

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 June 30, 2022

or

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

For the transition period from _____ to _____.

Commission file number: 000-50600

blackbaud®

Blackbaud, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

11-2617163

(I.R.S. Employer Identification No.)

65 Fairchild Street

Charleston, South Carolina 29492

(Address of principal executive offices, including zip code)

(843) 216-6200

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 August 1, 2022 was 53,029,940.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

Important factors that could cause actual results to differ materially from our expectations expressed in forward-looking statements include, but are not limited to, those summarized under "Part II, Item 1A. Risk factors" and elsewhere in this report, in our Annual Report on Form 10-K for the year ended December 31, 2021 and in our other filings made with the United States Securities & Exchange Commission ("SEC"). Forward-looking statements represent our management's beliefs and assumptions only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update or revise any forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statement, whether as a result of new information, future events or otherwise.

▶ PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Blackbaud, Inc. Condensed Consolidated Balance Sheets (Unaudited)

(dollars in thousands)	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 29,029	\$ 55,146
Restricted cash	449,491	596,616
Accounts receivable, net of allowance of \$9,764 and \$11,155 at June 30, 2022 and December 31, 2021, respectively	149,237	102,726
Customer funds receivable	1,194	977
Prepaid expenses and other current assets	98,041	95,506
Total current assets	726,992	850,971
Property and equipment, net	111,865	111,428
Operating lease right-of-use assets	50,036	53,883
Software and content development costs, net	130,329	121,377
Goodwill	1,051,230	1,058,640
Intangible assets, net	664,400	698,052
Other assets	90,670	77,266
Total assets	\$ 2,825,522	\$ 2,971,617
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	\$ 36,640	\$ 22,067
Accrued expenses and other current liabilities	77,411	100,096
Due to customers	449,402	594,273
Debt, current portion	18,154	18,697
Deferred revenue, current portion	412,712	374,499
Total current liabilities	994,319	1,109,632
Debt, net of current portion	921,619	937,483
Deferred tax liability	135,393	148,465
Deferred revenue, net of current portion	3,547	4,247
Operating lease liabilities, net of current portion	48,542	53,386
Other liabilities	1,628	1,344
Total liabilities	2,105,048	2,254,557
Commitments and contingencies (see Note 10)		
Stockholders' equity:		
Preferred stock; 20,000,000 shares authorized, none outstanding	—	—
Common stock, \$0.001 par value; 180,000,000 shares authorized, 67,755,374 and 66,165,666 shares issued at June 30, 2022 and December 31, 2021, respectively	68	66
Additional paid-in capital	1,020,835	968,927
Treasury stock, at cost; 14,731,484 and 14,182,805 shares at June 30, 2022 and December 31, 2021, respectively	(536,511)	(500,911)
Accumulated other comprehensive income	7,455	6,522
Retained earnings	228,627	242,456
Total stockholders' equity	720,474	717,060
Total liabilities and stockholders' equity	\$ 2,825,522	\$ 2,971,617

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

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

(dollars in thousands, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Revenue				
Recurring	\$ 252,507	\$ 216,986	\$ 497,173	\$ 423,736
One-time services and other	12,420	12,454	24,878	24,895
Total revenue	264,927	229,440	522,051	448,631
Cost of revenue				
Cost of recurring	114,487	94,435	226,661	183,300
Cost of one-time services and other	11,120	13,635	22,308	28,155
Total cost of revenue	125,607	108,070	248,969	211,455
Gross profit	139,320	121,370	273,082	237,176
Operating expenses				
Sales, marketing and customer success	52,737	45,452	107,953	94,245
Research and development	38,333	30,222	78,285	59,401
General and administrative	47,391	32,008	91,153	62,595
Amortization	805	567	1,616	1,116
Restructuring	—	78	—	132
Total operating expenses	139,266	108,327	279,007	217,489
Income (loss) from operations	54	13,043	(5,925)	19,687
Interest expense	(8,976)	(5,054)	(16,575)	(10,168)
Other income (expense), net	3,133	487	4,254	(523)
(Loss) income before provision for income taxes	(5,789)	8,476	(18,246)	8,996
Income tax (benefit) provision	(2,367)	1,745	(4,417)	2,429
Net (loss) income	\$ (3,422)	\$ 6,731	\$ (13,829)	\$ 6,567
(Loss) earnings per share				
Basic	\$ (0.07)	\$ 0.14	\$ (0.27)	\$ 0.14
Diluted	\$ (0.07)	\$ 0.14	\$ (0.27)	\$ 0.14
Common shares and equivalents outstanding				
Basic weighted average shares	51,660,739	47,756,326	51,431,501	47,560,847
Diluted weighted average shares	51,660,739	48,444,874	51,431,501	48,444,658
Other comprehensive (loss) income				
Foreign currency translation adjustment	\$ (10,398)	\$ 1,783	\$ (12,530)	\$ 4,294
Unrealized gain on derivative instruments, net of tax	2,558	345	13,463	4,494
Total other comprehensive (loss) income	(7,840)	2,128	933	8,788
Comprehensive (loss) income	\$ (11,262)	\$ 8,859	\$ (12,896)	\$ 15,355

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

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

(dollars in thousands)	Six months ended June 30,	
	2022	2021
Cash flows from operating activities		
Net (loss) income	\$ (13,829)	\$ 6,567
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	51,283	40,742
Provision for credit losses and sales returns	3,653	4,418
Stock-based compensation expense	55,714	60,554
Deferred taxes	(16,656)	276
Amortization of deferred financing costs and discount	1,254	879
Other non-cash adjustments	4,225	155
Changes in operating assets and liabilities, net of acquisition and disposal of businesses:		
Accounts receivable	(50,818)	(27,134)
Prepaid expenses and other assets	3,685	(18,162)
Trade accounts payable	12,769	2,356
Accrued expenses and other liabilities	(8,739)	1,443
Deferred revenue	39,238	27,828
Net cash provided by operating activities	81,779	99,922
Cash flows from investing activities		
Purchase of property and equipment	(7,518)	(6,128)
Capitalized software and content development costs	(27,183)	(19,862)
Purchase of net assets of acquired companies, net of cash and restricted cash acquired	(19,016)	—
Net cash used in investing activities	(53,717)	(25,990)
Cash flows from financing activities		
Proceeds from issuance of debt	113,200	128,300
Payments on debt	(129,548)	(113,477)
Stock issuance costs	(557)	—
Employee taxes paid for withheld shares upon equity award settlement	(35,600)	(38,712)
Change in due to customers	(141,001)	(170,061)
Change in customer funds receivable	(546)	(5,014)
Purchase of treasury stock	—	(58,074)
Net cash used in financing activities	(194,052)	(257,038)
Effect of exchange rate on cash, cash equivalents and restricted cash	(7,252)	992
Net decrease in cash, cash equivalents and restricted cash	(173,242)	(182,114)
Cash, cash equivalents and restricted cash, beginning of period	651,762	644,969
Cash, cash equivalents and restricted cash, end of period	\$ 478,520	\$ 462,855

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

(dollars in thousands)	June 30, 2022	December 31, 2021
Cash and cash equivalents	\$ 29,029	\$ 55,146
Restricted cash	449,491	596,616
Total cash, cash equivalents and restricted cash in the statement of cash flows	\$ 478,520	\$ 651,762

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

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

(Shares in thousands)	Common stock		Additional paid-in capital	Treasury stock	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
	Shares	Amount					
Balance at December 31, 2021	66,165,666	\$66	968,927	(500,951)	6,522	242,456	717,060
Net loss	—	—	—	—	—	(10,407)	(10,407)
Stock issuance costs related to purchase of EVERFI (see Note 3)	—	—	(983)	—	—	—	(983)
Retirements of common stock ⁽¹⁾	(33,075)	—	(2,581)	—	—	—	(2,581)
Vesting of restricted stock units	976,312	—	—	—	—	—	—
Employee taxes paid for 533,139 withheld shares upon equity award settlement	—	—	—	(34,674)	—	—	(34,674)
Stock-based compensation	—	—	27,860	—	—	—	27,860
Restricted stock grants	580,209	2	—	—	—	—	2
Restricted stock cancellations	(30,940)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	8,773	—	8,773
Balance at March 31, 2022	67,658,172	\$68	993,223	(535,535)	15,295	232,049	705,050
Net loss	—	—	—	—	—	(3,422)	(3,422)
Stock issuance costs related to purchase of EVERFI (see Note 3)	—	—	(223)	—	—	—	(223)
Retirements of common stock ⁽¹⁾	(395)	—	(19)	—	—	—	(19)
Vesting of restricted stock units	23,549	—	—	—	—	—	—
Employee taxes paid for 15,540 withheld shares upon equity award settlement	—	—	—	(926)	—	—	(926)
Stock-based compensation	—	—	27,854	—	—	—	27,854
Restricted stock grants	136,598	—	—	—	—	—	—
Restricted stock cancellations	(62,550)	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	(7,840)	—	(7,840)
Balance at June 30, 2022	67,755,374	\$68	1,020,535	(536,511)	7,455	228,627	720,474

(1) Represents shares retired after determining certain EVERFI's selling shareholders would be paid in cash, rather than shares of our common stock. See Note 3 for additional information regarding our acquisition of EVERFI.

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

(dollars in thousands)	Common stock		Additional paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders' equity
	Shares	Amount					
Balance at December 31, 2020	60,904,638	\$ 61	\$ 544,963	\$ (353,091)	\$ (2,497)	\$ 236,714	\$ 426,150
Net loss	—	—	—	—	—	(164)	(164)
Purchase of 465,821 treasury shares under stock repurchase program	—	—	—	(28,066)	—	—	(28,066)
Vesting of restricted stock units	206,418	—	—	—	—	—	—
Employee taxes paid for 240,867 withheld shares upon equity award settlement	—	—	—	(18,426)	—	—	(18,426)
Stock-based compensation	—	—	29,995	—	—	10	30,005
Restricted stock grants	519,009	1	—	—	—	—	1
Restricted stock cancellations	(34,789)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	6,660	—	6,660
Balance at March 31, 2021	61,595,276	\$ 62	\$ 574,958	\$ (399,583)	\$ 4,163	\$ 236,560	\$ 416,160
Net income	—	—	—	—	—	6,731	6,731
Purchase of 405,047 treasury shares under stock repurchase program	—	—	—	(30,008)	—	—	(30,008)
Vesting of restricted stock units	804,323	—	—	—	—	—	—
Employee taxes paid for 285,521 withheld shares upon equity award settlement	—	—	—	(20,286)	—	—	(20,286)
Stock-based compensation	—	—	30,528	—	—	21	30,549
Restricted stock grants	9,431	—	—	—	—	—	—
Restricted stock cancellations	(76,316)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	2,128	—	2,128
Balance at June 30, 2021	62,332,714	\$ 62	\$ 605,486	\$ (449,877)	\$ 6,291	\$ 243,312	\$ 405,274

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

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

1. Organization

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

2. Basis of Presentation

Unaudited condensed consolidated interim financial statements

The accompanying condensed consolidated interim financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim financial reporting. These consolidated statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to state fairly the consolidated balance sheets, consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of stockholders' equity, for the periods presented in accordance with accounting principles generally accepted in the United States ("U.S.") ("GAAP"). The consolidated balance sheet at December 31, 2021 has been derived from the audited consolidated financial statements at that date. Operating results and cash flows for the six months ended June 30, 2022 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2022, or any other future period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations for interim reporting of the SEC. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2021, and other forms filed with the SEC from time to time.

Basis of consolidation

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

Reportable segment

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

We acquired EVERFI (as defined below) on December 31, 2021. As we are working to integrate EVERFI into our business, it had not yet been included in one of our market groups as of June 30, 2022. This change did not impact our conclusions that we have one operating and reportable segment and one goodwill reporting unit.

Risks and uncertainties related to COVID-19

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

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

Use of estimates

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

Recently issued accounting pronouncements

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

Summary of significant accounting policies

There have been no material changes to our significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 1, 2022.

3. Business Combinations

2021 AcquisitionEVERFI

On December 31, 2021, we acquired all of the outstanding equity securities, including all voting equity interests, of EVERFI, Inc., a Delaware corporation ("EVERFI"), pursuant to an agreement and plan of merger. The acquisition advanced our position as a leader in the rapidly evolving ESG and CSR spaces. We acquired the equity securities for approximately \$441.8 million in cash consideration and 3,810,953 shares of the company's common stock, valued at approximately \$301.0 million, for an aggregate purchase price of approximately \$742.8 million, net of closing adjustments. The cash consideration and related expenses were funded primarily through cash on hand and new borrowings under the 2020 Credit Facility (as defined below). As a result of the acquisition, EVERFI has become a wholly owned subsidiary of ours. The operating results of EVERFI have been included in our consolidated financial statements from the date of acquisition. In accordance with applicable accounting rules, we determined that the impact of this acquisition was not material to our consolidated financial statements; therefore, revenue and earnings since the acquisition date and pro forma information are not required to be presented.

