return for the restrictions, promises and other terms contained herein, it is stipulated and agreed that this Agreement is being entered into in consideration of the Company's employment of Employee and allowing Employee access to valuable, confidential, privileged, and proprietary information and trade secrets relating to the Company's business, customers, processes, vendors, and relationships.
3. **Covenants Not to Use or Disclose Confidential Information.**

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

contractors, and suppliers; the methods through which Employer identifies, hires, trains and compensates its employees; details regarding Employer's employees (other than Employee), including their compensation, contact information, and their performance and conduct; marketing information; business plans; business methodologies and processes; strategies; financial information and other business records; and all copies of any of the foregoing, including notes, extracts, memoranda shared with, prepared or directed to be prepared by Employee based on any Confidential Information. It is further acknowledged and agreed that the unauthorized use or disclosure by Employee of any of the Confidential Information would seriously damage the Company in its Business. Confidential Information does not include generalized skills or knowledge acquired by Employee in the course of his/her duties.

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

- (a) Employee will hold all Confidential Information in strict confidence and will not use, publish, divulge or otherwise reveal or allow to be revealed any portion thereof to any third person, company or other entity, except to or with the prior written consent of the Company;
- (b) Employee will use his/her best efforts to assure that all Confidential Information is properly protected and kept from unauthorized persons or entities, and will immediately report to the Company any misuse of Confidential Information by another person or entity that Employee may encounter or of which Employee may become aware;
- (c) Employee will make no use of any Confidential Information except such use as is required in the performance of Employee's services for the Company; and
- (d) Upon termination of Employee's employment with the Company for any reason, or upon the Company's request, Employee will immediately deliver to the Company all documents, software, hardware, written materials and other items of any kind, and any copies thereof that contain Confidential Information.

4. **Covenant Not to Compete or Solicit Customers.**

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

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

For purposes of this provision, the restricted territory is throughout the United States ("Restricted Territory"). Employee acknowledges that the Company has a national presence and that although headquartered in Charleston, South Carolina, the Company does business not only throughout South Carolina but also throughout the United States. The parties acknowledge that their sole intention in this Section 4 is to prohibit direct competition in relation to the Business that could affect the Company's business with existing or potential customers for the Restricted Period in the Restricted Territory. Employee acknowledges that the covenant set forth in this paragraph is reasonable in both its geographic and temporal scope and necessary to protect the legitimate interests and goodwill of the Company due to the national nature of the Company's business and its national customer base. Before entering into this Agreement, Employee has considered the limitations that the covenant in this



paragraph could impose on Employee or Employee's ability to find other employment and has determined that the covenant would not cause undue hardship to Employee or Employee's family. Employee also agrees that the Business constitutes a small part of the market for Employee's services, that Employee's employment opportunities and livelihood are not limited to the provision of services relating to the Business, and that the covenant will not create undue hardship for Employee or Employee's family. It is the desire and intent of the parties that the provisions of this paragraph be enforced to the fullest extent permitted under the laws and public policies of each jurisdiction in which enforcement is sought.

- (b) Notwithstanding the foregoing, if a court or arbitrator determines that the Restricted Territory is overbroad, the parties agree that the Restricted Territory will be (i) all States where the Company has or had operations during the two (2) years preceding Employee's last day of employment with the Company; and (ii) all States where the Employee regularly transacted business on behalf of the Company during the two (2) years preceding Employee's last day of employment with the Company.
- (c) In addition to, but not in limitation of the restrictions set forth above, the Employee further promises and agrees that unless the Company has given its prior written consent, which can be withheld in its sole discretion, he/she will not advertise or market services as a Company employee or former Company employee or as an expert in any Company products or services or any similar designation in connection with the foregoing. During Employee's employment and for one (1) year following termination of his/her employment, regardless of whether voluntary or involuntary, Employee will not, directly or indirectly, either on behalf of himself/herself or any other person, business, enterprise or entity, (i) solicit any of the Company's Customers for any business purpose in competition with or in conflict with the Business of the Company or (ii) request or advise any of the Company's Customers to withdraw, curtail, or cancel their business with the Company. For purposes of this Agreement "Customers" shall mean any current customer or prospective customer of the Company (1) with whom Employee had contact directly or indirectly in connection with Employee's employment with the Company during the two (2) years prior to the termination of Employee's employment with the Company; or (ii) about whom Employee had access to proprietary, confidential, or commercially advantageous information through Employee's employment by the Company during the two (2) year period prior to the termination of Employee's employment with the Company.

