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, 2017**

or

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

For the transition period from __________to __________.

Commission file number: **000-50600**

Blackbaud, Inc.

(Exact name of registrant as specified in its charter)

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

2000 Daniel Island Drive
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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☐

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

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

The number of shares of the registrant's Common Stock outstanding as of April 24, 2017 was 48,037,329.

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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, 2016 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, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 13,872	$ 16,902
Restricted cash due to customers	164,748	353,771
Accounts receivable, net of allowance of $3,328 and $3,291 at March 31, 2017 and December 31, 2016, respectively	90,510	88,932
Prepaid expenses and other current assets	49,172	48,314
Total current assets	318,302	507,919
Property and equipment, net	47,200	50,269
Software development costs, net	41,139	37,582
Goodwill	438,307	438,240
Intangible assets, net	243,263	253,676
Other assets	22,914	22,524
Total assets	$ 1,111,125	$ 1,310,210
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 20,666	$ 23,274
Accrued expenses and other current liabilities	39,072	54,196
Due to customers	164,748	353,771
Debt, current portion	4,375	4,375
Deferred revenue, current portion	237,101	244,500
Total current liabilities	465,962	680,116
Debt, net of current portion	351,995	338,018
Deferred tax liability	29,636	29,558
Deferred revenue, net of current portion	7,681	6,440
Other liabilities	7,801	8,533
Total liabilities	863,075	1,062,665
Commitments and contingencies (see Note 8)		
Stockholders' equity:		
Preferred stock; 20,000,000 shares authorized, none outstanding	—	—
Common stock, $0.001 par value; 180,000,000 shares authorized, 58,410,419 and 57,672,401 shares issued at March 31, 2017 and December 31, 2016, respectively	58	58
Additional paid-in capital	319,731	310,452
Treasury stock, at cost; 10,375,257 and 10,166,801 shares at March 31, 2017 and December 31, 2016, respectively	(230,065)	(215,237)
Accumulated other comprehensive loss	(175)	(457)
Retained earnings	158,501	152,729
Total stockholders' equity	248,050	247,545
Total liabilities and stockholders' equity	$ 1,111,125	$ 1,310,210

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, 2017	2016
Revenue		
Subscriptions	$ 118,179	$ 96,851
Maintenance	33,781	37,160
Services and other	31,661	35,245
Total revenue	183,621	169,256
Cost of revenue		
Cost of subscriptions	54,926	49,666
Cost of maintenance	5,982	5,318
Cost of services and other	24,574	24,905
Total cost of revenue	85,482	79,889
Gross profit	98,139	89,367
Operating expenses		
Sales, marketing and customer success	42,240	35,609
Research and development	22,706	22,715
General and administrative	21,923	19,679
Amortization	691	752
Total operating expenses	87,560	78,755
Income from operations	10,579	10,612
Interest expense	(2,377)	(2,675)
Other income (expense), net	286	(105)
Income before provision for income taxes	8,488	7,832
Income tax (benefit) provision	(3,023)	1,595
Net income	$ 11,511	$ 6,237
Earnings per share		
Basic	$ 0.25	$ 0.14
Diluted	$ 0.24	$ 0.13
Common shares and equivalents outstanding		
Basic weighted average shares	46,501,761	45,967,863
Diluted weighted average shares	47,482,840	47,064,164
Dividends per share	$ 0.12	$ 0.12
Other comprehensive income (loss)		
Foreign currency translation adjustment	100	403
Unrealized gain (loss) on derivative instruments, net of tax	182	(669)
Total other comprehensive income (loss)	282	(266)
Comprehensive income	$ 11,793	$ 5,971

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, 2017	2016
Cash flows from operating activities		
Net income	$ 11,511	$ 6,237
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,091	17,609
Provision for doubtful accounts and sales returns	2,738	1,017
Stock-based compensation expense	9,294	7,743
Deferred taxes	(50)	626
Amortization of deferred financing costs and discount	239	239
Other non-cash adjustments	(243)	(217)
Changes in operating assets and liabilities, net of acquisition and disposal of businesses:		
Accounts receivable	(4,041)	817
Prepaid expenses and other assets	(1,214)	1,846
Trade accounts payable	(1,267)	139
Accrued expenses and other liabilities	(15,536)	(20,416)
Restricted cash due to customers	188,824	141,055
Due to customers	(188,824)	(141,055)
Deferred revenue	(6,758)	(8,883)
Net cash provided by operating activities	12,764	6,757
Cash flows from investing activities		
Purchase of property and equipment	(2,719)	(7,837)
Capitalized software development costs	(6,583)	(5,798)
Purchase of net assets of acquired companies, net of cash	59	—
Net cash used in investing activities	(9,243)	(13,635)
Cash flows from financing activities		
Proceeds from issuance of debt	67,600	74,600
Payments on debt	(53,794)	(60,494)
Employee taxes paid for withheld shares upon equity award settlement	(14,828)	(5,516)
Proceeds from exercise of stock options	11	3
Dividend payments to stockholders	(5,765)	(5,700)
Net cash (used in) provided by financing activities	(6,776)	2,893
Effect of exchange rate on cash and cash equivalents	225	707
Net decrease in cash and cash equivalents	(3,030)	(3,278)
Cash and cash equivalents, beginning of period	16,902	15,362
Cash and cash equivalents, end of period	$ 13,872	$ 12,084

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

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

(dollars in thousands)	Common stock Shares	Common stock Amount	Additional paid-in capital	Treasury stock	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
Balance at December 31, 2016	57,672,401	$ 58	$ 310,452	$ (215,237)	$ (457)	$ 152,729	$ 247,545
Net income	—	—	—	—	—	11,511	11,511
Payment of dividends	—	—	—	—	—	(5,765)	(5,765)
Exercise of stock options and stock appreciation rights and vesting of restricted stock units	273,415	—	11	—	—	—	11
Employee taxes paid for 208,456 withheld shares upon equity award settlement	—	—	—	(14,828)	—	—	(14,828)
Stock-based compensation	—	—	9,268	—	—	26	9,294
Restricted stock grants	499,734	—	—	—	—	—	—
Restricted stock cancellations	(35,131)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	282	—	282
Balance at March 31, 2017	58,410,419	$ 58	$ 319,731	$ (230,065)	$ (175)	$ 158,501	$ 248,050

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

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

1. Organization

We are the world's leading cloud software company powering social good. Serving the entire social good community—nonprofits, foundations, corporations, education institutions, and individual change agents—we connect and empower organizations to increase their impact through software, services, expertise, and data intelligence. Our portfolio is tailored to the unique needs of vertical markets, with solutions for fundraising and relationship management, digital marketing, advocacy, accounting, payments, analytics, school management, grant management, corporate social responsibility and volunteerism. Serving the industry for more than three decades, we are headquartered in Charleston, South Carolina and have operations in the United States, Australia, Canada and the United Kingdom. As of March 31, 2017, we had approximately 35,000 customers.

2. Basis of Presentation

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 statements of stockholders' equity, for the periods presented in accordance with accounting principles generally accepted in the United States ("GAAP"). The consolidated balance sheet at December 31, 2016, has been derived from the audited consolidated financial statements at that date. Operating results and cash flows for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2017, 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, 2016, and other forms filed with the SEC from time to time.

Reclassifications

Due to the insignificance of our revenue from "license fees and other," we have combined that revenue with our "services" revenue beginning in 2017. In order to provide comparability between periods presented, "services" and "license fees and other" have been combined within "services and other" in the previously reported consolidated statements of comprehensive income to conform to presentation of the current period. Similarly, "cost of services" and "cost of license fees and other" have been combined within "cost of services and other" in the previously reported consolidated statements of comprehensive income to conform to presentation of the current period.

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.

Recently adopted accounting pronouncements

As previously disclosed, during the three months ended September 30, 2016 we early adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-09, *Compensation - Stock Compensation (Topic 718)*, *Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09")*, which addresses, among other items, the accounting for income taxes and forfeitures, and cash flow presentation of share-based compensation. The early adoption of ASU 2016-09 increased net income for the three months ended March 31, 2016, and resulted in an increase in net cash provided by operating activities and a decrease in net cash provided by financing activities for the three months ended March 31, 2016. Detailed information regarding the impact of our adoption of ASU 2016-09 can be found in our annual report on Form 10-K for the year ended December 31, 2016.