The fair values assigned to the assets acquired and liabilities assumed in our acquisition of EVERFI are based on our best estimates and assumptions as of the reporting date and are considered preliminary pending finalization. The estimates and assumptions are subject to change as we obtain additional information during the measurement period, which may be up to one year from the acquisition date. The assets and liabilities, pending finalization, include the valuation of intangible assets as well as the assumed deferred income tax balances. During the six months ended June 30, 2022, we recorded insignificant measurement period adjustments to the estimated fair value of the EVERFI assets acquired and liabilities assumed following the receipt of new information. The adjustments resulted in an increase to net working capital, excluding deferred revenue, with the corresponding offset to goodwill.

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

4. Goodwill and Other Intangible Assets

The change in goodwill during the six months ended June 30, 2022, consisted of the following:

(dollars in thousands)	Total
Balance at December 31, 2021	\$ 1,058,640
Adjustments related to prior year business combination ⁽¹⁾	(1,203)
Effect of foreign currency translation	(6,207)
Balance at June 30, 2022	\$ 1,051,230

(1) See Note 3 to these condensed consolidated financial statements for a discussion of the measurement period adjustments during the three and six months ended June 30, 2022 to the estimated fair value of the EVERFI assets acquired and liabilities assumed.

5. (Loss) Earnings Per Share

We compute basic (loss) earnings per share by dividing net (loss) income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted (loss) earnings per share is computed by dividing net (loss) income available to common stockholders by the weighted average number of common shares and dilutive potential common shares outstanding during the period. Diluted (loss) 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. Diluted loss per share for the three and six months ended June 30, 2022 was the same as basic loss per share as there was a net loss in the period and inclusion of potentially dilutive securities was anti-dilutive.

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

(dollars in thousands, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Numerator:				
Net (loss) income	\$ (3,422)	\$ 6,731	\$ (13,829)	\$ 6,567
Denominator:				
Weighted average common shares	51,660,739	47,756,326	51,431,501	47,560,847
Add effect of dilutive securities:				
Stock-based awards	—	688,548	—	883,811
Weighted average common shares assuming dilution	51,660,739	48,444,874	51,431,501	48,444,658
(Loss) earnings per share:				
Basic	\$ (0.07)	\$ 0.14	\$ (0.27)	\$ 0.14
Diluted	\$ (0.07)	\$ 0.14	\$ (0.27)	\$ 0.14
Anti-dilutive shares excluded from calculations of diluted (loss) earnings per share	1,167,368	907,210	2,090,267	1,032,655

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

6. Fair Value Measurements

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

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

Recurring fair value measurements

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

(dollars in thousands)	Fair value measurement using			Total
	Level 1	Level 2	Level 3	
Fair value as of June 30, 2022				
Financial assets:				
Derivative instruments	\$ —	\$ 25,412	\$ —	\$ 25,412
Total financial assets	\$ —	\$ 25,412	\$ —	\$ 25,412
Fair value as of December 31, 2021				
Financial assets:				
Derivative instruments	\$ —	\$ 7,160	\$ —	\$ 7,160
Total financial assets	\$ —	\$ 7,160	\$ —	\$ 7,160

Our derivative instruments within the scope of Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging*, are required to be recorded at fair value. Our derivative instruments that are recorded at fair value include interest rate swaps. See Note 9 to these condensed consolidated financial statements for additional information about our derivative instruments.

The fair value of our interest rate swaps was based on model-driven valuations using LIBOR rates, which are observable at commonly quoted intervals. Accordingly, our interest rate swaps are classified within Level 2 of the fair value hierarchy. The Financial Conduct Authority in the U.K. has stated that it plans to phase out all tenors of LIBOR by June 2023. We do not currently anticipate a significant impact to our financial position or results of operations as a result of this action as we expect that our financial contracts currently indexed to LIBOR will either expire or be modified without significant financial impact before the phase out occurs.

We believe the carrying amounts of our cash and cash equivalents, restricted cash, accounts receivable, trade accounts payable, accrued expenses and other current liabilities and due to customers approximate their fair values at June 30, 2022 and December 31, 2021, due to the immediate or short-term maturity of these instruments.

We believe the carrying amount of our debt approximates its fair value at June 30, 2022 and December 31, 2021, as the debt bears interest rates that approximate market value. As LIBOR and SOFR rates are observable at commonly quoted intervals, our debt under the 2020 Credit Facility (as defined below) is classified within Level 2 of the fair value hierarchy. Our fixed rate debt is also classified within Level 2 of the fair value hierarchy.

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We did not transfer any assets or liabilities among the levels within the fair value hierarchy during the six months ended June 30, 2022. Additionally, we did not hold any Level 3 assets or liabilities during the six months ended June 30, 2022.

Non-recurring fair value measurements

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

During the three and six months ended June 30, 2022, we recorded a noncash impairment charge of \$2.3 million against certain previously capitalized software development costs that reduced the carrying value of those assets to zero. The impairment charge is reflected in general and administrative expense and resulted primarily from our decision to end customer support for certain solutions.

During the three and six months ended June 30, 2022, we recorded a noncash impairment charge of \$2.0 million against certain insignificant customer relationship intangible assets that were held for sale. The impairment charge is reflected in general and administrative expense.

There were no other non-recurring fair value adjustments during the six months ended June 30, 2022 except for certain insignificant business combination accounting adjustments to the initial fair value estimates of assets acquired and liabilities assumed at the acquisition date from updated estimates and assumptions during the measurement period. See Note 3 to these condensed consolidated financial statements for additional details.

7. Consolidated Financial Statement Details

Restricted cash

(dollars in thousands)	June 30, 2022	December 31, 2021
Restricted cash due to customers	\$ 448,208	\$ 593,296
Letters of credit for operating leases	—	2,186
Real estate escrow balances and other	1,283	1,134
Total restricted cash	\$ 449,491	\$ 596,616

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Prepaid expenses and other assets

(dollars in thousands)	June 30, 2022	December 31, 2021
Costs of obtaining contracts ⁽¹⁾⁽²⁾	\$ 74,378	\$ 78,465
Prepaid software maintenance and subscriptions ⁽³⁾	31,723	28,880
Derivative instruments	25,412	7,160
Implementation costs for cloud computing arrangements, net ⁽⁴⁾⁽⁵⁾	10,816	11,892
Receivables for probable insurance recoveries ⁽⁶⁾⁽⁷⁾	10,000	18,202
Prepaid insurance	9,499	5,363
Unbilled accounts receivable	8,243	5,443
Taxes, prepaid and receivable	4,009	3,986
Deferred tax assets	1,466	1,546
Other assets	13,165	11,835
Total prepaid expenses and other assets	188,711	172,772
Less: Long-term portion	90,670	77,266
Prepaid expenses and other current assets	\$ 98,041	\$ 95,506

- (1) Amortization expense from costs of obtaining contracts was \$8.5 million and \$17.0 million for the three and six months ended June 30, 2022, respectively, and \$9.0 million and \$18.2 million for the three and six months ended June 30, 2021.
- (2) The current portion of costs of obtaining contracts as of June 30, 2022 and December 31, 2021 was \$29.1 million and \$30.2 million, respectively.
- (3) The current portion of prepaid software maintenance and subscriptions as of June 30, 2022 and December 31, 2021 was \$28.2 million and \$24.7 million, respectively.
- (4) These costs primarily relate to the multi-year implementations of our new global enterprise resource planning and customer relationship management systems.
- (5) Amortization expense from capitalized cloud computing implementation costs was insignificant for the three months ended June 30, 2022 and 2021, respectively, and \$1.1 million and \$0.9 million for the six months ended June 30, 2022 and 2021, respectively. Accumulated amortization for these costs was \$4.1 million and \$3.0 million as of June 30, 2022 and December 31, 2021, respectively.
- (6) All receivables for probable insurance recoveries are classified as current.
- (7) See discussion of the Security Incident at Note 10 to these condensed consolidated financial statements.

Accrued expenses and other liabilities

(dollars in thousands)	June 30, 2022	December 31, 2021
Taxes payable ⁽¹⁾	\$ 26,488	\$ 19,777
Accrued legal costs ⁽²⁾	15,405	11,724
Operating lease liabilities, current portion	8,560	9,170
Customer credit balances	6,287	8,403
Accrued commissions and salaries	5,457	7,872
Accrued health care costs	2,676	3,042
Accrued vacation costs	2,266	2,234
Accrued transaction-based costs related to payments services	2,236	5,427
Accrued bonuses	1,845	5,829
Unrecognized tax benefit	1,533	1,248
Amounts payable to former EVERFI option holders ⁽³⁾	—	17,404
Other liabilities	6,286	9,310
Total accrued expenses and other liabilities	79,039	101,440
Less: Long-term portion	1,628	1,344
Accrued expenses and other current liabilities	\$ 77,411	\$ 100,096

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

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(2) All accrued legal costs are classified as current.

(3) Represents amounts that had not been paid by EVERFI to its former option holders as of December 31, 2021, solely due to the timing of the acquisition on the last day of 2021. See Note 3 to these condensed consolidated financial statements for additional information regarding our acquisition of EVERFI.

Other income (expense), net

(dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Interest income	\$ 114	\$ 77	\$ 237	\$ 229
Currency revaluation gains (losses)	2,271	220	2,853	(1,167)
Other income, net	748	190	1,164	415
Other income (expense), net	\$ 3,133	\$ 487	\$ 4,254	\$ (523)

8. Debt

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

(dollars in thousands)	Debt balance at		Weighted average effective interest rate at	
	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021
Credit facility:				
Revolving credit loans	\$ 252,400	\$ 260,000	4.03 %	3.27 %
Term loans	631,875	640,000	3.45 %	3.02 %
Real estate loans	58,857	59,480	5.22 %	5.22 %
Other debt	538	1,694	5.00 %	5.00 %
Total debt	943,670	961,174	3.72 %	3.23 %
Less: Unamortized discount and debt issuance costs	3,897	4,994		
Less: Debt, current portion	18,154	18,697	4.25 %	3.11 %
Debt, net of current portion	\$ 921,619	\$ 937,483	3.71 %	3.23 %

2020 credit facility

In October 2020, we entered into a five-year \$900.0 million senior credit facility (the "2020 Credit Facility"). At June 30, 2022, we were in compliance with our debt covenants under the 2020 Credit Facility.

First incremental term loan

In December 2021, we entered into the First Incremental Term Loan Agreement (the "Incremental Amendment"). The Incremental Amendment amended the 2020 Credit Facility and, among other things, provided for a \$250.0 million incremental term loan (the "2021 Incremental Term Loan").

Financing for EVERFI acquisition

On December 31, 2021, we acquired EVERFI for approximately \$441.8 million in cash consideration and 3,810,953 shares of the company's common stock, valued at approximately \$301.0 million, for an aggregate purchase price of approximately \$742.8 million, net of closing adjustments. We financed the cash consideration and related expenses through cash on hand and new borrowings under the 2020 Credit Facility, including \$250.0 million under the 2021 Incremental Term Loan (as defined above).

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First amendment to 2020 Credit Facility

On January 31, 2022, we entered into the First Amendment to Credit Agreement (the "Amendment"). The Amendment amended the 2020 Credit Facility to, among other things, (i) modify the definition of "Applicable Margin", (ii) modify the net leverage ratio financial covenant to require a net leverage ratio of (A) 4.00:1.00 or less for the fiscal quarter ended December 31, 2021 and for fiscal quarters ending thereafter through December 31, 2023 and (B) 3.75:1.00 or less for the fiscal quarters ending March 31, 2024 and thereafter, (iii) reset the \$250.0 million fixed dollar basket with respect to the accordion feature and (iv) modify certain negative covenants to provide additional operational flexibility.

Real estate loans

In August 2020, we completed the purchase of our global headquarters facility. As part of the purchase price, we assumed the seller's obligations under two senior secured notes with a then-aggregate outstanding principal amount of \$61.1 million (collectively, the "Real Estate Loans"). At June 30, 2022, we were in compliance with our debt covenants under the Real Estate Loans.

Other debt

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

The following table summarizes our currently effective financing agreements as of June 30, 2022:

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

9. Derivative Instruments

Cash flow hedges

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

The terms and notional values of our derivative instruments were as follows as of June 30, 2022:

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

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

(dollars in thousands)	Balance sheet location	Asset derivatives	
		June 30, 2022	December 31, 2021
Derivative instruments designated as hedging instruments:			
Interest rate swaps, long-term	Other assets	25,412	7,160
Total derivative instruments designated as hedging instruments		\$ 25,412	\$ 7,160

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

(dollars in thousands)	Gain recognized in accumulated other comprehensive income as of	Location of gain reclassified from accumulated other comprehensive income into (loss) income	Gain (loss) reclassified from accumulated other comprehensive income into (loss) income	
			June 30, 2022	June 30, 2021
Interest rate swaps	\$ 25,412	Interest expense	\$ 323	\$ (35)
			Three months ended June 30, 2022	Six months ended June 30, 2022
Interest rate swaps	\$ 1,923	Interest expense	\$ (1,408)	\$ (2,784)
			Three months ended June 30, 2021	Six months ended June 30, 2021

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 June 30, 2022 that is expected to be reclassified into earnings within the next twelve months is \$11.3 million. There were no ineffective portions of our interest rate swap derivatives during the six months ended June 30, 2022 and 2021. See Note 12 for a summary of the changes in accumulated other comprehensive income (loss) by component.

10. Commitments and Contingencies

Leases

We have operating leases for corporate offices, subleased offices and certain equipment and furniture. As of June 30, 2022, we did not have any operating leases that had not yet commenced.