- 5. **Covenant Not to Solicit Employees.** During Employee's employment and for one (1) year after separation of employment from the Company Employee will not, directly or indirectly, either on behalf of himself/herself or any other person, business, enterprise or entity, solicit for employment, employ, hire, contract with, or otherwise engage any Applicable Personnel. For purposes of this Section, "Applicable Personnel" means any person that was employed or engaged as an employee or independent contractor of the Company at any time during the six (6) month period prior to termination of Employee's employment with the Company of whom Employee developed knowledge or information regarding skills and abilities while employed.
- 6. **Exclusive Employment.** Employee shall not without the express prior written consent of the Company, directly or indirectly, during Employee's employment with the Company, render professional services to any person or firm for compensation or engage in any activity competitive with and/or adverse to the Company's purposes, mission or interests, whether alone, as a partner or member, or as an officer, director, employee or shareholder of any other corporation or entity or as a trustee, fiduciary or other representative of any other activity or entity, except with the express written approval of the Company, which the Company may revoke at any time in its sole discretion.
- 7. **Ownership and Assignment of Inventions.** Employee understands and agrees that Employee is performing work for hire for the Company and that any Inventions (as defined below) developed or conceived by Employee during Employee's employment with the Company are the sole property of the Company. "Inventions" shall include any inventions, improvements, developments, discoveries, programs, designs, products, processes, information systems and software, as well as any other concepts, works and ideas, whether patentable or not, relating to any present or prospective activities or Business of the Company. Employee agrees to make the Company aware of all such Inventions. To the maximum extent permitted by applicable law, Employee further agrees to assign and does hereby assign to the Company all rights, title and interest in and to all such Inventions hereafter made by Employee. This Section does not apply to any Invention for which Employee affirmatively proves that: (a) no equipment, supplies, facility, trade secrets, or Confidential Information of the Company was

used; (b) the Invention was developed entirely on Employee's own time; and (c) the Invention did not result, either directly or indirectly, from any work performed by Employee for the Company.

8. **Remedies.** It is stipulated and agreed that a breach by Employee of any of the covenants contained in Sections 3, 4, 5, 6 or 7 of this Agreement would cause irreparable damage to the Company. The Company, in addition to any other rights or remedies that the Company may have, shall be entitled to an injunction restraining Employee from violating or continuing any violation of such covenants without posting of bond (to the extent permitted by applicable law). Such right to obtain injunctive relief may be exercised at the option of the Company, concurrently with, prior to, after, or in lieu of the exercise of any other rights or remedies that the Company may have as a result of any such breach or threatened breach of this Agreement. Employee agrees that upon breach of any of the covenants contained in Sections 3, 4, 5, 6 or 7 of this Agreement, the Company shall be entitled to an accounting and repayment of all profits, royalties, compensation, and/or other benefits that Employee directly or indirectly has realized or may realize as a result of, or in connection with, any such breach. Employee further agrees that Employee will be liable for any expenses the Company may incur, including attorneys' fees, to enforce the terms of this Agreement. This provision is in addition to and not in lieu of any rights and remedies available to the Company for any breach of this Agreement.
9. **No Effect on Trade Secret Laws.** Subject to Section 11 below, nothing in this Agreement is intended to alter, limit (temporally, geographically, or otherwise), or have any effect whatsoever on Employee's obligation to refrain from disclosing the Company's trade secrets. Nothing in this Agreement shall limit or otherwise affect the Company's remedies for any violation of applicable trade secrets laws, all of which shall be cumulative to any remedies available to the Company for a breach of this Agreement.
10. **Defend Trade Secrets Act.** Under the federal Defend Trade Secrets Act of 2016, Employee shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (a) is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made to Employee's attorney in relation to a lawsuit for retaliation against Employee for reporting a suspected violation of law; or (c) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.
11. **Other Agreements/Warranties.** Employee warrants that Employee is not bound by the terms of a confidentiality agreement or non-competition agreement or any other agreement with a former employer or other third party that would preclude Employee from accepting employment with the Company or that would preclude Employee from effectively performing Employee's duties for the Company. Employee further warrants that Employee has the right to make all disclosures that Employee will make to the Company during the course of Employee's employment with the Company. Employee agrees that Employee shall not disclose to the Company, or seek to induce the Company to use, any confidential information in the nature of trade secrets or other proprietary information belonging to others and that in the event that the Company directs Employee to perform tasks that would result in the disclosure or use of any such confidential information, that Employee shall notify the Company in advance of any such disclosure. Employee agrees to defend, indemnify, and hold harmless the Company for any losses that it incurs as a result of the Employee's violation of any non-competition, non-solicitation, non-disclosure, or trade secret obligations that Employee may have to any other party during employment with the Company. Employee also agrees that any violation by Employee of any non-competition, non-solicitation, non-disclosure, or trade secret obligations that Employee may have to any other party during employment with the Company shall be grounds for immediate discharge.
12. **Acknowledgment of Reasonableness.** Employee has carefully read and considered the provisions of this Agreement, has had the opportunity to consult with an attorney of Employee's choice, and agrees that the restrictions and remedies set forth herein are fair and reasonably required for the protection of the Company. In the event that any provision relating to the scope of the restrictions shall be declared by a court of competent jurisdiction to exceed the maximum scope that such court deems reasonable and enforceable under applicable law, the Company and Employee agree that the scope of the restriction held reasonable and enforceable by the court shall thereafter be the scope of this Agreement.
13. **Severability; Survival; Modification.** The covenants described herein and all provisions and sub-provisions of this Agreement are intended to be severable. If any term, covenant, provision, sub-provision, or portion thereof is held to be invalid, void or unenforceable by a court of competent jurisdiction or arbitrator for any reason whatsoever, such ruling shall not affect the remainder of this Agreement, which shall remain in full