Recently issued accounting pronouncements

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment ("ASU 2017-04")*, which removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted, and applied prospectively. We do not expect ASU 2017-04 to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805) Clarifying the Definition of a Business ("ASU 2017-01")*, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted, and applied prospectively. We are currently evaluating the impact of adopting this standard.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash ("ASU 2016-18")*, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted, including adoption in an interim period, but any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The new standard must be adopted retrospectively. We are currently evaluating the impact of this standard on our consolidated statements of cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842) (ASU 2016-02)*. ASU 2016-02 will require lessees to record most leases on their balance sheets but recognize expenses in the income statement in a manner similar to current guidance. The updated guidance also eliminates certain real estate-specific provisions and changes the guidance on sale-leaseback transactions, initial direct costs and lease executory costs for all entities. For lessors, the standard modifies the classification criteria and the accounting for sales-type and direct financing leases. All entities will classify leases to determine how to recognize lease-related revenue and expense. Classification will continue to affect amounts that lessors record on the balance sheet. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. Upon adoption, entities will be required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. We expect ASU 2016-02 will impact our consolidated financial statements and are currently evaluating the extent of the impact that implementation of this standard will have on adoption.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606) (ASU 2014-09)*. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard also provides guidance on the recognition of costs related to obtaining customer contracts. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. ASU 2014-09 will be effective for us beginning in the first quarter of 2018. We are currently evaluating the transition methods and the impact that the adoption of ASU 2014-09 will have on our consolidated financial statements and related disclosures. As a result of our evaluation to date, we expect that ASU 2014-09 will generally result in a longer deferral of commissions expense as compared with our current amortization periods for such costs, and may result in the deferral of more sales commissions. In addition, we expect changes in the allocation of transactions prices for contracts where we sell perpetual software licenses as ASU 2014-09 requires that the transaction price in a contract be allocated based on relative standalone selling prices of the separate performance obligations. We also anticipate incremental disclosures, including, but not limited to, quantitative reconciliations of opening and closing balances of contract assets and liabilities, the value of remaining performance obligations at the end of each reporting period, and disaggregation of revenue.

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

3. Goodwill and Other Intangible Assets

The change in goodwill for each reportable segment (as defined in Note 12 below) during the three months ended March 31, 2017, consisted of the following:

(dollars in thousands)	EMG	GMG	IMG	Total
Balance at December 31, 2016	$ 241,334	$ 192,238	$ 4,668	$ 438,240
Adjustments related to prior year business combination[1]	(21)	(37)	(1)	(59)
Effect of foreign currency translation	—	—	126	126
Balance at March 31, 2017	$ 241,313	$ 192,201	$ 4,793	$ 438,307

(1) The change in goodwill was related to a post-closing working capital adjustment associated with the prior year acquisition of Good+Geek, Inc. ("Attentive.ly").

4. Earnings Per Share

We compute basic earnings per share by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares and dilutive potential common shares outstanding during the period. Diluted earnings per share reflect the assumed exercise, settlement and vesting of all dilutive securities using the “treasury stock method” except when the effect is anti-dilutive. Potentially dilutive securities consist of shares issuable upon the exercise of stock options, settlement of stock appreciation rights and vesting of restricted stock awards and units.

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

	Three months ended March 31,	
(dollars in thousands, except per share amounts)	2017	2016
Numerator:		
Net income	$ 11,511	$ 6,237
Denominator:		
Weighted average common shares	46,501,761	45,967,863
Add effect of dilutive securities:		
Stock-based awards	981,079	1,096,301
Weighted average common shares assuming dilution	47,482,840	47,064,164
Earnings per share:		
Basic	$ 0.25	$ 0.14
Diluted	$ 0.24	$ 0.13
Anti-dilutive shares excluded from calculations of diluted earnings per share	199,199	55,844

5. Fair Value Measurements

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

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

Recurring fair value measurements

Financial assets and liabilities measured at fair value on a recurring basis consisted of the following, as of:

	Fair value measurement using			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Fair value as of March 31, 2017				
Financial assets:				
Derivative instruments(1)	$ —	$ 343	$ —	$ 343
Total financial assets	$ —	$ 343	$ —	$ 343
Fair value as of December 31, 2016				
Financial assets:				
Derivative instruments(1)	$ —	$ 206	$ —	$ 206
Total financial assets	$ —	$ 206	$ —	$ 206
Fair value as of December 31, 2016				
Financial liabilities:				
Derivative instruments(1)	$ —	$ 163	$ —	$ 163
Total financial liabilities	$ —	$ 163	$ —	$ 163

(1) 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, 2017 and December 31, 2016, due to the immediate or short-term maturity of these instruments.

We believe the carrying amount of our debt approximates its fair value at March 31, 2017 and December 31, 2016, 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, 2017. Additionally, we did not hold any Level 3 assets or liabilities during the three months ended March 31, 2017.

Non-recurring fair value measurements

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets and goodwill, which are recognized at fair value during the period in which an acquisition is completed, 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, are based on Level 3 unobservable inputs. In the event of an impairment, we determine the fair value of the goodwill and intangible assets 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.

There were no non-recurring fair value adjustments to intangible assets and goodwill during the three months ended March 31, 2017, except for an insignificant business combination accounting adjustment to the initial fair value estimates of the Attentive.ly assets acquired and liabilities assumed at the acquisition date from updated information obtained during the measurement period. See Note 3 to these consolidated financial statements for additional details. The measurement period of a business combination may be up to one year from the acquisition date. We record any measurement period adjustments to the fair value of assets acquired and liabilities assumed, with the corresponding offset to goodwill.

6. Consolidated Financial Statement Details

Accrued expenses and other liabilities

(dollars in thousands)	March 31, 2017	December 31, 2016
Accrued bonuses	$ 8,667	$ 19,217
Accrued commissions and salaries	5,478	9,352
Lease incentive obligations	5,360	5,604
Customer credit balances	4,759	5,148
Deferred rent liabilities	4,116	4,110
Taxes payable	2,331	3,452
Unrecognized tax benefit	3,359	3,295
Accrued subscriptions	3,032	2,840
Accrued vacation costs	2,169	2,214
Accrued health care costs	2,683	1,495
Other liabilities	4,919	6,002
Total accrued expenses and other liabilities	46,873	62,729
Less: Long-term portion	7,801	8,533
Accrued expenses and other current liabilities	$ 39,072	$ 54,196

7. Derivative Instruments

We use derivative instruments to manage our variable interest rate risk. In March 2014, we entered into an interest rate swap agreement (the "March 2014 Swap Agreement"), which effectively converts portions of our variable rate debt under our existing credit facility (the "2014 Credit Facility") to a fixed rate for the term of the swap agreement. The initial notional value of the March 2014 Swap Agreement was $125.0 million with an effective date beginning in March 2014. In March 2017, the notional value of the March 2014 Swap Agreement decreased to $75.0 million for the remaining term through February 2018. We designated the March 2014 Swap Agreement as a cash flow hedge at the inception of the contract.

In October 2015, we entered into an additional interest rate swap agreement (the "October 2015 Swap Agreement"), which effectively converts portions of our variable rate debt under the 2014 Credit Facility to a fixed rate for the term of the October 2015 Swap Agreement. The notional value of the October 2015 Swap Agreement was $75.0 million with an effective date beginning in October 2015 and maturing in February 2018. We designated the October 2015 Swap Agreement as a cash flow hedge at the inception of the contract.