The following table summarizes the components of our lease expense:

(dollars in thousands)	Three months ended		Six months ended	
	2022	2021	2022	2021
Operating lease cost ⁽¹⁾	\$ 2,445	\$ 2,372	\$ 4,976	\$ 5,213
Variable lease cost	413	699	850	1,398
Sublease income	(766)	(366)	(1,197)	(826)
Net lease cost	\$ 2,092	\$ 2,705	\$ 4,629	\$ 5,785

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

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Other commitments

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

We have contractual obligations for third-party technology used in our solutions and for other services we purchase as part of our normal operations. In certain cases, these arrangements require a minimum annual purchase commitment by us. As of June 30, 2022, the remaining aggregate minimum purchase commitment under these arrangements was approximately \$241.3 million through 2027.

Solution and service indemnifications

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

Legal proceedings

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

Legal proceedings are inherently unpredictable. However, we believe that we have valid defenses with respect to the legal matters pending or threatened against us and intend to defend ourselves vigorously against all claims asserted. It is possible that our consolidated financial position, results of operations or cash flows could be materially negatively affected in any particular period by an unfavorable resolution of one or more of such legal proceedings.

Security incident

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

As a result of the Security Incident, we are currently subject to certain legal proceedings, claims, inquiries and investigations, as discussed below, and could be the subject of additional legal proceedings, claims, inquiries and investigations in the future that might result in adverse judgments, settlements, fines, penalties, or other resolution. To limit our exposure to losses related to claims against us, including data breaches such as the Security Incident, we maintain \$50 million of insurance above a \$250 thousand deductible payable by us. As noted below, this coverage has reduced our financial exposure related to the Security Incident, and we will continue to seek recoveries under these insurance policies for claims we have submitted but have not yet been reimbursed.

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We recorded expenses and offsetting probable insurance recoveries related to the Security Incident as follows:

(dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Gross expense	\$ 8,435	\$ 11,654	\$ 17,440	\$ 24,468
Offsetting probable insurance recoveries	(87)	(11,184)	(1,891)	(23,997)
Net expense	\$ 8,348	\$ 470	\$ 15,549	\$ 471

The following summarizes our cumulative expenses, probable insurance recoveries and insurance recoveries paid as of:

(dollars in thousands)	June 30, 2022	December 31, 2021
Cumulative gross expense	\$ 67,831	\$ 50,391
Cumulative offsetting insurance recoveries	(50,000)	(48,109)
Cumulative net expense	\$ 17,831	\$ 2,282
Cumulative offsetting insurance recoveries paid	\$ (40,000)	\$ (29,968)

Due to the time required to submit and process such insurance claims, we have not yet received all of the accrued insurance recoveries. Recorded expenses have consisted primarily of payments for legal fees related to: governmental inquiries and investigations; and customer constituent class actions. We present expenses and insurance recoveries related to the Security Incident in general and administrative expense on our consolidated statements of comprehensive (loss) income and as operating activities on our consolidated statements of cash flows. Total costs related to the Security Incident that we expect will be recoverable has exceeded the limit of our insurance coverage. We expect to continue to experience significant expenses related to our response to the Security Incident, resolution of legal proceedings, claims, inquiries and investigations discussed below, and our efforts to further enhance our security measures. For full year 2022, we currently expect net pre-tax expense of approximately \$30.0 million to \$35.0 million for ongoing legal fees related to the Security Incident. In line with our policy as discussed above, legal fees are expensed as incurred. For full year 2022, we currently expect net cash outlays of approximately \$15.0 million to \$25.0 million for ongoing legal fees related to the Security Incident.

Based on our analysis of the factors described above, we have not recorded a liability for a loss contingency related to the Security Incident as of June 30, 2022 because we are unable at this time to reasonably estimate the possible loss or range of loss.

Customer claims. To date, we have received approximately 260 specific requests for reimbursement of expenses ("Customer Reimbursement Requests") and approximately 400 reservations of the right to seek expense recovery in the future from customers or their attorneys in the U.S., U.K. and Canada related to the Security Incident (none of which have as yet been filed in court). Of the Customer Reimbursement Requests received to date, approximately 190 have been fully resolved and closed. In June 2022, we also received notice of a proposed claim on behalf of a number of U.K. data subjects, which we are reviewing. In addition, insurance companies representing various customers' interests through subrogation claims have contacted us. One insurance company has filed a subrogation claim in court. Customer and insurer subrogation claims generally seek reimbursement of their costs and expenses associated with notifying their own customers of the Security Incident and taking steps to assure that personal information has not been compromised as a result of the Security Incident. Our review of customer and subrogation claims includes analyzing individual customer contracts into which we have entered, the specific claims made and applicable law.

Customer constituent class actions. Presently, we are a defendant in 19 putative consumer class action cases [17 in U.S. federal courts (which have been consolidated under multi district litigation to a single federal court) and 2 in Canadian courts] alleging harm from the Security Incident. The plaintiffs in these cases, who purport to represent various classes of individual constituents of our customers, generally claim to have been harmed by alleged actions and/or omissions by us in connection with the Security Incident and assert a variety of common law and statutory claims seeking monetary damages, injunctive relief, costs and attorneys' fees, and other related relief.

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

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

Governmental inquiries and investigations. To date, we have received a consolidated, multi-state Civil Investigative Demand issued on behalf of 49 state Attorneys General and the District of Columbia and a separate Civil Investigative Demand from the office of the California Attorney General relating to the Security Incident. We also are subject to the following pending governmental actions:

- an investigation by the U.S. Federal Trade Commission;
- a formal investigation by the SEC;
- an investigation by the U.S. Department of Health and Human Services;
- an investigation by the Office of the Australian Information Commissioner; and
- an investigation by the Office of the Privacy Commissioner of Canada.

On September 28, 2021, the Information Commissioner's Office in the United Kingdom under the U.K Data Protection Act 2018 (the "ICO") notified us that it has closed its investigation of the Security Incident. Based on its investigation and having considered our actions before, during and after the Security Incident, the ICO issued our European subsidiary a reprimand in accordance with Article 58(2)(b) of the U.K. General Data Protection Regulation ("U.K. GDPR") due to our non-compliance, in the ICO's view, with the requirements set out in Article 32 of the U.K. GDPR regarding the processing of personal data. The ICO did not impose a penalty related to the Security Incident, nor did it impose any requirements for further action by us.

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

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

We continue to cooperate with all ongoing inquiries and investigations, which include various requests for documents, policies, narratives and communications, as well as requests to interview or depose various Company-related personnel. As noted above, each of these separate governmental inquiries and investigations could result in adverse judgements, settlements, fines, penalties, or other resolution, the amount, scope and timing of which we are currently unable to predict, but could have a material adverse impact on our results of operations, cash flows, or financial condition.

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11. Income Taxes

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

(dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Income tax (benefit) provision	\$ (2,367)	\$ 1,745	\$ (4,417)	\$ 2,429
Effective income tax rate	40.9 %	20.6 %	24.2 %	27.0 %

For the three and six months ended June 30, 2022, we have utilized the discrete effective tax rate method, as allowed by ASC 740-270-30-18, *Income Taxes—Interim Reporting*, to calculate our interim income tax provision. The discrete method is applied when the application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. The discrete method treats the year-to-date period as if it was the annual period and determines the income tax expense or benefit on that basis. We believe that, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method as our full-year forecasted pre-tax income, relative to our forecasted permanent differences, has the potential to distort our estimated annual effective tax rate.

The increase in our effective income tax rate for the three months ended June 30, 2022 when compared to the same period in 2021 was primarily due to 2022 tax benefit attributable to foreign-derived intangible income ("FDII") deduction not generated in the prior year. Furthermore, the 2021 effective tax rate was positively impacted by benefit attributable to stock based compensation partially offset against expense attributable to an income tax rate increase enacted during the period.

The decrease in our effective income tax rate for the six months ended June 30, 2022 when compared to the same period in 2021 was primarily attributable to 2022 tax benefit attributable to FDII deduction not generated in the prior year. Furthermore, the 2022 effective tax rate was negatively impacted by tax expense attributable to stock-based compensation against pre-tax loss for the period. The 2021 effective tax rate was positively impacted by benefit attributable to stock-based compensation, partially offset against expense attributable to an income tax rate increase enacted during the period.

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12. Stockholders' Equity

Changes in accumulated other comprehensive income (loss) by component

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

(dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Accumulated other comprehensive income (loss), beginning of period	\$ 15,295	\$ 4,163	\$ 6,522	\$ (2,497)
By component:				
Gains and losses on cash flow hedges:				
Accumulated other comprehensive income (loss) balance, beginning of period	\$ 16,162	\$ 1,048	\$ 5,257	\$ (3,101)
Other comprehensive income (loss) before reclassifications, net of tax effects of (993), \$244, \$(4,782) and \$(856)	2,796	(692)	13,437	2,438
Amounts reclassified from accumulated other comprehensive income (loss) to interest expense	(323)	1,408	35	2,784
Tax expense (benefit) included in provision for income taxes	85	(371)	(9)	(728)
Total amounts reclassified from accumulated other comprehensive income (loss)	(238)	1,037	26	2,056
Net current-period other comprehensive income	2,558	345	13,463	4,494
Accumulated other comprehensive income balance, end of period	\$ 18,720	\$ 1,393	\$ 18,720	\$ 1,393
Foreign currency translation adjustment:				
Accumulated other comprehensive (loss) income balance, beginning of period	\$ (867)	\$ 3,115	\$ 1,265	\$ 604
Translation adjustments	(10,398)	1,783	(12,530)	4,294
Accumulated other comprehensive (loss) income balance, end of period	(11,265)	4,898	(11,265)	4,898
Accumulated other comprehensive income, end of period	\$ 7,455	\$ 6,291	\$ 7,455	\$ 6,291

13. Revenue Recognition

Transaction price allocated to the remaining performance obligations

As of June 30, 2022, approximately \$1.0 billion of revenue is expected to be recognized from remaining performance obligations. We expect to recognize revenue on approximately 60% of these remaining performance obligations over the next 12 months, with the remainder recognized thereafter.

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

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Contract balances

Our contract assets as of June 30, 2022 and December 31, 2021 were insignificant. Our opening and closing balances of deferred revenue were as follows:

(in thousands)	June 30, 2022	December 31, 2021
Total deferred revenue	\$ 416,259	\$ 378,746

The increase in deferred revenue during the six months ended June 30, 2022 was primarily due to a seasonal increase in customer contract renewals. Historically, due to the timing of customer budget cycles, we have an increase in customer contract renewals at or near the beginning of our third quarter. Generally, our lowest balance of deferred revenue during the year is at the end of our first quarter. The amount of revenue recognized during the six months ended June 30, 2022 that was included in the deferred revenue balance at the beginning of the period was approximately \$273 million. The amount of revenue recognized during the six months ended June 30, 2022 from performance obligations satisfied in prior periods was insignificant.

Disaggregation of revenue

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

(dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
United States	\$ 223,128	\$ 192,000	\$ 437,522	\$ 377,327
United Kingdom	26,831	24,505	54,491	46,810
Other countries	14,968	12,935	30,038	24,494
Total revenue	\$ 264,927	\$ 229,440	\$ 522,051	\$ 448,631

The UMG, IMG and EVERFI comprised our go-to-market organizations as of June 30, 2022. The following is a description of each market group as of that date:

- The UMG focuses on sales primarily to all prospects and customers inside of the U.S.; and
- The IMG focuses on sales primarily to all prospects and customers outside of the U.S, as well as corporations.
- We acquired EVERFI as of December 31, 2021 as discussed in Note 3 to these condensed consolidated financial statements. As we are working to integrate EVERFI into our business, it had not yet been included in one of our market groups as of June 30, 2022.

The following table presents our revenue by market group:

(dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
UMG	\$ 184,761	\$ 179,436	\$ 367,250	\$ 352,903
IMG	53,567	50,028	101,621	95,797
EVERFI	26,827	—	53,802	—
Other	(228)	(24)	(622)	(69)
Total revenue	\$ 264,927	\$ 229,440	\$ 522,051	\$ 448,631

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

The following table presents our recurring revenue by type:

(dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Contractual recurring	\$ 177,350	\$ 151,150	\$ 351,882	\$ 297,971
Transactional recurring	75,157	65,836	145,291	125,765
Total recurring revenue	\$ 252,507	\$ 216,986	\$ 497,173	\$ 423,736

Blackbaud, Inc.
(Unaudited)

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

Executive Summary

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

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

COVID-19 Impact

The economic impact of COVID-19 on the social good industry remains somewhat uncertain, although we are seeing signs of recovery in the industry. Our end markets continue to display resilience in the post-pandemic recovery with a digital-first mindset. In February 2022, the Blackbaud Institute released its annual Charitable Giving Report, which reported that overall giving in 2021 grew 9% with the percent of giving done online up significantly from pre-pandemic levels and holding steady in the low-teens. Nearly 30% of those online donations are being made on a mobile device, which we see as a long-term positive as we equip organizations to process mobile donations and optimize mobile user interfaces. If our existing and prospective customers remain cautious in their purchase decisions, our operating environment may continue to be challenging. Notwithstanding these conditions, we remain focused on continuing to execute our four-point strategy and strengthening our leadership position.