force and effect. Any provision of this Agreement that contemplates performance or observance subsequent to termination of this Agreement, regardless of the date, cause or manner of such termination, shall survive such termination and shall continue in full force and effect.

14. **Applicable Law.** This Agreement and any dispute or controversy arising out of or relating to this Agreement shall, in all respects, be governed by and construed according to the laws of the State of South Carolina, without regard to its conflict of law principles.

15. **Dispute Resolution.** Employee and Blackbaud agree that all disputes (unless excluded below), arising out of or related to this Agreement or the employment relationship, which Blackbaud may have against Employee or the Employee may have against Blackbaud (including its affiliates, subsidiaries, divisions, successors, assigns and their current and former employees, officers, directors, and agents), involving legally or equitably protected rights, shall be resolved only through formal, mandatory arbitration before a neutral arbitrator. This includes, without limitation, disputes or claims about the application for employment, terms and conditions of employment, wages and pay, leaves of absence, reasonable accommodation, or termination of employment. For example, such claims include, but are not limited to, those under the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, the Fair Labor Standards Act, the Family and Medical Leave Act, the Americans with Disabilities Act of 1990, Sections 1981 through 1988 of Title 42 of the United States Code, any state or local anti-discrimination (such as, for example, the Massachusetts Fair Employment Practices Act), harassment, or wage laws, or under any federal, state, or local law, ordinance or regulation, or based on any public policy, contract, tort, equitable theory, or common law. The arbitration must be pursued on an individual basis only and, to the maximum extent permitted by law, Employee and Blackbaud waive the right to commence, be a party to, participate in, receive money or any other relief from, or amend any existing lawsuit to include, any representative, collective or class proceeding or claims or to bring jointly any claim covered by this Agreement. No party may bring a claim on behalf of other individuals and an arbitrator may not (a) combine more than one individual's claim or claims into a single case; (b) order, require, participate in or facilitate production of class-wide contact information or notification to others of potential claims; or (c) arbitrate any form of a class, collective, or representative proceeding. Only a court of competent jurisdiction may interpret the enforceability of this class/collective action waiver. If the class/collective action waiver is determined to be unenforceable by a court of competent jurisdiction then the case will proceed as a putative class/collective action in court.

Disputes not covered by this Section are: (i) claims for workers' compensation or unemployment compensation benefits; (ii) claims based upon current (successor or future) stock option plans, employee pension and/or welfare benefit plans, which already contain a procedure for the resolution of disputes; (iii) claims which by law are not subject to mandatory binding pre-dispute arbitration; and (iv) claims included in any lawsuit or administrative proceeding to which Employee is a party and which are pending against Blackbaud prior to the date Employee signs this Agreement.