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

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

(dollars in thousands)	Balance sheet location	March 31, 2017	December 31, 2016
Derivative instruments designated as hedging instruments:			
Interest rate swap, current portion	Prepaid expenses and other current assets	$ 343	$ —
Interest rate swap, long-term portion	Other assets	$ —	$ 206
Total derivative instruments designated as hedging instruments		$ 343	$ 206
		March 31, 2017	December 31, 2016
Derivative instruments designated as hedging instruments:			
Interest rate swaps, long-term portion	Other liabilities	—	163
Total derivative instruments designated as hedging instruments		$ —	$ 163

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

(dollars in thousands)	Gain (loss) recognized in accumulated other comprehensive loss as of March 31, 2017	Location of gain (loss) reclassified from accumulated other comprehensive loss into income	Gain (loss) reclassified from accumulated other comprehensive loss into income Three months ended March 31, 2017
Interest rate swaps	$ 343	Interest expense	$ (119)
	March 31, 2016		Three months ended March 31, 2016
Interest rate swaps	$ (1,135)	Interest expense	$ (308)

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, 2017 that is expected to be reclassified into earnings within the next twelve months is insignificant. There were no ineffective portions of our interest rate swap derivatives during the three months ended March 31, 2017 and 2016. See Note 11 to these consolidated financial statements for a summary of the changes in accumulated other comprehensive income (loss) by component.

8. Commitments and Contingencies

Leases

Total rent expense was $4.0 million and $2.0 million for the three months ended March 31, 2017 and 2016, respectively. The quarterly South Carolina state incentive payments we received as a result of locating our headquarters facility in Berkeley County, South Carolina, ended in the fourth quarter of 2016. These amounts were recorded as a reduction of rent expense upon receipt and were $1.0 million for the three months ended March 31, 2016.

Other commitments

The term loans under the 2014 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 2014 Credit Facility in February 2019.

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

We utilize third-party technology in conjunction with our solutions and services, with contractual obligations varying in length from one to five years. In certain cases, such arrangements require a minimum annual purchase commitment. As of March 31, 2017, the remaining aggregate minimum purchase commitment under these arrangements was approximately $51.0 million through 2021.

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, 2017, 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.

9. Income Taxes

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

	Three months ended March 31,	
(dollars in thousands)	2017	2016(1)
Income tax (benefit) provision	$ (3,023)	$ 1,595
Effective income tax rate	(35.6)%	20.4%

(1) As discussed in Note 2 to these consolidated financial statements, we early adopted ASU 2016-09 relating to stock-based compensation during the three months ended September 30, 2016. Under ASU 2016-09, tax benefits in excess of compensation costs (windfalls) generated upon the exercise or settlement of stock awards are no longer recognized as additional paid-in capital but are instead recognized as a reduction to income tax expense. This change in accounting for income taxes was effective for us on a prospective basis as of the beginning of the 2016 fiscal year.

The decrease in our effective income tax rate during the three months ended March 31, 2017, when compared to the same period in 2016, was primarily due to a $6.1 million discrete tax benefit to expense relating to stock-based compensation items, as compared to a $1.1 million discrete tax benefit for the same period in 2016. The increase in the discrete tax benefit for the three months ended March 31, 2017, as compared to the same period in 2016, was attributable to an increase in the market price for shares of our common stock, as reported by the NASDAQ Stock Market LLC ("NASDAQ"), as well as an increase in the number of stock awards that vested and were exercised.

Our effective income tax rate may fluctuate quarterly as a result of factors, including transactions entered into, changes in the geographic distribution of our earnings or losses, our assessment of certain tax contingencies, valuation allowances, and changes in tax law in jurisdictions where we conduct business.

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

We have deferred tax assets for federal, state, and international net operating loss carryforwards and state tax credits. The federal and state net operating loss carryforwards are subject to various Internal Revenue Code limitations and applicable state tax laws. A portion of the foreign and state net operating loss carryforwards and a portion of state tax credits have a valuation reserve due to the uncertainty of realizing such carryforwards and credits in the future.

The total amount of unrecognized tax benefit that, if recognized, would favorably affect the effective income tax rate, was $2.4 million and $2.4 million at March 31, 2017 and December 31, 2016, respectively. We recognize accrued interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

10. 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:

	Three months ended March 31,	
(dollars in thousands)	2017	2016
Included in cost of revenue:		
Cost of subscriptions	$ 294	$ 275
Cost of maintenance	86	118
Cost of services and other	411	452
Total included in cost of revenue	791	845
Included in operating expenses:		
Sales, marketing and customer success	1,439	896
Research and development	1,717	1,471
General and administrative	5,347	4,531
Total included in operating expenses	8,503	6,898
Total stock-based compensation expense	$ 9,294	$ 7,743

11. 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 2014 Credit Facility limits the amount of dividends payable and certain state laws restrict the amount of dividends distributed.

In February 2017, 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, 2017.

Declaration Date	Dividend per Share	Record Date	Payable Date
February 8, 2017	$ 0.12	February 28	March 15

On May 1, 2017, our Board of Directors declared a second quarter dividend of $0.12 per share payable on June 15, 2017 to stockholders of record on May 26, 2017.

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

Changes in accumulated other comprehensive loss by component

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

	Three months ended March 31,	
(dollars in thousands)	2017	2016
Accumulated other comprehensive loss, beginning of period	$ (457)	$ (825)
By component:		
Gains and losses on cash flow hedges:		
Accumulated other comprehensive income (loss) balance, beginning of period	$ 25	$ (19)
Other comprehensive income (loss) before reclassifications, net of tax effects of $(71) and $555	110	(856)
Amounts reclassified from accumulated other comprehensive loss to interest expense	119	308
Tax benefit included in provision for income taxes	(47)	(121)
Total amounts reclassified from accumulated other comprehensive loss	72	187
Net current-period other comprehensive income (loss)	182	(669)
Accumulated other comprehensive income (loss) balance, end of period	$ 207	$ (688)
Foreign currency translation adjustment:		
Accumulated other comprehensive loss balance, beginning of period	$ (482)	$ (806)
Translation adjustments	100	403
Accumulated other comprehensive loss balance, end of period	(382)	(403)
Accumulated other comprehensive loss, end of period	$ (175)	$ (1,091)

12. Segment Information

During the first quarter of 2017, we changed the names of our reportable segments. However, there was no change in the determination of our reportable segments or our reporting units. As of March 31, 2017, our reportable segments were the General Markets Group ("GMG"), the Enterprise Markets Group ("EMG"), and the International Markets Group ("IMG"). Following is a description of each reportable segment:

- The GMG is generally focused on marketing, sales, delivery and support to all emerging and mid-sized prospects and customers in North America;
- The EMG is generally focused on marketing, sales, delivery and support to all large and/or strategic prospects and customers in North America; and
- The IMG is focused on marketing, sales, delivery and support to all prospects and customers outside of North America.

Our chief operating decision maker is our chief executive officer ("CEO"). The CEO reviews financial information presented on an operating segment basis for the purposes of making certain operating decisions and assessing financial performance. The CEO uses internal financial reports that provide segment revenues and operating income, excluding stock-based compensation expense, amortization expense, depreciation expense, research and development expense and certain corporate sales, marketing, general and administrative expenses. Currently, the CEO believes that the exclusion of these costs allows for a better understanding of the operating performance of the operating units and management of other operating expenses and cash needs. The CEO does not review any segment balance sheet information.

Summarized reportable segment financial results, were as follows:

(dollars in thousands)	Three months ended March 31, 2017	2016
Revenue by segment:		
GMG	$ 94,901	$ 87,952
EMG	79,632	71,499
IMG	9,056	9,758
Other(1)	32	47
Total revenue	$ 183,621	$ 169,256
Segment operating income(2):		
GMG	$ 45,704	$ 42,611
EMG	42,475	35,766
IMG	1,249	996
Other(1)	16	30
	89,444	79,403
Less:		
Corporate unallocated costs(3)	(59,025)	(50,415)
Stock-based compensation costs	(9,294)	(7,743)
Amortization expense	(10,546)	(10,633)
Interest expense	(2,377)	(2,675)
Other income (expense), net	286	(105)
Income before provision for income taxes	$ 8,488	$ 7,832

(1) Other includes revenue and the related costs from the sale of solutions and services not directly attributable to a reportable segment.
(2) Segment operating income includes direct, controllable costs related to the sale of solutions and services by the reportable segment.
(3) Corporate unallocated costs include research and development, depreciation expense, and certain corporate sales, marketing, general and administrative expenses.