Four-Point Strategy

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

Blackbaud, Inc.
(Unaudited)

1. Expand Total Addressable Market ("TAM")

In December 2021, we doubled our TAM when we acquired EVERFI, an industry leader in global social impact technology. Adding EVERFI advances our position as a leader in the rapidly evolving ESG and CSR spaces and offers cross-selling and upselling opportunities through complementary product offerings with YourCause® solutions. Our TAM now stands at over \$20 billion, and we remain active in the evaluation of opportunities to further expand our addressable market through acquisitions and internal product development.

2. Lead with World Class Teams and Operations

This strategy expands upon our previous strategies to drive sales effectiveness and improve operating efficiency to include improving overall company performance as measured by the Rule of 40 (see discussion of Non-GAAP Financial Measures below). We recently announced a series of strategic organizational updates to streamline our business operations and become even more customer centric. We created three new roles: Chief Operating Officer, Chief Commercial Officer and Executive Vice President of Corporations. We believe the appointments for these new roles will: ensure consistency in our approach to the customer experience; further streamline and simplify our go-to-market efforts to maximize our outcomes as a global company; and further align our YourCause and EVERFI offerings and continue our investment in being the partner of choice for corporations focused on social responsibility and impact. We also recently appointed a new member to our board of directors, who brings over 20 years of experience in technology and cybersecurity to our board.

3. Delight Customers with Innovative Cloud Solutions

We are excited about the role Blackbaud is playing in developing innovative solutions for our customers to diversify the way they receive and process donations. Recently, we announced the launch of Prospect Insights—a new software tool within Raiser's Edge NXT that automates in-app intelligence related to major giving likelihood and capacity, and then prescribes actions related to portfolio management and solicitation. Also, in June 2022, we held our annual developer conference focusing on the low-code movement and accessible technology with a high number of attendees. Feedback from the conference showed that a significant majority of attendees left feeling that Blackbaud empowers customers to improve usage and experience with our solutions.

4. Focus on Employees, Culture and ESG Initiatives

We recently announced that we achieved carbon neutrality for 2021. This is a goal we have been striving towards and our shift to a remote-first workforce enabled us to accelerate our timeline. Since 2019, Blackbaud has reduced its global real estate footprint by 50%, energy emissions to run office space by 63% and employee commute emissions by 75%. With a multi-pronged climate strategy, Blackbaud is focused on reducing emissions, using energy efficiently and investing in environmental projects for a more sustainable future. We shared more about our ESG strategy on our Corporate Social Responsibility website during the second quarter. Our mission driven culture has been in our DNA since inception and is very attractive in a competitive labor market. We continue to foster a diverse and inclusive environment focused on employee engagement and connectedness with our remote-first workforce strategy. We have a significant role to play in driving advances in the social good space, and we are proud of the strong corporate culture we have built and continue to cultivate in today's environment.

Blackbaud, Inc.
(Unaudited)

Financial Summary

Total revenue (\$M)

YoY Growth (%)



Income from operations (\$M)

YoY Growth (%)



Total revenue increased by \$35.5 million and \$73.4 million during the three and six months ended June 30, 2022, respectively, when compared to the same periods in 2021, driven largely by the following:

- + Growth in recurring revenue primarily related to:
 - increases in contractual recurring revenue of \$26.2 million and \$53.9 million, respectively, related to the performance of our cloud solutions, of which \$23.4 million and \$47.5 million, respectively, was attributable to EVERFI; partially offset by decreases in maintenance revenue as customers migrate to our cloud solutions; also offsetting the increases in contractual recurring revenue are decreases related to fluctuations in foreign currency exchange rates of \$0.8 million and \$1.1 million, respectively; and
 - increases in transactional recurring revenue of \$9.3 million and \$19.5 million, respectively, primarily due to an increase in online charitable giving, the continued shift toward virtual fundraising and, to a lesser extent, increased transactional volume as our customer's constituents have begun to return to in-person events; partially offset by decreases related to fluctuations in foreign currency exchange rates of \$1.8 million and \$2.3 million, respectively.
- + Increases in one-time consulting revenue due primarily to our acquisition of EVERFI, largely offset by a decrease in implementation and customization services, in line with our multi-year strategic shift from a license-based and one-time services business model to a cloud subscription business model. Our cloud subscription offerings generally require less implementation and customization services.
- Decreases in one-time analytics revenue as analytics are generally integrated in our cloud solutions

We currently expect that fluctuations in foreign currency exchange rates will have a significant negative impact on our total revenue for the full year 2022. Our latest projections suggest some softness in our full year 2022 bookings plan for EVERFI, which has minimal impact on our full year 2022 revenues given the ratable revenue recognition. We will be intently focused on closing the EVERFI bookings gap during the remainder of 2022. Additionally, we currently expect one-time services and other revenue to be relatively flat during 2022 when compared to 2021, inclusive of incremental one-time revenue expected from EVERFI.

Blackbaud, Inc.
(Unaudited)

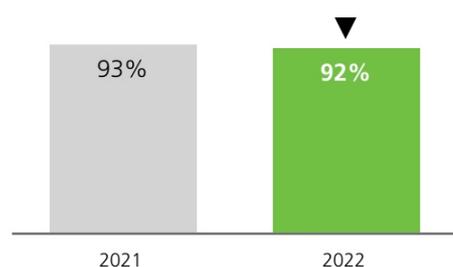
For additional information on the impact of foreign currency fluctuations on our financial results, see Foreign Currency Exchange Rates below on page 46.

Income from operations decreased by \$13.0 million and \$25.6 million during the three and six months ended June 30, 2022, respectively, when compared to the same periods in 2021, driven largely by the following:

- Increases in compensation costs other than stock-based compensation of \$17.0 million and \$40.8 million, respectively, primarily due to increased employee headcount due to our acquisition of EVERFI
- Increases in Security Incident-related expenses, net of insurance, of \$7.9 million and \$15.1 million, respectively. See "Security Incident update" below.
- Increases in third-party contractor costs of \$7.0 million and \$14.8 million, respectively, and hosting costs of \$1.9 million and \$4.6 million, respectively, primarily attributable to our acquisition of EVERFI and, to a lesser extent, our continued migration of our cloud infrastructure to leading public cloud service providers and investments in security
- Increases in transaction-based costs of \$4.2 million and \$9.3 million, respectively, related to the increase in the volume of transactions for which we process payments
- Increases in amortization of intangible assets from business combinations of \$3.8 million and \$7.4 million, respectively, due to our acquisition of EVERFI
- Increases in infrastructure and building costs of \$3.0 million and \$4.2 million, respectively, primarily related to our acquisition of EVERFI and investments in security tools
- A \$2.3 million noncash impairment charge during the three and six months ended June 30, 2022, against previously capitalized software development costs that reduced the carrying value of those assets to zero. The impairment charge resulted primarily from our decision to end customer support for certain solutions
- Increases in acquisition and disposition-related costs of \$2.2 million and \$3.2 million, respectively, primarily related to a \$2.0 million noncash impairment of certain insignificant intangible assets held for sale
- Increases in marketing costs of \$1.8 million and \$4.0 million, respectively, primarily due to our acquisition of EVERFI
- Increases in travel costs of \$1.7 million and \$2.6 million, respectively, due to our easing of restrictions on non-essential employee travel, which went into effect during March 2020 in response to the COVID-19 pandemic
- + Increases in total revenue, as described above
- + Decreases in stock-based compensation expense of \$2.7 million and \$4.8 million, respectively, attributable to:
 - A decrease in the grant date fair value of our annual equity awards granted to employees during 2022 compared to 2021; and
 - As a one-time response to COVID-19, replacement of our 2020 base salary merit increases with one-year time-based equity awards, which vested and were recognized as expense between May 1, 2020 and May 1, 2021.

We are continuing to make critical investments in the business in areas such as digital marketing, engineering, security, customer success and our continued shift of cloud infrastructure to leading public cloud service providers. Our profitability through the second quarter reflects the addition of EVERFI and some of these incremental investments that were pushed from 2021 into 2022, particularly in areas where we are increasing headcount.

We continuously seek opportunities to optimize our portfolio of solutions to focus time and resources on innovation that will have the greatest impact for our customers and the markets we serve, and drive the highest return on investment. To that end, we will continue to simplify and rationalize our portfolio through product sunsets and divestitures of non-core businesses and technologies.

Blackbaud, Inc.
(Unaudited)*Customer retention*

Our recurring revenue contracts are generally for a term of three years at contract inception with one to three-year renewals thereafter. We anticipate a continued decrease in maintenance contract renewals as we transition our solution portfolio and maintenance customers from a perpetual license-based model to a cloud subscription delivery model. In the long term, we also anticipate an increase in recurring subscription contract renewals as we continue focusing on innovation, quality and the integration of our cloud solutions, which we believe will provide value-adding capabilities to better address our customers' needs. Due primarily to these factors, we believe a recurring revenue customer retention measure that combines recurring subscription, maintenance and recurring service customer contracts provides a better representation of our customers' overall behavior. For the twelve months ended June 30, 2022, approximately 92% of our customers with recurring revenue contracts were retained. This customer retention rate is materially unchanged from our rate for the full year ended December 31, 2021 and reflects our continuing efforts to rationalize our portfolio of solutions and migrate customers from legacy solutions towards our next generation solutions.

Balance sheet and cash flow

At June 30, 2022, our cash and cash equivalents were \$29.0 million and the carrying amount of our debt under the 2020 Credit Facility was \$880.9 million. Our net leverage ratio was 3.42 to 1.00.

During the six months ended June 30, 2022, we generated \$81.8 million in cash from operations, had a net decrease in borrowings of \$16.3 million, had aggregate cash outlays of \$34.7 million for purchases of property and equipment and capitalized software and content development costs, and spent \$19.0 million on the purchase of EVERFI solely due to the timing of the acquisition on the last day of 2021.

Security Incident update

As discussed in Note 10 to our unaudited, condensed consolidated financial statements included in this report, total costs related to the Security Incident that we expect will be recoverable has exceeded the limit of our insurance coverage. Accordingly, we expect that the Security Incident will continue to negatively impact our GAAP profitability and GAAP cash flow for the foreseeable future (see discussion regarding our non-GAAP financial measures beginning on page 36). For full year 2022, we currently expect net pre-tax expense of approximately \$30 million to \$35 million for ongoing legal fees related to the Security Incident. In line with our policy, legal fees are expensed as incurred. For full year 2022, we currently expect net cash outlays of approximately \$15 million to \$25 million for ongoing legal fees related to the Security Incident. We have not recorded a liability for a loss contingency related to the Security Incident as of June 30, 2022 because we are unable at this time to reasonably estimate the possible loss or range of loss.

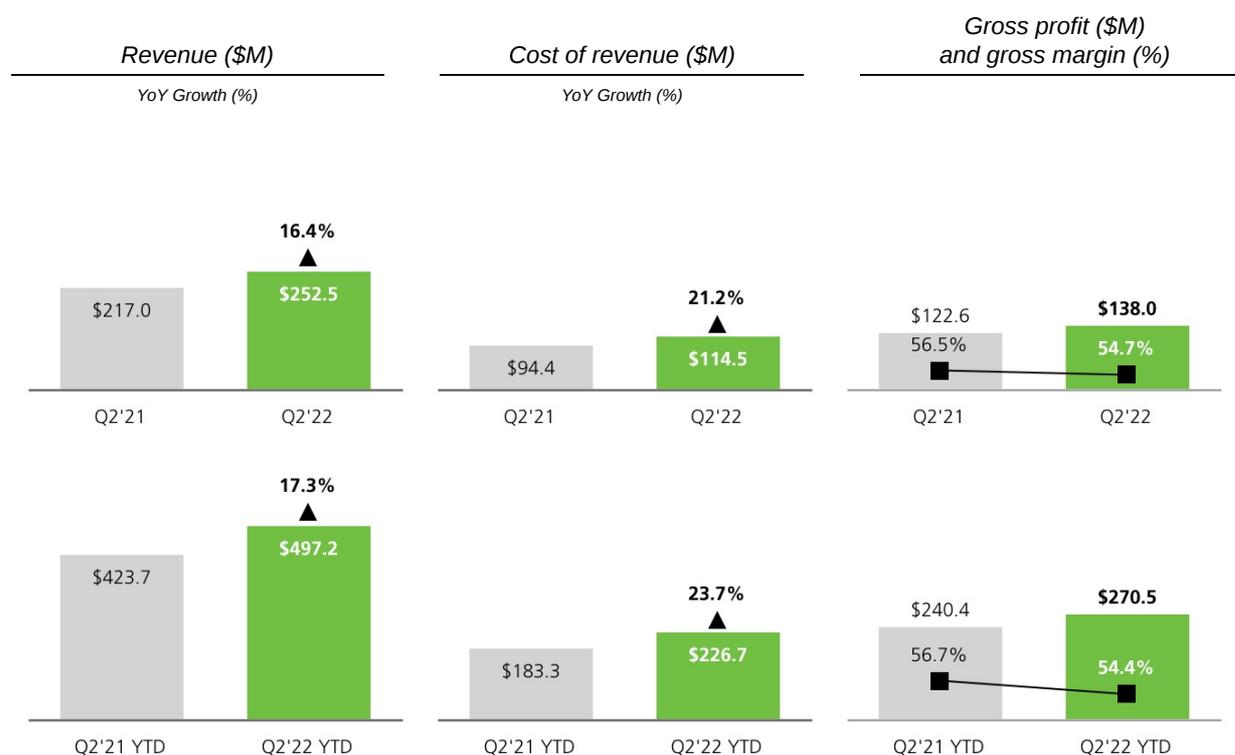
Results of Operations**Comparison of the three and six months ended June 30, 2022 and 2021**

We have included the results of operations of EVERFI in our consolidated results of operations from the date of acquisition on December 31, 2022. We determined that the EVERFI acquisition was not material to our consolidated financial statements; therefore, separate presentation of revenue and earnings since the acquisition date is not required.