The arbitration will be conducted in accordance with the Employment Arbitration Rules of the American Arbitration Association ("AAA"), except for any provisions therein providing for class or collective proceedings. The arbitrator may award individual relief only and shall have exclusive authority to resolve any dispute about the interpretation, applicability, enforceability or formation of this Agreement including, but not limited to, any claim that any part of this Agreement is void or voidable, except any determination as to the enforceability of the above class/collective action waiver shall be made solely by a court.

Nothing herein limits the Employee's ability to file a charge with a federal, state, or local government administrative agency. Nor does this provision limit a federal, state or local government agency from its pursuit of a claim in court or the remedies it may seek from a court.

Blackbaud will pay the arbitrator's fees and will reimburse Employee for any administrative filing fees the AAA may impose to initiate arbitration. Further, Blackbaud agrees that if it prevails at the arbitration it shall not seek or pursue arbitration costs, even if at law it would otherwise be entitled to pursue such costs. Separate from costs, the parties retain any rights they each may have under applicable law to recover attorneys' fees from each other if ordered by the arbitrator.

If any term or provision of this Dispute Resolution clause shall, to any extent, be determined to be invalid or unenforceable, then this Agreement may be interpreted or modified to the extent necessary for it to be enforceable and to give effect to the parties' expressed intent to the maximum extent allowed by law.

16. **Waiver.** Any waiver of a breach of any provision of this Agreement must be in writing and signed by the waiving party. Any waiver of a breach of any provision of this Agreement shall not operate or be construed as a waiver of, or estoppel with respect to, any subsequent breach of such provision or any other provision of this Agreement. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not deprive that party of its right thereafter to insist upon strict adherence to that term or any other term of this Agreement.
17. **Employment At-Will.** Nothing in this Agreement shall be interpreted to create a contract of employment for any specific time. Employee is and shall remain an employee at-will, and either party may terminate the employment relationship at any time for any reason or no reason at all.
18. **Entire Agreement.** This Agreement constitutes the entire agreement between the parties as of the date hereof with respect to the subject matter hereof and supersedes any previous understandings, representations, statements and agreements, whether oral or written, between or among the parties with respect to the subject matter hereof. This Agreement may be modified only by written agreement, signed by all of the parties and expressly purporting to modify this Agreement.
19. **No Assignment / Binding Effect.** Employee may not assign this Agreement to any other person or entity without the Company's express written consent, which may be withheld for any reason or no reason at all. This Agreement shall be binding on Employee's heirs, successors, and permitted assigns. This Agreement shall be assignable by the Company to its successors and assigns.
20. **Tolling.** The Restricted Period shall be tolled for any period(s) of violation, including period(s) of time required for litigation to enforce the covenants of this Agreement.
21. **Execution.** This Agreement may be executed by one or more parties in the form of an electronic signature, which will constitute an original and binding signature of a party. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement.

[Signatures Follow]

The parties hereto have executed this Agreement to be effective as of the date Employee signs this Agreement.

Date: 2/16/2018

**EMPLOYEE:**

/s/ Kevin P. Gregoire

**BLACKBAUD, INC.:**

/s/ Peggy Anderson

By:

## Blackbaud, Inc.

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

I, Michael P. Gianoni, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blackbaud, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2019

By: /s/ Michael P. Gianoni

Michael P. Gianoni

President and Chief Executive Officer

(Principal Executive Officer)

## Blackbaud, Inc.

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

I, Anthony W. Boor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blackbaud, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2019

By: /s/ Anthony W. Boor

Anthony W. Boor

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

## Blackbaud, Inc.

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

In connection with the Quarterly Report on Form 10-Q of Blackbaud, Inc. (the "Company") for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Michael P. Gianoni, President and Chief Executive Officer, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: May 3, 2019

By: /s/ Michael P. Gianoni

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Michael P. Gianoni

President and Chief Executive Officer

(Principal Executive Officer)



## Blackbaud, Inc.

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

In connection with the Quarterly Report on Form 10-Q of Blackbaud, Inc. (the "Company") for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Anthony W. Boor, Executive Vice President and Chief Financial Officer, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: May 3, 2019

By: /s/ Anthony W. Boor

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Anthony W. Boor

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)