13. Subsequent Events

AcademicWorks acquisition

On April 3, 2017, we acquired all of the outstanding shares of capital stock, including all voting equity interests, of AcademicWorks, Inc., a Texas corporation ("AcademicWorks"), pursuant to a stock purchase agreement. AcademicWorks is the market leader in scholarship management for higher education and K-12 institutions, foundations, and grant-making institutions. The acquisition extends our offerings for our higher education, K-12, and corporate and foundation customers. We acquired AcademicWorks for an aggregate purchase price of $50.0 million in cash, subject to certain adjustments set forth in the stock purchase agreement. We financed the acquisition through a draw down of a revolving credit loan under the 2014 Credit Facility. As a result of the acquisition, AcademicWorks has become a wholly-owned subsidiary of ours. We will include the operating results of AcademicWorks, as well as any goodwill arising from the acquisition, in our consolidated financial statements primarily within EMG from the date of acquisition. During the three months ended March 31, 2017, we incurred insignificant acquisition-related expenses associated with the acquisition of AcademicWorks, which were recorded in general and administrative expense. Due to the timing of the transaction, the initial accounting for this acquisition, including the measurement of assets acquired, liabilities assumed and goodwill, is not complete and is pending detailed analyses of the facts and circumstances that existed as of the April 3, 2017 acquisition date.

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

We are the world's leading cloud software company powering social good. Serving the entire social good community—nonprofits, foundations, corporations, education institutions, and individual change agents—we connect and empower organizations to increase their impact through software, services, expertise, and data intelligence. Our portfolio is tailored to the unique needs of vertical markets, with solutions for fundraising and relationship management, digital marketing, advocacy, accounting, payments, analytics, school management, grant management, corporate social responsibility and volunteerism. Serving the industry for more than three decades, we are headquartered in Charleston, South Carolina and have operations in the United States, Australia, Canada and the United Kingdom. As of March 31, 2017, we had approximately 35,000 customers.

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 software maintenance and support services; (iii) providing professional services including implementation, training, consulting, analytic, hosting and other services; and (iv) providing transaction and payment processing services.

During the first quarter of 2017, we continued to execute on the following four growth strategies targeted to drive an extended period of quality enhancement, solution and service innovation, and increasing operating efficiency and financial performance:

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

We continue to transition our business to predominantly serve customers through a subscription-based cloud delivery model, enabling lower cost of entry, greater scalability and lower total cost of ownership to our customers. There is a concerted effort underway to optimize our portfolio of solutions and integrate powerful capabilities — such as built in data, analytics, payment processing and tailored user-specific experiences — to bring even greater value and performance to our customers.

We introduced SKY AI, the artificial intelligence engine behind the growing number of insights integrated into Blackbaud cloud software solutions, powered by machine learning, cognitive technology, natural language processing, predictive analytics, and other advanced technologies. We are enabling data driven decisions by pairing the industry's largest dataset with our advanced set of artificial intelligence capabilities, to ultimately have greater impact on our customers and their missions.

We continue down the path of modernizing our solution portfolio by moving it onto Blackbaud SKY, our innovative cloud platform. The next generation of Luminate Online, for example, is currently underway. At the end of 2016, we made SKY Reporting available to all of our Luminate Online customers, enabling them to leverage an entirely new and fully integrated set of business intelligence tools.

2. *Drive Sales Effectiveness*

We are making investments to create a world-class sales organization, with a focus on enabling our expanding sales teams with the training, processes, and tools to improve effectiveness and accelerate our revenue growth. During the first quarter of 2017, we created a new Senior Vice President of Global Sales position to lead this effort across the organization.

We are improving our market coverage by deploying direct sales employees into the field, and we are moving towards prescriptive solution offerings by sub-vertical, including K-12 private schools, foundations, corporations, arts & cultural, higher education and healthcare. Our move to sell pre-integrated solution suites instead of individual point-solutions has been successful, and we are furthering our go-to-market shift with a concentrated focus by sub-vertical.

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

We continue to evaluate compelling opportunities to acquire companies, technologies and/or services. We are guided by our acquisition criteria for considering attractive assets that expand our total addressable market ("TAM"), provide entry into new and near adjacencies, accelerate our shift to the cloud, accelerate revenue growth, are accretive to margins and present synergistic opportunities.

During the first quarter of 2017, we announced the promotion of our new Senior Vice President of Corporate Strategy and Business Development, who led the effort for our acquisitions of WhippleHill, MicroEdge, Smart Tuition, Attentive.ly, and most recently, AcademicWorks. AcademicWorks is the market leader in scholarship management for higher education and K-12 institutions, foundations, and grant-making institutions. Their cloud platform enables students to apply for all awards at an institution using one intuitive and streamlined process, while offering schools and awarding institutions a common platform for improved awarding, reporting, compliance, communication and stewardship of those awards. This meets our acquisition criteria to expand TAM into near adjacencies, accelerate revenue growth, improve profitability, and accelerate our move to the cloud. Additional details regarding our acquisition of AcademicWorks are provided below.

We remain active in the evaluation of acquisition opportunities to broaden our portfolio, provide better integrated solutions for our customers, differentiate ourselves from the competition, and improve our financial performance.

4. *Improve Operating Efficiency*

We have largely completed the installations of best-in-breed back-office solutions that consolidate and standardize our business operations utilizing scalable tools and systems. Our focus has shifted towards optimizing those systems, as well as operational excellence and quality initiatives focused on streamlining processes to gain efficiency and scalability. In 2014, we implemented a 3-year operating margin improvement plan designed to increase our operating effectiveness and efficiency and improve non-GAAP operating margins 300 to 600 basis points on a constant currency basis from our 2014 baseline of 17.5%, by the end of 2017.

Total revenue

	Three months ended March 31,		
(dollars in millions)	2017	2016	Change
Total revenue	$ 183.6	$ 169.3	8.5%

The increase in total revenue during the three months ended March 31, 2017, when compared to the same period in 2016 was primarily driven by growth in subscriptions revenue as our business model continues to shift towards providing predominantly cloud-based subscription solutions. Subscriptions revenue also grew as a result of increases in the number of customers and the volume of transactions for which we process payments. Services and other revenue as well as maintenance revenue declined during the three months ended March 31, 2017 from the continued migration of our business model toward subscription-based solutions. In general, our NXT and other cloud-based solutions require less implementation services, which will negatively impact services and other revenue growth over time. In the near-term, the transition to subscription-based solutions also negatively impacts total revenue growth, as time-based revenue from subscription arrangements is deferred and recognized ratably over the subscription period, typically three years at contract inception, whereas on-premises license revenue from arrangements that include perpetual licenses is recognized up-front.

Income from operations

(dollars in millions)		Three months ended March 31, 2017		2016	Change
Income from operations	$	10.6	$	10.6	(0.3)%

Income from operations remained relatively unchanged during the three months ended March 31, 2017, when compared to the same period in 2016. The growth in total revenue driven by subscriptions as discussed above was offset primarily by investments we are making in our sales organization and customer success program and, to a lesser extent, increases in employee severance costs, rent expense and stock based compensation expense of $2.5 million, $2.0 million and $1.6 million, respectively. The increase in rent expense was primarily driven by the end in the fourth quarter of 2016 of the South Carolina state incentive payments we received as a result of locating our headquarters facility in Berkeley County, South Carolina. These amounts were recorded as a reduction of rent expense upon receipt. Also contributing to the increase in rent expense were new operating leases for equipment that we have historically purchased.

Customer retention

Subscription contracts are typically for a term of three years at contract inception with one year renewals thereafter. Over time, we anticipate a 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. We also anticipate an increase in subscription contract renewals as we continue focusing on innovation, quality and the integration of our subscription 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 subscription and maintenance customer contracts provides an accurate representation of our customers' overall behavior. For the three months ended March 31, 2017, approximately 93% of our customers with recurring subscription or maintenance contracts were retained when compared to the same period in 2016. This customer retention rate is relatively unchanged from our rate for the full year 2016.