Blackbaud, Inc.
(Unaudited)

Revenue and Cost of Revenue

Recurring



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

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

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

Blackbaud, Inc.
(Unaudited)

Recurring revenue increased by \$35.5 million, or 16.4%, and \$73.4 million, or 17.3%, during the three and six months ended June 30, 2022, respectively, when compared to the same periods in 2021, driven primarily by the following:

- + Increases in contractual recurring revenue of \$26.2 million and \$53.9 million, respectively, related to the performance of our cloud solutions, of which \$23.4 million and \$47.5 million, respectively, was attributable to EVERFI; partially offset by decreases in maintenance revenue as customers migrate to our cloud solutions; also offsetting the increases in contractual recurring revenue are decreases related to fluctuations in foreign currency exchange rates of \$0.8 million and \$1.1 million, respectively
- + Increases in transactional recurring revenue of \$9.3 million and \$19.5 million, respectively, primarily due to an increase in online charitable giving, the continued shift toward virtual fundraising and, to a lesser extent, increased transactional volume as our customer's constituents have begun to return to in-person events; partially offset by decreases related to fluctuations in foreign currency exchange rates of \$1.8 million and \$2.3 million, respectively

For additional information on the impact of foreign currency fluctuations on our financial results, see Foreign Currency Exchange Rates below on page 46.

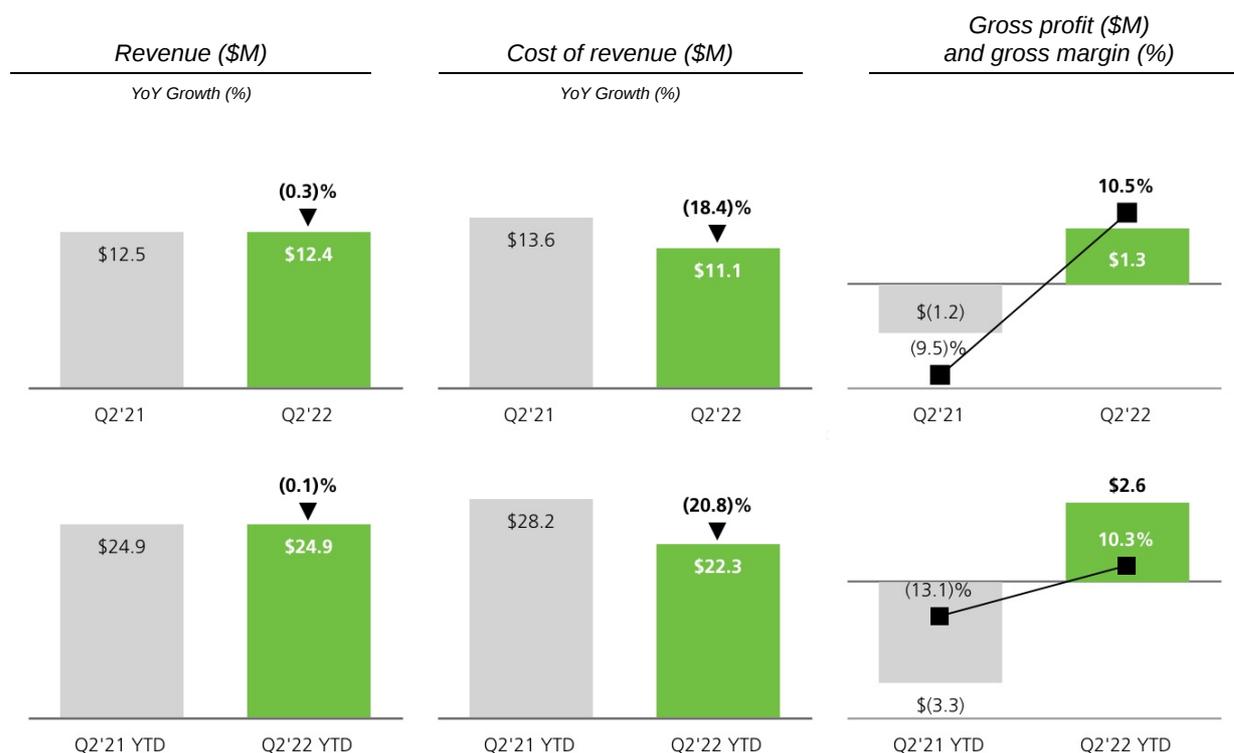
Cost of recurring revenue increased by \$20.1 million, or 21.2%, and \$43.4 million, or 23.7%, during the three and six months ended June 30, 2022, respectively, when compared to the same periods in 2021, driven primarily by the following:

- + Increases in compensation costs of \$5.2 million and \$12.8 million, respectively, primarily related to an increase in headcount due to our acquisition of EVERFI, and a continued shift in resources historically supporting one-time services and other towards recurring revenue
- + Increases in transaction-based costs of \$4.2 million and \$9.2 million, respectively, related to the increase in the volume of transactions for which we process payments
- + Increases in amortization of intangible assets from business combinations of \$3.6 million and \$7.1 million, respectively, due to our acquisition of EVERFI
- + Increases in third-party contractor and hosting costs of \$2.9 million and \$6.9 million, respectively, as we continue to migrate our cloud infrastructure to leading public cloud service providers and make investments in security; currently, we expect our cloud infrastructure migration efforts and increased level of security investments to continue through 2024
- + Increases in overhead allocations of \$1.2 million and \$2.8 million, respectively, related to the increased headcount discussed above
- + Increases in amortization of software development costs of \$1.2 million and \$2.3 million, respectively

Recurring gross margin decreased by 1.8% and 2.3% for the three and six months ended June 30, 2022, respectively, when compared to the same periods in 2021, primarily due to the increase in cost of recurring revenue outpacing the increase in recurring revenue.

Blackbaud, Inc.
(Unaudited)

One-time services and other



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

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

One-time services and other revenue decreased insignificantly, during the three and six months ended June 30, 2022, when compared to the same periods in 2021, driven primarily by the following:

- + Increases in one-time consulting revenue of \$0.6 million and \$1.6 million, respectively, primarily attributable to EVERFI, largely offset by less revenue from implementation and customization services, in line with our multi-year strategic shift from a license-based and one-time services business model to a cloud subscription business model. Our cloud subscription offerings generally require less implementation and customization services.
- Decreases in one-time analytics revenue of \$0.9 million and \$1.7 million, respectively, as analytics are generally integrated in our cloud solutions

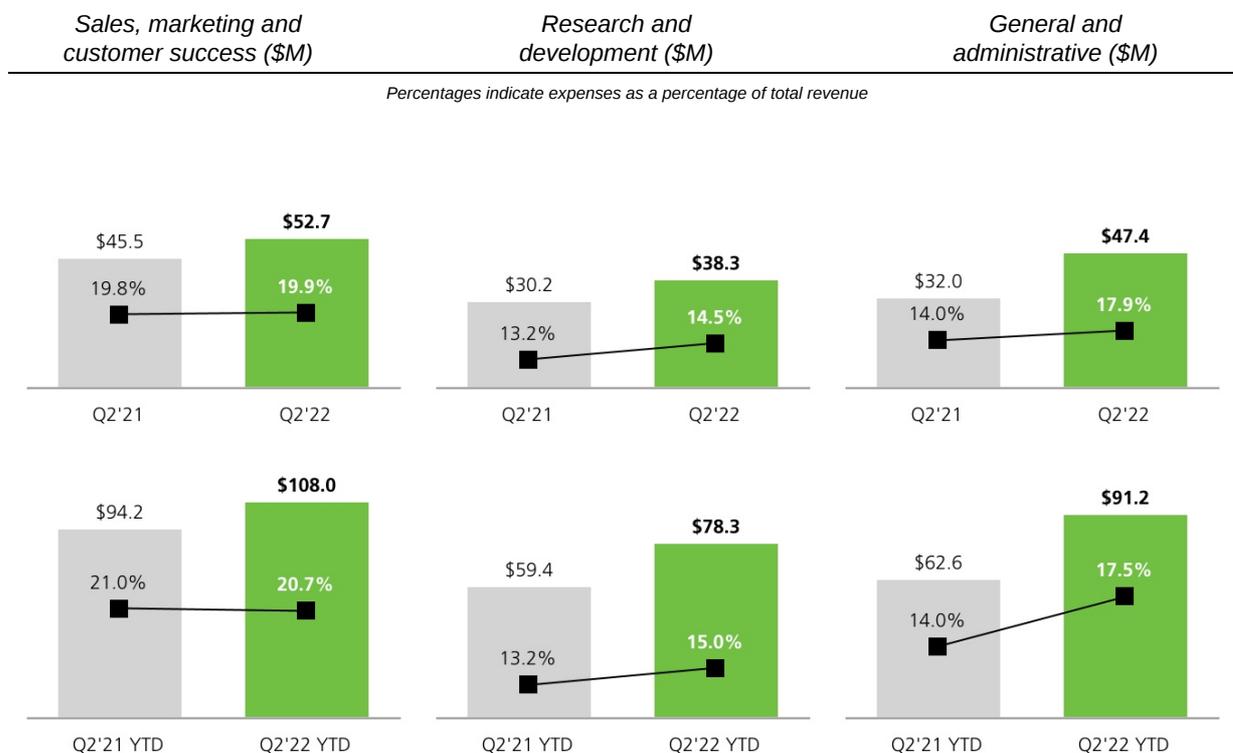
Cost of one-time services and other decreased by \$2.5 million, or 18.4%, and \$5.8 million, or 20.8%, during the three and six months ended June 30, 2022, respectively, when compared to the same periods in 2021, driven primarily by the following:

- Decreases in compensation costs of \$2.6 million and \$5.3 million, respectively, largely due to a continued shift in resources historically supporting one-time services and other towards recurring revenue as well as a decrease in professional services headcount

Blackbaud, Inc.
(Unaudited)

One-time services and other gross margin increased by 19.9% and 23.4% during the three and six months ended June 30, 2022, respectively, when compared to the same periods in 2021, primarily due to the significant reductions in compensation costs discussed above.

Operating Expenses



Sales, marketing and customer success

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

We see a large market opportunity in the long-term and will continue to make investments to drive sales effectiveness. We have also implemented software tools to enhance our digital footprint and drive lead generation. The enhancements we are making in our go-to-market approach are expected to significantly reduce our average customer acquisition cost per customer as well as the related payback period while increasing sales velocity.

Sales, marketing and customer success expense increased by \$7.3 million, or 16.0%, and \$13.7 million, or 14.5%, during the three and six months ended June 30, 2022, respectively, when compared to the same periods in 2021, primarily driven by the following:

- + Increases in compensation costs of \$4.0 million and \$7.7 million, respectively, primarily related to increased employee headcount due to our acquisition of EVERFI
- + Increases in advertising costs of \$1.8 million and \$4.0 million, respectively, primarily due to our acquisition of EVERFI
- + Increases in travel costs of \$0.6 million and \$1.0 million due to our easing of restrictions on non-essential employee travel, which went into effect during March 2020 in response to the COVID-19 pandemic

Blackbaud, Inc.
(Unaudited)

Research and development

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

We continue to make investments to delight our customers with innovative and secure cloud solutions. Research and development expenses increased by \$8.1 million, or 26.8%, and \$18.9 million or 31.8%, during the three and six months ended June 30, 2022, respectively, when compared to the same periods in 2021, primarily driven by the following:

- + Increases in compensation costs of \$5.8 million and \$14.1 million, respectively, primarily related to increased employee headcount due to our acquisition of EVERFI, and to a lesser extent, our increased hiring of engineers
- + Increases in third-party contractor costs of \$5.4 million and \$11.0 million, respectively, primarily due to our acquisition of EVERFI and, to a lesser extent, an increase in our use of third-party software developers
- + Increases in overhead allocation costs of \$0.8 million and \$1.8 million, respectively, primarily related to increased headcount discussed above
- Increases in development costs of \$4.3 million and \$9.0 million, respectively, that were required to be capitalized under GAAP, of which \$3.1 million and \$6.6 million was attributable to EVERFI software and content

Not included in research and development expense for the three months ended June 30, 2022 and 2021 were \$14.8 million and \$10.4 million, respectively, and for the six months ended June 30, 2022 and 2021 were \$28.5 million and \$19.5 million, respectively, of qualifying costs associated with software and content development activities that are required to be capitalized under GAAP, such as those for our cloud solutions, as well as development costs associated with acquired companies. Qualifying capitalized development costs associated with our cloud solutions are subsequently amortized to cost of subscriptions revenue over the related assets' estimated useful life, which generally range from three to seven years.

General and administrative

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

Blackbaud, Inc.
(Unaudited)

General and administrative expense increased by \$15.4 million or 48.1%, and \$28.6 million, or 45.6%, during the three and six months ended June 30, 2022, respectively, when compared to the same periods in 2021, primarily driven by the following:

- + Increases in Security Incident-related expenses, net of insurance, of \$7.9 million and \$15.1 million, respectively, consisting primarily of legal fees, as total costs related to the Security Incident that we expect will be recoverable has exceeded the limit of our insurance coverage.
- + A \$2.3 million noncash impairment charge during the three and six months ended June 30, 2022 against previously capitalized software development costs that reduced the carrying value of those assets to zero. The impairment charge resulted primarily from our decision to end customer support for certain solutions
- + Increases in acquisition and disposition-related costs of \$2.2 million and \$3.2 million, respectively, primarily related to a \$2.0 million noncash impairment of certain insignificant intangible assets held for sale
- + Increases in compensation costs of \$2.0 million and \$6.6 million, respectively, primarily related to increased employee headcount due to our acquisition of EVERFI
- + Increases in third-party contractor costs of \$0.7 million and \$1.9 million, respectively
- + Increases in rent expense of \$0.7 million and \$1.2 million, respectively, primarily related to leases assumed from our acquisition of EVERFI
- + Increases in travel costs of \$0.6 million and \$0.9 million due to our easing of restrictions on non-essential employee travel, which went into effect during March 2020 in response to the COVID-19 pandemic
- Increases in allocated corporate IT costs of \$1.8 million and \$3.6 million, respectively, primarily related to investments in security tools. Depreciation, facilities and IT support costs are pooled and recorded to general and administrative expense and allocated to other lines of our condensed statements of comprehensive income based on headcount.

Blackbaud, Inc.
(Unaudited)

Interest Expense

Interest expense (\$M)

Percentages indicate expenses as a percentage of total revenue



The increases in interest expense in dollars and as a percentage of total revenue during the three and six months ended June 30, 2022, when compared to the same period in 2021, were primarily due to the new borrowings used to finance our acquisition of EVERFI. We currently expect interest expense for the full year 2022 to be approximately \$34 million million to \$37 million although our interest expense in connection with the variable rate portion of our outstanding debt could increase in a rising interest rate environment. See Note 9 to our condensed consolidated financial statements in this report for more information regarding our derivative instruments, which we use to manage our variable interest rate risk, and Item 3. Quantitative and Qualitative Disclosures about Market Risk: Interest Rate Risk (below) for more information about our variable interest rate exposure and related risk.

Deferred Revenue

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

(dollars in millions)		June 30, 2022	December 31, 2021	Change
Deferred revenue ⁽¹⁾	\$	416.3	\$ 378.7	9.9 %
Less: Long-term portion		3.5	4.2	(16.5)%
Current portion ⁽¹⁾	\$	412.7	\$ 374.5	10.2 %

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

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

The increase in deferred revenue during the six months ended June 30, 2022 was primarily due to a seasonal increase in customer contract renewals. Historically, due to the timing of customer budget cycles, we have an increase in customer contract renewals at or near the beginning of our third quarter. Generally, our lowest balance of deferred revenue during the year is at the end of our first quarter.

**Blackbaud, Inc.
(Unaudited)**

Income Taxes

Income tax (benefit) provision (\$M)

Percentages indicate effective income tax rates



For the six months ended June 30, 2022, we have utilized the discrete effective tax rate method, as allowed by ASC 740-270-30-18, *Income Taxes—Interim Reporting*, to calculate its interim income tax provision. The discrete method is applied when the application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. The discrete method treats the year-to-date period as if it was the annual period and determines the income tax expense or benefit on that basis. We believe that, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method as our full-year forecasted pre-tax income, relative to our forecasted permanent differences, has the potential to distort our estimated annual effective tax rate.

The increase in our effective income tax rate for the three months ended June 30, 2022 when compared to the same period in 2021 was primarily due to 2022 tax benefit attributable to foreign-derived intangible income ("FDII") deduction not generated in the prior year. Furthermore, the 2021 effective tax rate was positively impacted by benefit attributable to stock-based compensation, partially offset against expense attributable to an income tax rate increase enacted during the period.

The decrease in our effective income tax rate for the six months ended June 30, 2022 when compared to the same period in 2021 was primarily attributable to 2022 tax benefit attributable to FDII deduction not generated in the prior year. Furthermore, the 2022 effective tax rate was negatively impacted by tax expense attributable to stock-based compensation against pre-tax loss for the period. The 2021 effective tax rate was positively impacted by benefit attributable to stock-based compensation, partially offset against expense attributable to an income tax rate increase enacted during the period.

Non-GAAP Financial Measures

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

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

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(dollars in millions, except per share amounts)	Three months ended June 30,			Six months ended June 30,		
	2022	2021	Change	2022	2021	Change
GAAP Revenue	\$ 264.9	\$ 229.4	15.5 %	\$ 522.1	\$ 448.6	16.4 %
GAAP gross profit	\$ 139.3	\$ 121.4	14.8 %	\$ 273.1	\$ 237.2	15.1 %
GAAP gross margin	52.6 %	52.9 %		52.3 %	52.9 %	
Non-GAAP adjustments:						
Add: Stock-based compensation expense	3.8	5.2	(28.1)%	7.9	10.6	(25.3)%
Add: Amortization of intangibles from business combinations	12.4	8.9	39.7 %	24.9	18.0	38.2 %
Add: Employee severance	0.4	—	2,440.0 %	0.4	—	2,440.0 %
Subtotal ⁽¹⁾	16.5	14.1	17.1 %	33.2	28.6	16.0 %
Non-GAAP gross profit⁽¹⁾	\$ 155.9	\$ 135.5	15.0 %	\$ 306.3	\$ 265.8	15.2 %
Non-GAAP gross margin	58.8 %	59.1 %		58.7 %	59.2 %	
GAAP income (loss) from operations	\$ 0.1	\$ 13.0	(99.6)%	\$ (5.9)	\$ 19.7	(130.1)%
GAAP operating margin	— %	5.7 %		(1.1)%	4.4 %	
Non-GAAP adjustments:						
Add: Stock-based compensation expense	27.9	30.5	(8.8)%	55.7	60.6	(8.0)%
Add: Amortization of intangibles from business combinations	13.2	9.4	39.8 %	26.5	19.1	38.6 %
Add: Employee severance	0.5	0.5	2.4 %	0.5	1.4	(68.0)%
Add: Acquisition and disposition-related costs ⁽²⁾	2.3	0.1	3,481.3 %	3.2	—	10,380.6 %
Add: Restructuring and other real estate activities	—	0.1	(100.0)%	0.1	—	914.3 %
Add: Security Incident-related costs, net of insurance ⁽³⁾	8.3	0.5	1,676.2 %	15.5	0.5	3,201.3 %
Add: Impairment of capitalized software development costs	2.3	—	100.0 %	2.3	—	100.0 %
Subtotal ⁽¹⁾	54.4	41.1	32.4 %	103.8	81.6	27.2 %
Non-GAAP income from operations⁽¹⁾	\$ 54.5	\$ 54.1	0.6 %	\$ 97.9	\$ 101.3	(3.4)%
Non-GAAP operating margin	20.6 %	23.6 %		18.8 %	22.6 %	
GAAP (loss) income before provision for income taxes	\$ (5.8)	\$ 8.5	(168.3)%	\$ (18.2)	\$ 9.0	(302.8)%
GAAP net (loss) income	\$ (3.4)	\$ 6.7	(150.8)%	\$ (13.8)	\$ 6.6	(310.6)%
Shares used in computing GAAP diluted (loss) earnings per share	51,660,739	48,444,874	6.6 %	51,431,501	48,444,658	6.2 %
GAAP diluted (loss) earnings per share	\$ (0.07)	\$ 0.14	(150.0)%	\$ (0.27)	\$ 0.14	(292.9)%
Non-GAAP adjustments:						
Add: GAAP income tax (benefit) provision	(2.4)	1.7	(235.6)%	(4.4)	2.4	(281.8)%
Add: Total non-GAAP adjustments affecting income from operations	54.4	41.1	32.4 %	103.8	81.6	27.2 %
Non-GAAP income before provision for income taxes	48.6	49.6	(1.9)%	85.6	90.6	(5.6)%
Assumed non-GAAP income tax provision ⁽⁴⁾	9.7	9.9	(1.9)%	17.1	18.1	(5.6)%
Non-GAAP net income⁽¹⁾	\$ 38.9	\$ 39.7	(1.9)%	\$ 68.5	\$ 72.5	(5.6)%
Shares used in computing non-GAAP diluted earnings per share	51,985,530	48,444,874	7.3 %	51,954,151	48,444,658	7.2 %
Non-GAAP diluted earnings per share	\$ 0.75	\$ 0.82	(8.5)%	\$ 1.32	\$ 1.50	(12.0)%

- (1) The individual amounts for each year may not sum to non-GAAP gross profit, subtotal, non-GAAP income from operations or non-GAAP net income due to rounding.
- (2) Includes a \$2.0 million noncash impairment of intangible assets held for sale during the three and six months ended June 30, 2022.
- (3) Includes Security Incident-related costs incurred during the three and six months ended June 30, 2022 of \$8.4 million and \$17.4 million, respectively, net of probable insurance recoveries during the same periods of \$0.1 million and \$1.9 million, respectively, and during the three and six months ended June 30, 2021 of \$11.7 million and \$24.5 million, respectively, net of probable insurance recoveries during the same periods of \$11.2 million and \$24.0 million, respectively. Recorded expenses consisted primarily of payments to third-party service providers and consultants, including legal fees, as well as settlements of customer claims. Not included in this adjustment were costs associated with enhancements to our cybersecurity program. For full year 2022, we currently expect net pre-tax expense of approximately \$30 million to \$35 million for ongoing legal fees related to the Security Incident. In line with our policy, legal fees are expensed as incurred. For full year 2022, we currently expect net cash outlays of approximately \$15 million to \$25 million for ongoing legal fees related to the Security Incident. We have not recorded a liability for a

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loss contingency related to the Security Incident as of June 30, 2022 because we are unable at this time to reasonably estimate the possible loss or range of loss.
(4) We apply a non-GAAP effective tax rate of 20.0% when calculating non-GAAP net income and non-GAAP diluted earnings per share.

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Non-GAAP organic revenue growth

In addition, we use non-GAAP organic revenue growth, non-GAAP organic revenue growth on a constant currency basis and non-GAAP organic recurring revenue growth, in analyzing our operating performance. We believe that these non-GAAP measures are useful to investors, as a supplement to GAAP measures, for evaluating the periodic growth of our business on a consistent basis. Each of these measures of non-GAAP organic revenue growth excludes incremental acquisition-related revenue attributable to companies acquired in the current fiscal year. For companies, if any, acquired in the immediately preceding fiscal year, each of these non-GAAP organic revenue growth measures reflects presentation of full year incremental non-GAAP revenue derived from such companies as if they were combined throughout the prior period. In addition, each of these non-GAAP organic revenue growth measures excludes prior period revenue associated with divested businesses. The exclusion of the prior period revenue is to present the results of the divested businesses within the results of the combined company for the same period of time in both the prior and current periods. We believe this presentation provides a more comparable representation of our current business' organic revenue growth and revenue run-rate.

(dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
GAAP revenue	\$ 264.9	\$ 229.4	\$ 522.1	\$ 448.6
GAAP revenue growth	15.5 %		16.4 %	
Add: Non-GAAP acquisition-related revenue ⁽¹⁾	—	25.8	—	51.1
Non-GAAP organic revenue ⁽²⁾	\$ 264.9	\$ 255.3	\$ 522.1	\$ 499.7
Non-GAAP organic revenue growth	3.8 %		4.5 %	
Non-GAAP organic revenue ⁽²⁾	\$ 264.9	\$ 255.3	\$ 522.1	\$ 499.7
Foreign currency impact on Non-GAAP organic revenue ⁽³⁾	2.9	—	3.8	—
Non-GAAP organic revenue on constant currency basis ⁽³⁾	\$ 267.8	\$ 255.3	\$ 525.9	\$ 499.7
Non-GAAP organic revenue growth on constant currency basis	4.9 %		5.2 %	
GAAP recurring revenue	\$ 252.5	\$ 217.0	\$ 497.2	\$ 423.7
GAAP recurring revenue growth	16.4 %		17.3 %	
Add: Non-GAAP acquisition-related revenue ⁽¹⁾	—	23.2	—	45.9
Non-GAAP organic recurring revenue	\$ 252.5	\$ 240.1	\$ 497.2	\$ 469.7
Non-GAAP organic recurring revenue growth	5.1 %		5.9 %	

- (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 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.
- (2) Non-GAAP organic revenue for the prior year periods presented herein will not agree to non-GAAP organic revenue presented in the respective prior period quarterly financial information solely due to the manner in which non-GAAP organic revenue growth is calculated.
- (3) To determine non-GAAP organic revenue growth on a constant currency basis, revenues from entities reporting in foreign currencies were translated to U.S. Dollars using the comparable prior period's quarterly weighted average foreign currency exchange rates. The primary foreign currencies creating the impact are the Australian Dollar, British Pound, Canadian Dollar and EURO.