Balance sheet and cash flow

At March 31, 2017, our cash and cash equivalents were $13.9 million and outstanding borrowings under the 2014 Credit Facility were $357.7 million. During the three months ended March 31, 2017, we generated $12.8 million in cash flow from operations, increased our net borrowings by $13.8 million, returned $5.8 million to stockholders by way of dividends and had cash outlays of $9.3 million for purchases of property and equipment and capitalized software development costs.

Recent development - AcademicWorks acquisition

On April 3, 2017, we acquired all of the outstanding shares of capital stock of AcademicWorks for $50.0 million in cash, subject to certain adjustments set forth in the stock purchase agreement. AcademicWorks is the market leader in scholarship management for higher education and K-12 institutions, foundations, and grant-making institutions. The acquisition extends our offerings for our higher education, K-12, and corporate and foundation customers. We financed the acquisition through a $50.0 million draw down of a revolving credit loan under the 2014 Credit Facility. As a result of the acquisition, AcademicWorks has become a wholly-owned subsidiary of ours. We will include the operating results of AcademicWorks in our consolidated financial statements primarily within EMG from the date of acquisition. Due to the timing of the transaction, the initial accounting for this acquisition, including the measurement of assets acquired, liabilities assumed and goodwill, is not complete and is pending detailed analyses of the facts and circumstances that existed as of the April 3, 2017 acquisition date.

Results of Operations

Comparison of the three months ended March 31, 2017 and 2016

Revenue by segment

(dollars in millions)	Three months ended March 31, 2017	2016	Change
GMG	$ 94.9	$ 88.0	7.9 %
EMG	79.6	71.5	11.4 %
IMG	9.1	9.8	(7.2)%
Total revenue(1)	$ 183.6	$ 169.3	8.5 %

(1) The individual amounts for each year may not sum to total revenue due to rounding.

GMG

(dollars in millions)	Three months ended March 31, 2017	2016	Change
GMG revenue	$ 94.9	$ 88.0	7.9%
% of total revenue	51.7%	52.0%	

The increase in GMG revenue during the three months ended March 31, 2017 when compared to the same period in 2016 was attributable to growth in subscriptions revenue, partially offset by declines in services and other revenue and maintenance revenue. The growth in GMG subscriptions revenue was primarily due to increases in demand across our portfolio of cloud-based solutions. To a much lesser extent, GMG subscriptions revenue growth was also driven by increases in the number of customers and the volume of transactions for which we process payments. We expect that the continuing shift in our go-to-market strategy towards cloud-based subscription offerings, which, in general, require less implementation services will negatively impact the growth of both services and other revenue and maintenance revenue over time.

EMG

(dollars in millions)		Three months ended March 31, 2017		2016	Change
EMG revenue	$	79.6	$	71.5	11.4%
% of total revenue		43.4%		42.2%	

The increase in EMG revenue during the three months ended March 31, 2017, when compared to the same period in 2016, was primarily attributable to growth in subscriptions revenue, partially offset by decreases in services and other revenue and maintenance revenue. The growth in EMG subscriptions was driven primarily by increases in demand for our cloud-based solutions, as well as an increase in the number of customers and the volume of transactions for which we process payments. We expect that the continuing shift in our go-to-market strategy towards cloud-based subscription offerings, which, in general, require less implementation services will negatively impact the growth of both services and other revenue and maintenance revenue over time.

IMG

(dollars in millions)		Three months ended March 31, 2017		2016	Change
IMG revenue	$	9.1	$	9.8	(7.2)%
% of total revenue		4.9%		5.8%	

The decrease in IMG revenue during the three months ended March 31, 2017, when compared to the same period in 2016, was primarily related to reductions in maintenance revenue and services and other revenue, partially offset by an increase in subscriptions revenue. The increase in IMG subscriptions revenue during the three months ended March 31, 2017 was primarily due to increased demand for our cloud-based solutions and, to a lesser extent, an increase in the volume of transactions for which we process payments. In the near term, we expect a continued reduction in IMG revenue as our on-premises Raiser's Edge customers transition to our Raiser's Edge NXT solution, which, in general requires less implementation services.

Operating results

Subscriptions

(dollars in millions)	Three months ended March 31, 2017	2016	Change
Subscriptions revenue	$ 118.2	$ 96.9	22.0%
Cost of subscriptions	54.9	49.7	10.6%
Subscriptions gross profit(1)	$ 63.3	$ 47.2	34.1%
Subscriptions gross margin	53.5%	48.7%	

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

Subscriptions revenue is comprised of revenue from charging for the use of our subscription-based software solutions, which includes providing access to cloud-based solutions and hosting services, access to certain data services and our online subscription training offerings, revenue from payment processing services as well as variable transaction revenue associated with the use of our solutions.

We continue to experience growth in sales of our cloud-based solutions and hosting services as we meet the demand of our customers that increasingly prefer cloud-based subscription offerings, including existing customers that are migrating from on-premises solutions to our cloud-based solutions. In addition, we have experienced growth in our payment processing services from the continued shift to online giving, further integration of these services to our existing solution portfolio and the sale of these services to new and existing customers. Recurring subscriptions contracts are typically for a term of three years at contract inception with one year annual renewals thereafter. We intend to continue focusing on innovation, quality and integration of our subscription solutions which we believe will drive subscriptions revenue growth. We are also investing in our customer success organization to drive customer loyalty, retention, and referrals.

Cost of subscriptions is primarily comprised of compensation costs, 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 services to our customers.

The increase in subscriptions revenue during the three months ended March 31, 2017, when compared to the same period in 2016 was primarily due to strong demand across our cloud-based solution portfolio, and, to a lesser extent, increases in the number of customers and the volume of transactions for which we process payments.

The increase in cost of subscriptions during the three months ended March 31, 2017, when compared to the same period in 2016, was primarily due to an increase in transaction-based costs related to our payments services and those of Smart Tuition of $3.9 million and an increase in the cost of third-party technology embedded in certain of our subscription solutions of $1.6 million.

The increase in subscriptions gross margin for the three months ended March 31, 2017, when compared to the same period in 2016, was primarily the result of the positive economics of shifting customers to our next generation cloud-based solutions as growth in subscriptions revenue outpaced the growth in related costs.

Maintenance

(dollars in millions)	Three months ended March 31, 2017	2016	Change
Maintenance revenue	$ 33.8	$ 37.2	(9.1)%
Cost of maintenance	6.0	5.3	12.5 %
Maintenance gross profit(1)	$ 27.8	$ 31.8	(12.7)%
Maintenance gross margin	82.3%	85.7%	

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

Maintenance revenue is comprised of annual fees derived from maintenance contracts associated with new software licenses and annual renewals of existing maintenance contracts. These contracts provide customers with updates, enhancements and certain upgrades to our software solutions and online, telephone and email support. Maintenance contracts are typically renewed on an annual basis.

Cost of maintenance is primarily comprised of compensation costs, third-party contractor expenses, third-party royalty costs, allocated depreciation, facilities and IT support costs, amortization of intangible assets from business combinations, amortization of software development costs and other costs incurred in providing support and services to our customers.

The decrease in maintenance revenue during the three months ended March 31, 2017 when compared to the same period in 2016, was primarily related to a reduction in maintenance contracts associated with our on-premises Raiser's Edge and Financial Edge solutions as customers migrated to our cloud-based NXT solutions, partially offset by an increase in revenue from maintenance contracts associated with Blackbaud Enterprise CRM.

The decrease in maintenance revenue during the three months ended March 31, 2017, when compared to the same period in 2016, was primarily comprised of (i) $5.4 million of reductions in maintenance from contracts that were migrated to a cloud-based subscription or not renewed and reductions in contracts with existing customers; partially offset by (ii) $1.8 million of incremental maintenance from new customers associated with new license contracts and increases in contracts with existing customers; and (iii) an insignificant amount of incremental maintenance from contractual inflationary rate adjustments.

Cost of maintenance increased during the three months ended March 31, 2017, when compared to the same period in 2016, primarily as a result of an increase in compensation costs of $0.5 million, driven by a refinement in the method in which we allocate customer support costs between cost of maintenance and cost of subscriptions. In general, we expect a continued shift in the volume of customer support requests from maintenance towards subscriptions.

Maintenance gross margin decreased during the three months ended March 31, 2017, when compared to the same period in 2016, primarily due to the shift in customer support costs towards maintenance combined with the decline in maintenance revenue as discussed above.

Services and other

(dollars in millions)		Three months ended March 31, 2017		2016	Change
Services and other revenue	$	31.7	$	35.2	(10.2)%
Cost of services and other		24.6		24.9	(1.3)%
Services and other gross profit(1)	$	7.1	$	10.3	(31.5)%
Services and other gross margin		22.4%		29.3%	

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

Services and other revenue includes consulting, implementation, education, analytic and installation 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. Consulting, implementation and installation services involve converting data from a customer's existing system, system configuration, process re-engineering and assistance in file set up. Education services involve customer training activities. Analytic services are comprised of donor prospect research, sales of lists of potential donors, benchmarking studies and data modeling services. These analytic services involve the assessment of current and prospective donor information of the customer and are performed using our proprietary analytical tools. The end product is intended to enable organizations to more effectively target their fundraising activities.

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

Services and other revenue decreased during the three months ended March 31, 2017, when compared to the same period in 2016, primarily due to a decrease in consulting revenue and, to a lesser extent, declines in analytics revenue and license fees revenue. Our revenue from professional services has historically been lower in the first quarter when many of those services commence. Additionally, we expect that the continuing shift in our go-to-market strategy towards cloud-based subscription offerings, which, in general, require less implementation services, will negatively impact services and other revenue growth over time. We have also used promotions and discounts as incentives to accelerate the migration of our existing customer base from on-premises solutions toward our cloud-based subscriptions. The maturation of our Blackbaud Enterprise CRM solution, our only remaining perpetual licensed-based offering, is lessening the extent of implementation services required. Finally, our perpetual license transactions for Blackbaud Enterprise CRM can be of substantial value, which can result in period to period variations in revenue since the license fee revenue associated with these arrangements is generally recognized up front when the arrangements are entered into.

Cost of services and other remained relatively unchanged during the three months ended March 31, 2017, when compared to the same period in 2016.

Services and other gross margin decreased during the three months ended March 31, 2017, when compared to the same period in 2016, primarily due to the declines in consulting, analytics and license fees revenue coupled with the modest change in costs of services and other.

Operating expenses

Sales, marketing, and customer success

(dollars in millions)	Three months ended March 31, 2017		2016	Change
Sales, marketing and customer success expense	$ 42.2	$	35.6	18.6%
% of total revenue	23.0%		21.0%	

Sales, marketing, and customer success expense includes compensation costs, travel-related expenses, sales commissions, advertising and marketing materials, public relations costs 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 to accelerate revenue growth. 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, 2017, when compared to the same period in 2016, was primarily due to increases in compensation costs of $4.1 million and commissions expense of $1.2 million. Compensation costs increased primarily due to incremental headcount to support the increase in direct sales, marketing, and customer success efforts of our growing operations. The increase in commission expense was primarily driven by an increase in commissionable bookings during the three months ended March 31, 2017, when compared to the same period in 2016.

Research and development

(dollars in millions)	Three months ended March 31, 2017		2016	Change
Research and development expense(1)	$ 22.7	$	22.7	— %
% of total revenue	12.4%		13.4%	

(1) Not included in research and development expense for the three months ended March 31, 2017 and 2016 were $6.6 million and $5.6 million, respectively, of qualifying costs associated with development activities that are required to be capitalized under the internal-use software accounting guidance such as those 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, 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 to accelerate revenue growth. Research and development expense remained relatively unchanged during the three months ended March 31, 2017, when compared to the same period in 2016 as an increase in compensation costs of $0.9 million associated with our addition of specialized engineering resources to help drive our solution development efforts was offset by an increase of $1.0 million in the amount of software development costs that were capitalized. As discussed above, the increase in amount capitalized was a result of incurring more qualifying costs associated with development activities that are 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 on innovation, quality and the integration of our solutions which we believe will drive long-term revenue growth.

Research and development expense decreased as a percentage of total revenue during the three months ended March 31, 2017, when compared to the same period in 2016, primarily due to productivity gains, which have allowed us to scale our business. The increase in the amount of software development costs capitalized as discussed above also contributed to the decrease in research in development expense as a percentage of total revenue.

General and administrative

(dollars in millions)		2017		2016	Change
		Three months ended March 31,			
General and administrative expense	$	21.9	$	19.7	11.4%
% of total revenue		11.9%		11.6%	

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 during the three months ended March 31, 2017, when compared to the same period in 2016, was primarily due to an increase in rent expense of $2.0 million. The increase in rent expense was primarily driven by the end in the fourth quarter of 2016 of the South Carolina state incentive payments we received as a result of locating our headquarters facility in Berkeley County, South Carolina. These amounts were recorded as a reduction of rent expense upon receipt. Also contributing to the increase in rent expense were new operating leases for equipment that we have historically purchased.

General and administrative expense as a percentage of total revenue remained relatively unchanged during the three months ended March 31, 2017, when compared to the same period in 2016.

Interest expense

(dollars in millions)		2017		2016	Change
		Three months ended March 31,			
Interest expense	$	2.4	$	2.7	(11.1)%
% of total revenue		1.3%		1.6%	

Interest expense decreased during the three months ended March 31, 2017, when compared to the same period in 2016, primarily due to a decrease in our average daily borrowings.

Deferred revenue

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

(dollars in millions)	Timing of recognition		March 31, 2017	Change		December 31, 2016
Subscriptions	Over the period billed in advance, generally one year	$	146.2	1.1 %	$	144.6
Maintenance	Over the period billed in advance, generally one year		70.2	(8.6)%		76.8
Services and other	As services are delivered		28.4	(3.8)%		29.5
Total deferred revenue(1)			244.8	(2.5)%		250.9
Less: Long-term portion			7.7	19.3 %		6.4
Current portion(1)		$	237.1	(3.0)%	$	244.5

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

To the extent that our customers are billed for our solutions and services in advance of delivery, we record such amounts in deferred revenue. We generally invoice our subscription and maintenance customers in annual cycles 30 days prior to the end of the contract term. The decreases in deferred revenue attributable to maintenance and services and other during the three months ended March 31, 2017 were primarily due to the continuing shift in our go-to-market strategy towards cloud-based subscription offerings, which do not require maintenance contracts and, in general, require less implementation services than our historical on-premises arrangements. Deferred revenue from subscriptions remained relatively unchanged during the three months ended March 31, 2017, primarily due to the timing of customer contract renewals, many of which take place at or near the beginning of our third quarter. As a result, our deferred revenue has historically been lower in our first and second quarters as compared to our third and fourth quarters.

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

Income tax (benefit) provision

	Three months ended March 31,				
(dollars in millions)		2017		2016(1)	Change
Income tax (benefit) provision	$	(3.0)	$	1.6	(289.5)%
Effective income tax rate		(35.6)%		20.4%	

(1) As discussed in Note 2 of our consolidated financial statements in this report, we early adopted ASU 2016-09 relating to stock-based compensation during the three months ended September 30, 2016. Under ASU 2016-09, tax benefits in excess of compensation costs (windfalls) generated upon the exercise or settlement of stock awards are no longer recognized as additional paid-in capital but are instead recognized as a reduction to income tax expense. This change in accounting for income taxes was effective for us on a prospective basis as of the beginning of the 2016 fiscal year.

The decrease in our effective income tax rate during the three months ended March 31, 2017, when compared to the same period in 2016, was primarily due to a $6.1 million discrete tax benefit to expense relating to stock-based compensation items, as compared to a $1.1 million discrete tax benefit for the same period in 2016. The increase in the discrete tax benefit for the three months ended March 31, 2017, as compared to the same period in 2016, was attributable to an increase in the market price for shares of our common stock, as reported by NASDAQ, as well as an increase in the number of stock awards that vested and were exercised.

Our effective income tax rate may fluctuate quarterly as a result of factors, including transactions entered into, changes in the geographic distribution of our earnings or losses, our assessment of certain tax contingencies, valuation allowances, and changes in tax law in jurisdictions where we conduct business.