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Rule of 40

We previously defined Rule of 40 as non-GAAP organic revenue growth plus non-GAAP adjusted EBITDA margin. Non-GAAP adjusted EBITDA is defined as GAAP net income plus interest, net; income tax provision (benefit); depreciation; amortization of intangible assets from business combinations; amortization of software and content development costs; stock-based compensation; employee severance; acquisition and disposition-related costs; restructuring and other real estate activities; Security Incident-related costs, net of insurance; and impairment of capitalized software development costs. Beginning in the fiscal quarter ended June 30, 2022, we now also include in non-GAAP adjusted EBITDA impairment of capitalized software development costs because we believe it is not directly related to our operating performance in any particular period.

(dollars in millions)	Three months ended June 30,			Six months ended June 30,		
	2022	2021	Change	2022	2021	Change
GAAP net (loss) income	\$ (3.4)	\$ 6.7	(150.8)%	\$ (13.8)	\$ 6.6	(310.6)%
Non-GAAP adjustments:						
Add: Interest, net	8.9	5.0	78.1 %	16.3	9.9	64.4 %
Add: GAAP income tax (benefit) provision	(2.4)	1.7	(235.6)%	(4.4)	2.4	(281.8)%
Add: Depreciation	3.6	3.1	14.2 %	7.1	6.4	12.2 %
Add: Amortization of intangibles from business combinations	13.2	9.4	39.8 %	26.5	19.1	38.6 %
Add: Amortization of software and content development costs ⁽¹⁾	9.5	8.1	16.9 %	18.7	16.1	16.5 %
Subtotal ⁽²⁾	32.8	27.4	19.5 %	64.3	53.9	19.2 %
Non-GAAP EBITDA ⁽²⁾	\$ 29.4	\$ 34.2	(14.1)%	\$ 50.5	\$ 60.5	(16.6)%
Non-GAAP EBITDA margin	11.1 %			9.7 %		
Non-GAAP adjustments:						
Add: Stock-based compensation expense	27.9	30.5	(8.8)%	55.7	60.6	(8.0)%
Add: Employee severance	0.5	0.5	2.4 %	0.5	1.4	(68.0)%
Add: Acquisition and disposition-related costs ⁽³⁾	2.3	0.1	3,481.3 %	3.2	—	10,380.6 %
Add: Restructuring and other real estate activities	—	0.1	(100.0)%	0.1	—	914.3 %
Add: Security Incident-related costs, net of insurance ⁽³⁾	8.3	0.5	1,676.2 %	15.5	0.5	3,201.3 %
Add: Impairment of capitalized software development costs	2.3	—	100.0 %	2.3	—	100.0 %
Subtotal ⁽²⁾	41.2	31.7	30.2 %	77.3	62.5	23.7 %
Non-GAAP Adjusted EBITDA ⁽²⁾	\$ 70.6	\$ 65.8	7.2 %	\$ 127.8	\$ 123.0	3.9 %
Non-GAAP Adjusted EBITDA margin	26.6 %			24.5 %		
Rule of 40⁽⁴⁾	30.4 %			29.0 %		
Non-GAAP adjusted EBITDA	70.6	65.8	7.2 %	127.8	123.0	3.9 %
Foreign currency impact on Non-GAAP adjusted EBITDA ⁽⁵⁾	1.7	(1.7)	(195.7)%	2.2	(2.2)	(196.5)%
Non-GAAP adjusted EBITDA on constant currency basis ⁽⁵⁾	\$ 72.2	\$ 64.1	12.7 %	\$ 129.9	\$ 120.8	7.6 %
Non-GAAP adjusted EBITDA margin on constant currency basis	27.0 %			24.7 %		
Rule of 40 on constant currency basis⁽⁶⁾	31.9 %			29.9 %		

(1) Includes amortization expense related to software development costs and amortization expense from capitalized cloud computing implementation costs.

(2) The individual amounts for each year may not sum to subtotal, non-GAAP EBITDA or non-GAAP adjusted EBITDA due to rounding.

(3) See additional details in the reconciliation of GAAP to Non-GAAP operating income above.

(4) Measured by non-GAAP organic revenue growth plus non-GAAP adjusted EBITDA margin. See Non-GAAP organic revenue growth table above.

(5) To determine non-GAAP adjusted EBITDA on a constant currency basis, non-GAAP adjusted EBITDA from entities reporting in foreign currencies were translated to U.S. Dollars using the comparable prior period's quarterly weighted average foreign currency exchange rates. The primary foreign currencies creating the impact are the Australian Dollar, British Pound, Canadian Dollar and EURO.

(6) Measured by non-GAAP organic revenue growth on constant currency basis plus non-GAAP adjusted EBITDA margin on constant currency basis.

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Non-GAAP free cash flow and non-GAAP adjusted free cash flow

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

Non-GAAP adjusted free cash flow is defined as operating cash flow less capital expenditures, including costs required to be capitalized for software development and capital expenditures for property and equipment, plus cash outflows, net of insurance, related to the Security Incident.

We believe non-GAAP free cash flow and non-GAAP adjusted free cash flow provides useful measures of the company's operating performance. Non-GAAP adjusted free cash flow is not intended to represent and should not be viewed as the amount of residual cash flow available for discretionary expenditures.

(dollars in millions)	Six months ended June 30,		
	2022	2021	Change
GAAP net cash provided by operating activities	\$ 81.8	\$ 99.9	(18.2)%
Less: purchase of property and equipment	(7.5)	(6.1)	22.7 %
Less: capitalized software and content development costs	(27.2)	(19.9)	36.9 %
Non-GAAP free cash flow⁽¹⁾	\$ 47.1	\$ 73.9	(36.3)%
Add: Security Incident-related cash flows, net of insurance	5.2	3.8	36.1 %
Non-GAAP adjusted free cash flow⁽¹⁾	\$ 52.2	\$ 77.7	(32.8)%

(1) The individual amounts for each year may not sum to non-GAAP free cash flow or non-GAAP adjusted free cash flow due to rounding.

Seasonality

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

Our cash flow from operations normally fluctuates quarterly due to the combination of the timing of customer contract renewals including renewals associated with customers of acquired companies, delivery of professional services and occurrence of customer events, as well as merit-based salary increases, among other factors. Historically, due to lower revenues in our first quarter, combined with the payment of certain annual vendor contracts, our cash flow from operations has been lowest in our first quarter. Due to the timing of customer contract renewals and student enrollments, many of which take place at or near the beginning of our third quarter, our cash flow from operations has been lower in our second quarter as compared to our third and fourth quarters. Partially, offsetting these favorable drivers of cash flow from operations in our third and fourth quarters are base salary merit increases, which occur in July. In addition, deferred revenues can vary on a seasonal basis due to the timing of customer contract renewals and student enrollments. 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. These patterns may change as a result of the continued shift to online giving, growth in volume of transactions for which we process payments, or as a result of acquisitions, new market opportunities, new solution introductions, the COVID-19 pandemic or other factors.

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Liquidity and Capital Resources

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

(dollars in millions)	June 30, 2022	December 31, 2021	Change
Cash and cash equivalents	\$ 29.0	\$ 55.1	(47.4)%
Property and equipment, net	111.9	111.4	0.4 %
Software and content development costs, net	130.3	121.4	7.4 %
Total carrying value of debt	939.8	956.2	(1.7)%
Working capital	(267.3)	(258.7)	(3.4)%

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

(dollars in millions)	2022	Six months ended June 30, 2021	Change
Net cash provided by operating activities	\$ 81.8	\$ 99.9	(18.2)%
Net cash used in investing activities	(53.7)	(26.0)	106.7 %
Net cash used in financing activities	(194.1)	(257.0)	(24.5)%

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

As a well-known seasoned issuer, we filed an automatic shelf registration statement for an undetermined amount of debt and equity securities with the SEC on January 14, 2022. Under this universal shelf registration statement we may offer and sell, from time to time, debt securities, common stock, preferred stock, depository shares, warrants, stock purchase contracts and stock purchase units. Subject to certain conditions, this registration statement will be effective through January 13, 2024.

At June 30, 2022, our total cash and cash equivalents balance included approximately \$17.4 million of cash that was held by operations outside the U.S. While these funds may not be needed to fund our U.S. operations for at least the next twelve months, if we need these funds, we may be required to accrue and pay taxes to repatriate the funds. We currently do not intend nor anticipate a need to repatriate our cash held outside the U.S.

Operating Cash Flow

Our cash flows from operations are derived principally from: (i) our earnings from on-going operations prior to non-cash expenses such as depreciation, amortization, stock-based compensation, deferred taxes, amortization of deferred financing costs and debt discount and adjustments to our provision for credit losses and sales returns; and (ii) changes in our working capital.

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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.

Net cash provided by operating activities decreased by \$18.1 million during the six months ended June 30, 2022, when compared to the same period in 2021, primarily due to a \$27.9 million decrease in net income adjusted for non-cash expenses and a \$9.8 million increase in cash flow from operations associated with working capital.

The increase in cash flow from operations associated with working capital during the six months ended June 30, 2022, when compared to the same period in 2021, was primarily due to:

- fluctuations in the timing of vendor payments; and
- an increase in taxes payable; partially offset by
- timing associated with customer contract renewal billings and the collection of those amounts; and
- payment of assumed EVERFI accrued bonuses and other payroll-related liabilities during the first quarter of 2022.

Security Incident update

As discussed in Note 10 to our unaudited, condensed consolidated financial statements included in this report, total costs related to the Security Incident that we expect will be recoverable has exceeded the limit of our insurance coverage. Accordingly, we expect that the Security Incident will continue to negatively impact our GAAP profitability and GAAP cash flow for the foreseeable future (see discussion regarding our non-GAAP financial measures beginning on page 36). For full year 2022, we currently expect net pre-tax expense of approximately \$30 million to \$35 million for ongoing legal fees related to the Security Incident. In line with our policy, legal fees are expensed as incurred. For full year 2022, we currently expect net cash outlays of approximately \$15 million to \$25 million for ongoing legal fees related to the Security Incident. We have not recorded a liability for a loss contingency related to the Security Incident as of June 30, 2022 because we are unable at this time to reasonably estimate the possible loss or range of loss.

Investing Cash Flow

Net cash used in investing activities of \$53.7 million increased by \$27.7 million during the six months ended June 30, 2022, when compared to the same period in 2021.

During the six months ended June 30, 2022, we used \$19.0 million for our acquisition of EVERFI comprised primarily of (i) \$17.4 million that had not been paid by EVERFI to its former option holders as of December 31, 2021, solely due to the timing of the acquisition on the last day of 2021; and (ii) \$2.6 million that was paid to a number of EVERFI's selling shareholders after determining they would be paid in cash, rather than shares of our common stock.

We used \$27.2 million for software development costs, which was up \$7.3 million from cash spent during the same period in 2021, primarily due to the inclusion of EVERFI's software and content development activities. We also spent \$7.5 million of cash for purchases of property and equipment during the six months ended June 30, 2022, which was an increase of \$1.4 million when compared to the same period in 2021.

Financing Cash Flow

During the six months ended June 30, 2022, we had a net decrease in borrowings of \$16.3 million.

We paid \$35.6 million to satisfy tax obligations of employees upon settlement of equity awards during the six months ended June 30, 2022 compared to \$38.7 million during the same period in 2021. The amount of taxes paid by us on behalf of employees related to the settlement of equity awards varies from period to period based upon the timing of grants and vesting, as well as the market price for shares of our common stock at the time of settlement. Most of our equity awards currently vest in our first quarter.

During the six months ended June 30, 2022, cash flow from financing activities associated with changes in restricted cash due to customers decreased \$141.0 million, compared to a decrease of \$170.1 million during the same period in 2021. This line in the statement of cash flows represents the change in the amount of restricted cash held and payable by us to customers from one period to the next.

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Stock repurchase program

In December 2021, our Board of Directors reauthorized and replenished our stock repurchase program that authorizes us to purchase up to \$250.0 million of our outstanding shares of common stock. The program does not have an expiration date. Under the stock repurchase program, we are authorized to repurchase shares from time to time in accordance with applicable laws both on the open market, including under trading plans established pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, and in privately negotiated transactions. The timing and amount of repurchases depends on several factors, including market and business conditions, the trading price of our common stock and the nature of other investment opportunities. The repurchase program may be limited, suspended or discontinued at any time without prior notice. During the three and six months ended June 30, 2022, we did not purchase any shares. The remaining amount available to purchase stock under the stock repurchase program was \$250.0 million as of June 30, 2022.

2020 Credit Facility

Historically, we have drawn on our credit facility from time to time to help us meet financial needs, primarily due to the seasonality of our cash flows from operations and financing for business acquisitions. At June 30, 2022, our available borrowing capacity under the 2020 Credit Facility was \$245.2 million. The 2020 Credit Facility matures in October 2025.

At June 30, 2022, the carrying amount of our debt under the 2020 Credit Facility was \$880.9 million. Our average daily borrowings during the three and six months ended June 30, 2022 were \$917.3 million and \$913.4 million, respectively.

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

Financial covenant	Requirement	Ratio as of June 30, 2022
Net leverage ratio ⁽¹⁾	≤ 4.25 to 1.00	3.42 to 1.00
Interest coverage ratio	≥ 2.50 to 1.00	11.91 to 1.00

(1) Under the terms of the 2020 Credit Facility, the Net Leverage Ratio requirement may be increased by up to 0.50 provided we satisfy certain requirements, including a permitted business acquisition, and provided that the maximum Net Leverage Ratio shall not exceed 4.25 to 1.00.

Under the 2020 Credit Facility, we also have restrictions on our ability to declare and pay dividends and our ability to repurchase shares of our common stock. In order to pay any cash dividends and/or repurchase shares of stock: (i) no default or event of default shall have occurred and be continuing under the 2020 Credit Facility, and (ii) our pro forma net leverage ratio, as set forth in the 2020 Credit Facility, must be 0.25 less than the net leverage ratio requirement at the time of dividend declaration or share repurchase. At June 30, 2022, we were in compliance with our debt covenants under the 2020 Credit Facility. See Note 8 to our unaudited, condensed consolidated financial statements included in this report for additional information regarding the 2020 Credit Facility.

Commitments and Contingencies

(in millions)	Payments due by period		
	Less than 1 year	More than 1 year	Total ⁽¹⁾
Recorded contractual obligations:			
Debt	\$ 18.2	\$ 925.5	\$ 943.7
Operating leases	10.9	58.1	69.0
Unrecorded contractual obligations:			
Purchase obligations	52.1	189.2	241.3
Interest payments on debt	35.2	108.7	144.0
Total contractual obligations⁽¹⁾	\$ 116.4	\$ 1,281.6	\$ 1,398.0

(1) The individual amounts may not sum to the total due to rounding.

Blackbaud, Inc.
(Unaudited)

Debt

As of June 30, 2022, we had total remaining principal payments of \$943.7 million. These payments represent principal payments only, under the following assumptions: (i) that the amounts outstanding under the 2020 Credit Facility, our real estate loans and our other debt at June 30, 2022 will remain outstanding until maturity, with minimum payments occurring as currently scheduled, and (ii) that there are no assumed future borrowings on the 2020 Revolving Facility for the purposes of determining minimum commitment amounts. See Note 8 to our unaudited, condensed consolidated financial statements in this report for more information.

Interest payments on debt

In addition to principal payments, as of June 30, 2022, we expect to pay interest expense over the life of our debt obligations of approximately \$144.0 million. These payments represent our estimated future interest payments on debt using our debt balances and the related weighted average effective interest rates as of June 30, 2022, which includes the effect of interest rate swap agreements. 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 on our remaining principal payments described above.

Operating leases

As of June 30, 2022, we had remaining operating lease payments of \$69.0 million. These payments have not been reduced by sublease income, incentive payments, reimbursement of leasehold improvements or the amount representing imputed interest of \$11.9 million. Our operating leases are generally for corporate offices, subleased offices and certain equipment and furniture. Given our remote-first workforce strategy and real estate footprint optimization efforts, as discussed above, we do not anticipate entering any new, material operating leases for offices for the foreseeable future. See Note 10 to our unaudited, condensed consolidated financial statements in this report for more information.

Purchase obligations

As of June 30, 2022, we had remaining purchase obligations of \$241.3 million. These purchase obligations are for third-party technology used in our solutions and for other services we purchase as part of our normal operations. In certain cases, these arrangements require a minimum annual purchase commitment by us. Our purchase obligations are not recorded as liabilities on our consolidated balance sheets as of June 30, 2022, as we had not received the related services. See Note 10 to our unaudited, condensed consolidated financial statements in this report for more information.

The total liability for uncertain tax positions as of June 30, 2022 and December 31, 2021, was \$3.9 million and \$3.7 million, respectively. Our accrued interest and penalties related to tax positions taken on our tax returns was insignificant as of June 30, 2022 and December 31, 2021.

Blackbaud, Inc.
(Unaudited)

Foreign Currency Exchange Rates

Approximately 16% of our total revenue for the six months ended June 30, 2022 was generated from operations outside the U.S. We do not have significant operations in countries in which the economy is considered to be highly inflationary. Our consolidated financial statements are denominated in U.S. dollars and, accordingly, changes in the exchange rate between foreign currencies and the U.S. dollar will affect the translation of our subsidiaries' financial results into U.S. dollars for purposes of reporting our consolidated financial results. The accumulated currency translation adjustment, recorded within accumulated other comprehensive income (loss) as a component of stockholders' equity, was a loss of \$11.3 million as of June 30, 2022 and income of \$1.3 million as of December 31, 2021.

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 six months ended June 30, 2022, foreign translation resulted in decreases in our revenues and expenses denominated in non-U.S. currencies. Though we have exposure to fluctuations in currency exchange rates, primarily those between the U.S. dollar and both the British Pound and Canadian dollar, the impact has generally not been material to our consolidated results of operations or financial position. However, we currently expect that fluctuations in foreign currency exchange rates will have a significant negative impact on our total revenue for the full year 2022. For the six months ended June 30, 2022, the fluctuation in foreign currency exchange rates reduced our total revenue and our income from operations by \$3.8 million and \$0.9 million, respectively. We will continue monitoring such exposure and take action as appropriate. To determine the impacts on revenue (or income from operations) from fluctuations in currency exchange rates, current period revenues (or income from operations) from entities reporting in foreign currencies were translated into U.S. dollars using the comparable prior year period's weighted average foreign currency exchange rates. These impacts are non-GAAP financial information and are not in accordance with, or an alternative to, information prepared in accordance with GAAP.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies and estimates during the six months ended June 30, 2022 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, 2021.

Recently Issued Accounting Pronouncements

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

Blackbaud, Inc.
(Unaudited)

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Our variable rate debt is our primary financial instrument with market risk exposure for changing interest rates. We manage our variable rate interest rate risk through a combination of short-term and long-term borrowings and the use of derivative instruments entered into for hedging purposes. Our interest rate exposure includes LIBOR and SOFR rates. The Financial Conduct Authority in the U.K. has stated that it plans to phase out all tenors of LIBOR by June 2023. We do not currently anticipate a significant impact to our financial position or results of operations as a result of this action as we expect that our financial contracts currently indexed to LIBOR will either expire or be modified without significant financial impact before the phase out occurs. Due to the nature of our debt, the materiality of the fair values of the derivative instruments and the highly liquid, short-term nature and level of our cash and cash equivalents as of June 30, 2022, we believe that the risk of exposure to changing interest rates for those positions is immaterial. There were no significant changes in how we manage interest rate risk between December 31, 2021 and June 30, 2022.

Foreign Currency Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

Although we do not believe it materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, our evaluation of the effectiveness of internal control over financial reporting as of June 30, 2022 excluded EVERFI as permitted by the guidance issued by the Office of the Chief Accountant of the Securities and Exchange Commission (not to extend more than one year beyond the date of the acquisition or for more than one annual reporting period). The acquisition of EVERFI was completed on December 31, 2021. As of and for the quarter ended June 30, 2022, EVERFI's assets represented approximately 3% of our consolidated total assets and its revenue represented approximately 10% of our consolidated total revenue. We are working to integrate EVERFI into our overall internal control over financial reporting processes.

No changes in internal control over financial reporting occurred during the most recent fiscal quarter ended June 30, 2022 with respect to our operations, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

► PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of our legal proceedings, see Note 10 to our unaudited, condensed consolidated financial statements in this report.

ITEM 1A. RISK FACTORS

We are supplementing Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission on March 1, 2022 (the "Annual Report"). The following risk factors should be read in conjunction with the risk factors set forth in that Annual Report.

Operational Risks

The Security Incident has had, and may continue to have numerous adverse effects on our business, results of operations, financial condition and cash flows.

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

To date, we have received approximately 260 Customer Reimbursement Requests and approximately 400 reservations of the right to seek expense recovery in the future from customers or their attorneys in the U.S., U.K. and Canada related to the Security Incident (none of which have as yet been filed in court). In June 2022, we also received notice of a proposed claim on behalf of a number of U.K. data subjects, which we are reviewing. In addition, insurance companies representing various customers' interests through subrogation claims have contacted us. Customer and insurer subrogation claims generally seek reimbursement of their costs and expenses associated with notifying their own customers of the Security Incident and taking steps to assure that personal information has not been compromised as a result of the Security Incident. In addition, presently, we are a defendant in 19 putative consumer class action cases [17 in U.S. federal courts (which have been consolidated under multi district litigation to a single federal court) and 2 in Canadian courts] alleging harm from the Security Incident. The plaintiffs in these cases, who generally purport to represent various classes of individual constituents of our customers, generally claim to have been harmed by alleged actions and/or omissions by us in connection with the Security Incident and assert a variety of common law and statutory claims seeking monetary damages, injunctive relief, costs and attorneys' fees, and other related relief. To date, we also have received a consolidated, multi-state Civil Investigative Demand issued on behalf of 49 state Attorneys General and the District of Columbia and a separate Civil Investigative Demand from the office of the California Attorney General relating to the Security Incident. In addition, we are subject to pending governmental actions or investigations by the U.S. Federal Trade Commission, the U.S. Department of Health and Human Services, the SEC, the Office of the Australian Information Commissioner and the Office of the Privacy Commissioner of Canada. (See Note 10 to our unaudited, condensed consolidated financial statements included in this report for a more detailed description of the Security Incident and related matters.)

Blackbaud, Inc.

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

In addition, any legislative or regulatory changes adopted in reaction to the Security Incident or other companies' data breaches could require us to make modifications to the operation of our business that could have an adverse effect and/or increase or accelerate our compliance costs.

Significant management time and Company resources have been, and are expected to continue to be, devoted to the Security Incident. For example, we currently expect net cash outlays of approximately \$15 million to \$25 million for ongoing legal fees related to the Security Incident for full year 2022. For full year 2022, we currently expect net pre-tax expense of approximately \$30 million to \$35 million for ongoing legal fees related to the Security Incident. Although we carry insurance against certain losses related to the Security Incident, we have exceeded the limit of that insurance coverage. As a result, we will be responsible for all expenses or other losses (including penalties, fines or other judgments) or all types of claims that may arise in connection with the Security Incident, which could materially and adversely affect our liquidity and results of operations. (See Note 10 to our unaudited, condensed consolidated financial statements included in this report.) If any such fines or penalties were great enough that we could not pay them through funds generated from operating activities and/or cause a default under our credit facility, we may be forced to renegotiate or obtain a waiver under our credit facility and/or seek additional debt or equity financing. Such renegotiation or financing may not be available on acceptable terms, or at all. In these circumstances, if we were unable to obtain sufficient financing, we may not be able to meet our obligations as they come due.

In addition, publicity or developments related to the Security Incident could in the future have a range of other adverse effects on our business or prospects, including causing or contributing to loss of customer confidence, reduced customer demand, reduced customer retention, strategic growth opportunities, and associated retention and recruiting difficulties, some or all of which could be material.

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 June 30, 2022 under the stock repurchase program then in effect, as well as common stock withheld by us to satisfy the minimum tax obligations of employees due upon vesting of restricted stock awards and units.

Period	Total number of shares purchased ⁽¹⁾	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs ⁽²⁾	Approximate dollar value of shares that may yet be purchased under the plans or programs (in thousands)
Beginning balance, April 1, 2022				\$ 250,000
April 1, 2022 through April 30, 2022	—	\$ —	—	250,000
May 1, 2022 through May 31, 2022	15,540	59.57	—	250,000
June 1, 2022 through June 30, 2022	—	—	—	250,000
Total	15,540	\$ 59.57	—	\$ 250,000

(1) Includes 15,540 shares in May withheld by us to satisfy the minimum tax obligations of employees due upon vesting of restricted stock awards and units. The level of this acquisition activity varies from period to period based upon the timing of award grants and vesting.

(2) In December 2021, our Board of Directors reauthorized and replenished our stock repurchase program to authorize us to purchase up to \$250.0 million of our outstanding shares of common stock. The program does not have an expiration date.

ITEM 6. EXHIBITS

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

Exhibit Number	Description of Document	Filed Herewith	Filed In		
			Form	Exhibit Number	Filing Date
10.01	Amended and Restated Blackbaud, Inc. 2016 Equity and Incentive Compensation Plan		DEF 14A	Appendix B	4/19/2022
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			
32.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			
101.INS	Inline XBRL Instance Document - the Instance Document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL Document.	X			
101.SCH	Inline XBRL Taxonomy Extension Schema Document.	X			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	X			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	X			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.	X			
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	X			
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).	X			

SIGNATURES

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

BLACKBAUD, INC.

Date: August 4, 2022

By: /s/ Michael P. Gianoni

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

Date: August 4, 2022

By: /s/ Anthony W. Boor

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

Blackbaud, Inc.

CERTIFICATION PURSUANT TO 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: August 4, 2022

By: /s/ Michael P. Gianoni

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

Blackbaud, Inc.

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

I, Anthony W. Boor, certify that:

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

Date: August 4, 2022

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

Blackbaud, Inc.

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

In connection with the Quarterly Report on Form 10-Q of Blackbaud, Inc. (the "Company") for the period ended June 30, 2022 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: August 4, 2022

By: /s/ Michael P. Gianoni
Michael P. Gianoni
President and Chief Executive Officer
(Principal Executive Officer)

Blackbaud, Inc.

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

In connection with the Quarterly Report on Form 10-Q of Blackbaud, Inc. (the "Company") for the period ended June 30, 2022 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: August 4, 2022

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