We have deferred tax assets for federal, state, and international net operating loss carryforwards and state tax credits. The federal and state net operating loss carryforwards are subject to various Internal Revenue Code limitations and applicable state tax laws. A portion of the foreign and state net operating loss carryforwards and a portion of state tax credits have a valuation reserve due to the uncertainty of realizing such carryforwards and credits in the future.

The total amount of unrecognized tax benefit that, if recognized, would favorably affect the effective income tax rate, was $2.4 million and $2.4 million at March 31, 2017 and December 31, 2016, respectively. We recognize accrued interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

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. However, since the deferred revenue acquired in connection with the acquisition of Attentive.ly was insignificant and approximates fair value, no deferred revenue write-down was recorded for that acquisition.

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

	Three months ended March 31,		
(dollars in millions)	2017	2016	Change
GAAP Revenue	$ 183.6	$ 169.3	8.5 %
Non-GAAP adjustments:			
Add: Acquisition-related deferred revenue write-down	—	1.8	(100.0)%
Non-GAAP revenue(1)	$ 183.6	$ 171.0	7.4 %
GAAP gross profit	$ 98.1	$ 89.4	9.8 %
GAAP gross margin	53.4%	52.8%	
Non-GAAP adjustments:			
Add: Acquisition-related deferred revenue write-down	—	1.8	(100.0)%
Add: Stock-based compensation expense	0.8	0.8	(6.4)%
Add: Amortization of intangibles from business combinations	9.9	9.9	(0.3)%
Add: Employee severance	1.0	0.1	1,387.5 %
Add: Acquisition-related integration costs	0.1	—	100.0 %
Subtotal(1)	11.7	12.6	(7.1)%
Non-GAAP gross profit(1)	$ 109.8	$ 101.9	7.7 %
Non-GAAP gross margin	59.8%	59.6%	

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

(dollars in millions, except per share amounts)	Three months ended March 31, 2017	2016	Change
GAAP income from operations	$ 10.6	$ 10.6	(0.3)%
GAAP operating margin	5.8%	6.3%	
Non-GAAP adjustments:			
Add: Acquisition-related deferred revenue write-down	—	1.8	(100.0)%
Add: Stock-based compensation expense	9.3	7.7	20.0 %
Add: Amortization of intangibles from business combinations	10.5	10.6	(0.8)%
Add: Employee severance	2.7	0.3	853.5 %
Add: Acquisition-related integration costs	0.2	0.4	(39.9)%
Add: Acquisition-related expenses	0.6	0.1	404.4 %
Subtotal(1)	23.4	20.9	11.6 %
Non-GAAP income from operations(1)	$ 34.0	$ 31.6	7.6 %
Non-GAAP operating margin	18.5%	18.5%	
GAAP net income	$ 11.5	$ 6.2	84.6 %
Shares used in computing GAAP diluted earnings per share	47,482,840	47,064,164	0.9 %
GAAP diluted earnings per share	$ 0.24	$ 0.13	84.6 %
Non-GAAP adjustments:			
Add: Total Non-GAAP adjustments affecting income from operations	23.4	20.9	11.6 %
Less: Tax impact related to Non-GAAP adjustments	(13.2)	(7.6)	73.7 %
Non-GAAP net income(1)	$ 21.7	$ 19.6	10.8 %
Shares used in computing Non-GAAP diluted earnings per share	47,482,840	47,064,164	0.9 %
Non-GAAP diluted earnings per share	$ 0.46	$ 0.42	9.5 %

(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.

The increase in non-GAAP income from operations during the three months ended March 31, 2017, when compared to the same period in 2016, was primarily due to growth in subscriptions revenue, partially offset by investments we are making in our sales organization and customer success program and, to a lesser extent, an increase in rent expense, both of which are discussed above.

Non-GAAP organic revenue growth

In addition, we discuss non-GAAP organic revenue growth, non-GAAP organic revenue growth on a constant currency basis, non-GAAP organic subscriptions revenue growth and non-GAAP organic recurring revenue growth, which we believe provides useful information 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 it includes 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.

Unaudited calculations of non-GAAP organic revenue growth, non-GAAP organic revenue growth on a constant currency basis, non-GAAP subscriptions revenue growth and non-GAAP recurring revenue growth for the three months ended March 31, 2017, as well as unaudited reconciliations of those non-GAAP measures to their most directly comparable GAAP measures, are as follows:

	Three months ended March 31,			
(dollars in millions)		2017		2016
GAAP revenue	$	183.6	$	169.3
GAAP revenue growth		**8.5%**		
Add: Non-GAAP acquisition-related revenue (1)		—		1.8
Total Non-GAAP adjustments		—		1.8
Non-GAAP revenue	$	183.6	$	171.0
Non-GAAP organic revenue growth		**7.4%**		
Non-GAAP revenue (2)	$	183.6	$	171.0
Foreign currency impact on Non-GAAP organic revenue (3)		0.1		—
Non-GAAP revenue on constant currency basis (3)	$	183.8	$	171.0
Non-GAAP organic revenue growth on constant currency basis		**7.4%**		
GAAP subscriptions revenue	$	118.2	$	96.9
GAAP subscriptions revenue growth		**22.0%**		
Add: Non-GAAP acquisition-related revenue (1)		—		1.8
Total Non-GAAP adjustments		—		1.8
Non-GAAP organic subscriptions revenue	$	118.2	$	98.6
Non-GAAP organic subscriptions revenue growth		**19.9%**		
GAAP subscriptions revenue	$	118.2	$	96.9
GAAP maintenance revenue		33.8		37.2
GAAP recurring revenue		152.0		134.0
GAAP recurring revenue growth		**13.4%**		
Add: Non-GAAP acquisition-related revenue (1)		—		1.8
Total Non-GAAP adjustments		—		1.8
Non-GAAP recurring revenue	$	152.0	$	135.8
Non-GAAP organic recurring revenue growth		**11.9%**		

(1) Non-GAAP acquisition-related revenue excludes incremental acquisition-related revenue calculated in accordance with GAAP that is attributable to companies acquired in the current fiscal year. For companies, if any, acquired in the immediately preceding fiscal year, non-GAAP acquisition-related revenue reflects presentation of full-year incremental non-GAAP revenue derived from such companies, as if they were combined throughout the prior period, and it includes the non-GAAP revenue from the acquisition-related deferred revenue write-down attributable to those companies.

(2) Non-GAAP revenue for the prior year periods presented herein may not agree to non-GAAP revenue presented in the respective prior period quarterly financial information solely due to the manner in which non-GAAP organic revenue growth is calculated.

(3) To determine non-GAAP organic revenue growth on a constant currency basis, revenues from entities reporting in foreign currencies were translated to U.S. Dollars using the comparable 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.

Seasonality

Our revenues normally fluctuate as a result of certain seasonal variations in our business. 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. In addition, 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 processing services has also historically increased during the fourth quarter due to year-end giving. 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 third and fourth quarters historically achieving the highest total revenues. 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, 2017	Change		December 31, 2016
Cash and cash equivalents	$	13.9	(17.9)%	$	16.9
Property and equipment, net		47.2	(6.1)%		50.3
Software development costs, net		41.1	9.5 %		37.6
Total carrying value of debt		356.4	4.1 %		342.4
Working capital		(147.7)	14.2 %		(172.2)
Working capital excluding deferred revenue		89.4	23.7 %		72.3

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

	Three months ended March 31,				
(dollars in millions)		2017	Change		2016
Net cash provided by operating activities	$	12.8	88.9 %	$	6.8
Net cash used in investing activities		(9.2)	(32.2)%		(13.6)
Net cash (used in) provided by financing activities		(6.8)	(334.2)%		2.9

Our principal sources of liquidity are operating cash flow, funds available under the 2014 Credit Facility and cash on hand. Our operating cash flow depends on continued customer renewal of our subscription, maintenance and support 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 issuances.

At March 31, 2017, our total cash and cash equivalents balance included approximately $5.2 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 of $12.8 million increased by $6.0 million during the three months ended March 31, 2017, when compared to the same period in 2016, primarily due to an increase in net income and an increase in non-cash expenses, partially offset by 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 $2.3 million during the three months ended March 31, 2017, when compared to the same period in 2016, primarily due to the timing of customer billings during the three months ended March 31, 2017 when compared to the same period in 2016.

Investing cash flow

Net cash used in investing activities of $9.2 million decreased by $4.4 million during the three months ended March 31, 2017, when compared to the same period in 2016.

During the three months ended March 31, 2017, we used $6.6 million for software development costs, which was up $0.8 million from cash spent in the same period in 2016. The increase in cash outlays for software development costs was primarily driven by development activities related to our next generation NXT and Luminate cloud-based solutions, and development activities for Blackbaud SKY, our new modern cloud platform.

We spent $2.7 million of cash for purchases of property and equipment during the three months ended March 31, 2017, which was down $5.1 million from cash spent during the same period in 2016. The decrease in cash outlays for property and equipment was primarily driven by a shift toward leasing certain equipment that we have historically purchased. Cash outlays for operating leases are presented in operating cash flows.

Financing cash flow

During the three months ended March 31, 2017, we paid $14.8 million to satisfy tax obligations of employees upon settlement or exercise of equity awards compared to $5.5 million during the same period in 2016. 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. Due to a change in the timing of our annual equity award grants, most of our equity awards now vest in our first quarter. Also during the three months ended March 31, 2017, we had a net increase in borrowings of $13.8 million and we paid dividends of $5.8 million, both of which were relatively consistent with the comparable period of 2016.

2014 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, 2017, our available borrowing capacity under the 2014 Credit Facility was $151.6 million. The 2014 Credit Facility matures in February 2019.

At March 31, 2017, the carrying amount of our debt under the 2014 Credit Facility was $356.4 million. Our average daily borrowings during the three months ended March 31, 2017 were $347.3 million.

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

Financial Covenant	Requirement	Ratio as of March 31, 2017
Net Leverage Ratio	≤ 3.50 to 1.00	2.14 to 1.00
Interest Coverage Ratio	≥ 2.50 to 1.00	16.40 to 1.00

Under the 2014 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 2014 Credit Facility, and (ii) our pro forma net leverage ratio, as set forth in the 2014 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, 2017, we were in compliance with our debt covenants under the 2014 Credit Facility.

AcademicWorks Acquisition

We acquired AcademicWorks for $50.0 million in cash, subject to certain adjustments set forth in the stock purchase agreement. On April 3, 2017, we drew down a revolving credit loan under the 2014 Credit Facility to finance the acquisition.

Commitments and contingencies

As of March 31, 2017, we had contractual obligations with future minimum commitments as follows:

	Payments due by period				
(in millions)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Recorded contractual obligations:					
Debt(1)	$ 357.7	$ 4.4	$ 353.3	$ —	$ —
Unrecorded contractual obligations:					
Operating leases(2)	188.9	15.1	35.7	33.6	104.5
Interest payments on debt(3)	17.4	9.1	8.3	—	—
Purchase obligations(4)	51.0	20.3	28.1	2.6	—
Total contractual obligations	$ 615.0	$ 48.9	$ 425.4	$ 36.2	$ 104.5

(1) Represents principal payments only, under the following assumptions: (i) that the amounts outstanding under the 2014 Credit Facility at March 31, 2017 will remain outstanding until maturity, with minimum payments occurring as currently scheduled, and (ii) that there are no assumed future borrowings on the 2014 Revolving Facility for the purposes of determining minimum commitment amounts.
(2) Our commitments related to operating leases have not been reduced by 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 utilize third-party technology in conjunction with our solutions and services, with contractual obligations varying in length from one to five years. In certain cases, these arrangements require a minimum annual purchase commitment by us.

The term loan under the 2014 Credit Facility requires periodic principal payments. The balance of the term loans and any amounts drawn on the revolving credit loans are due upon maturity of the 2014 Credit Facility in February 2019.

The total liability for uncertain tax positions as of March 31, 2017 and December 31, 2016, was $3.2 million and $3.1 million, respectively. Our accrued interest and penalties related to tax positions taken on our tax returns was insignificant as of March 31, 2017 and December 31, 2016.

In February 2017, 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 $23.0 million assuming 48.0 million shares of common stock 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 2014 Credit Facility, general economic conditions and our ability to generate adequate operating cash flow.

On May 1, 2017, our Board of Directors declared a second quarter dividend of $0.12 per share payable on June 15, 2017 to stockholders of record on May 26, 2017.

Off-Balance Sheet Arrangements

As of March 31, 2017, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have, a current or future effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Foreign Currency Exchange Rates

Approximately 9% of our total revenue for the three months ended March 31, 2017 was generated from operations outside the United States. 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 other comprehensive loss as a component of stockholders' equity, was a loss of $0.4 million and $0.5 million as of March 31, 2017 and December 31, 2016, respectively.

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, 2017, 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 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, 2017, the fluctuation in foreign currency exchange rates reduced our total revenue and income from operations by insignificant amounts. We will continue monitoring such exposure and take action as appropriate. To determine the impacts on total 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.

Inflation

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations. In addition, if inflationary pressures impact the rate of giving to our customers, there could be adverse impacts to our business, financial condition and results of operations.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies and estimates during the three months ended March 31, 2017 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, 2016.

Recently Issued Accounting Pronouncements

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

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, 2017, we believe there is no material risk of exposure to changing interest rates for those positions. There were no significant changes in how we manage interest rate risk between December 31, 2016 and March 31, 2017.

Foreign Currency Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in 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 Exchange Act Rule 13a-15(b). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to provide the reasonable assurance discussed above.

Changes in Internal Control Over Financial Reporting

No change in internal control over financial reporting occurred during the most recent fiscal quarter ended March 31, 2017 with respect to our operations, which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 IA, "Risk factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, 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, 2016.

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, 2017. 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(1)	Approximate dollar value of shares that may yet be purchased under the plans or programs (in thousands)
Beginning balance, January 1, 2017				$ 50,000
January 1, 2017 through January 31, 2017	10,250	$ 65.23	—	50,000
February 1, 2017 through February 28, 2017	194,172	71.34	—	50,000
March 1, 2017 through March 31, 2017	4,034	76.67	—	50,000
Total	208,456	$ 71.14	—	$ 50,000

(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.

ITEM 6. EXHIBITS

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

Exhibit Number	Description of Document	Filed Herewith	Filed In Form	Filed In Exhibit Number	Filed In Filing Date
10.88	Form of Employment Agreement between Blackbaud, Inc. and each of John J. Mistretta and Jon W. Olson		10-K	10.65	2/27/2013
10.89	Form of Retention Agreement between Blackbaud, Inc. and each of John. J. Mistretta and Jon W. Olson		10-Q	10.37	11/10/2008
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			
32.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			
101.INS*	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 5, 2017	By:	/s/ Michael P. Gianoni
			Michael P. Gianoni President and Chief Executive Officer (Principal Executive Officer)
Date:	May 5, 2017	By:	/s/ Anthony W. Boor
			Anthony W. Boor Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT 31.1

Blackbaud, Inc.

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

I, Michael P. Gianoni, certify that:

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

Date:	May 5, 2017	By:	/s/ Michael P. Gianoni
			Michael P. Gianoni
			President and Chief Executive Officer
			(Principal Executive Officer)

EXHIBIT 31.2

Blackbaud, Inc.

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

I, Anthony W. Boor, certify that:

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

Date:	May 5, 2017	By:	/s/ Anthony W. Boor
			Anthony W. Boor
			Executive Vice President and Chief Financial Officer
			(Principal Financial and Accounting Officer)

EXHIBIT 32.1

Blackbaud, Inc.

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

In connection with the Quarterly Report on Form 10-Q of Blackbaud, Inc. (the "Company") for the period ended March 31, 2017 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 5, 2017

By: /s/ Michael P. Gianoni

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

EXHIBIT 32.2

Blackbaud, Inc.

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

In connection with the Quarterly Report on Form 10-Q of Blackbaud, Inc. (the “Company”) for the period ended March 31, 2017 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 5, 2017	By:	/s/ Anthony W. Boor
			Anthony W. Boor
			Executive Vice President and Chief Financial Officer
			(Principal Financial and Accounting Officer)