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BLACKBAUD INC

Form 10-K

February 20, 2019

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

**For the Fiscal Year ended December 31, 2018**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

Commission file number: **000-50600**

**Blackbaud, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(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:

Title of Each Class Name of Each Exchange on which Registered

**Common Stock, \$0.001 Par Value** **The Nasdaq Stock Market LLC**  
**(Nasdaq Global Select Market)**

Securities Registered Pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.







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**Blackbaud, Inc.**

# **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

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

Important factors that could cause actual results to differ materially from our expectations expressed in forward-looking statements include, but are not limited to, those summarized under "Item 1A. Risk factors" and elsewhere in this report and in our other SEC filings. Forward-looking statements represent our management's beliefs and assumptions only as of the date of this Annual Report on Form 10-K. 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 statements, whether as a result of new information, future events or otherwise.

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**Blackbaud, Inc.**

# PART I.

## ITEM 1. BUSINESS

### **Description of Business**

We are the world's leading cloud software company powering social good. Serving the entire social good community—nonprofits, foundations, companies, education institutions, healthcare organizations and individual change agents—we connect and empower organizations to increase their impact through cloud software, services, expertise and data intelligence. Blackbaud brings more than three decades of leadership to this sector: since originally incorporating in New York in 1981 and later reincorporating as a South Carolina corporation in 1991 and as a Delaware corporation in 2004, our tailored portfolio of software and services has grown to support the unique needs of vertical markets, with solutions for fundraising and CRM, marketing, advocacy, peer-to-peer fundraising, corporate social responsibility, school management, ticketing, grantmaking, financial management, payment processing and analytics. Our solutions are designed to meet the needs of virtually all types of organizations in the social good community, from major global institutions to local soup kitchens. At the end of 2018, we had over 45,000 customers located in over 60 countries. We are deeply proud to play a part in our customers' success in their missions to cure diseases, advance education, preserve and share arts and culture, help animals, support those in need and more.

### **Market Overview**

***The philanthropic industry is significant, and our addressable market is substantial and growing***

Worldwide there are millions of social good organizations including nonprofits, foundations, companies, education institutions and healthcare organizations. Billions of individuals are also active participants in the social good community by donating funds, volunteering their time, advocating for a cause or otherwise engaging with social good organizations.

Our estimated current total addressable market ("TAM") is greater than \$10 billion. This includes an expansion into new and near adjacencies in 2018, including our Cloud Solution for Faith Communities, our expanded Cloud Solution for Higher Education, our Integrated Cloud Initiative for Nonprofits in partnership with Microsoft, as well as our acquisition of YourCause Holdings, LLC ("YourCause") on January 2, 2019.

***Traditional methods of fundraising and organizational management are often costly and inefficient***

Many social good organizations use manual methods or stand-alone software applications not specifically designed for fundraising and organizational management for institutions like theirs. Such methods are often costly and inefficient because of the difficulties in effectively collecting, sharing and using donation-related information. Furthermore, general purpose software applications frequently have limited functionality and do not efficiently integrate multiple databases. Some social good organizations have developed proprietary software, but doing so is expensive, requiring on-site technical personnel for development, implementation and maintenance.

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***The nonprofit industry faces particular operational challenges***

Nonprofit organizations, education institutions and healthcare organizations must efficiently:

- Solicit funds and build relationships with major donors;
  - Garner small cash contributions from numerous contributors;
  - Manage and develop complex relationships with large numbers of constituents;
  - Advocate for policies and behaviors that advance their cause or institution;
  - Communicate their accomplishments and the importance of their mission online and offline;
  - Comply with complex accounting, tax and reporting requirements that differ from those for traditional businesses;
  - Solicit cash and in-kind contributions from businesses to help raise money or deliver products and services;
  - Provide a wide array of programs and services to individual constituents and beneficiaries;
  - and
  - Improve the data collection and information sharing capabilities of their employees, volunteers and donors by creating and providing distributed access to centralized databases.
- Because of these challenges, we believe nonprofits, healthcare organizations and education institutions can benefit from software applications and services specifically designed to serve their particular needs and workflows to grow revenue, work effectively and accomplish their missions.

***Companies, grantmaking institutions and foundations also face unique challenges***

Companies, grantmaking institutions and foundations, face their own unique challenges, including the need to:

- Quantify and improve the impact of their grants;
- Cultivate better relationships with grantees;
- Achieve better internal collaboration and alignment with board members, reviewers and other stakeholders;
- Illustrate the impact of their corporate philanthropy efforts to the communities they serve;
- Engage employees in meaningful volunteering, giving and other activities;
- Ensure that their philanthropic efforts align with their business initiatives;
- Manage all of a foundation's activities, including fundraising and accounting;
- Expand the reach of their fundraising efforts; and
- Cultivate new and existing donors.

**Strategy**

Our objective is to maintain and extend our position as the leading provider of cloud software and services for the global social good community, supporting its missions from fundraising to delivering outcomes. Our key strategies for achieving this objective are to:

***Delight our customers***

We intend to make our customers' experience with us effective, efficient and satisfying from their initial interest in our solutions and services through their decision to purchase, engage with customer support and utilize solution enhancements. We continue to focus on initiatives aimed at improving the consistency and quality of user experience across our offerings. We also continue to evolve the manner in which we package and sell our offerings to provide high quality and value combined with flexibility to meet the unique needs of our existing and prospective customers. For example, we have increased the number of our cloud solutions sold under a subscription pricing model, which can make it easier for customers to purchase our solutions. In addition, we are continuing to integrate value-adding capabilities such as payment services, analytics and business intelligence into our suite of solutions to better

address our customers' needs with comprehensive

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offerings. We will continue to focus on providing the highest level of solution support, enhancing our existing solutions and developing new solutions and services designed to help our customers be more effective and achieve their missions.

***Execute on our Four-Point Growth Strategy***

During 2018, we continued to execute our four-point growth strategy targeted to drive an extended period of solution and service innovation, quality enhancement, increased operating efficiency and improved financial performance:

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

We will continue to transition our business to predominantly serve customers through a subscription-based cloud delivery model, enabling lower cost of entry, greater scalability and lower total cost of ownership to our customers. We continue to optimize our portfolio of solutions and integrate powerful capabilities — such as built-in data analytics, payment services and tailored user experiences — to bring even greater value and performance to our customers. During 2018, we made several portfolio announcements, ranging from solution integrations to new capabilities for existing solutions to new solution introductions. We introduced our Cloud Solution for Faith Communities, which combines our proven strength in financial management, fundraising, marketing, payments and analytics with our completely new Church Management capabilities. With this move, we now will provide integrated end-to-end cloud capabilities that enable churches to digitally transform their operations through a single connected experience. We also announced our Cloud Solution for Higher Education, introducing a new Education Management portfolio, along with stewardship management and guided fundraising capabilities tailored for higher education. This new cloud solution will enable customers to manage the complete student life cycle, from admissions to alumni engagement, student enrollment, classroom scheduling and a student information system. We also announced the Integrated Cloud Initiative for Nonprofits, a joint investment with Microsoft to accelerate cloud innovation in areas that address critical market needs across the mission life cycle of nonprofits. As part of this initiative, we are jointly developing a solution called Nonprofit Resource Management, which is a breakthrough in helping nonprofits effectively source, track, distribute and measure the impact of their resources across core business processes for managing the distribution of everything from material goods to financial and human capital.

***2. Drive Sales Effectiveness***

We are making investments to increase the effectiveness of our sales organization, with a focus on enabling our expanding sales teams with the talent, processes and tools to accelerate our revenue growth and improve effectiveness. Our sales teams are now managed on a common sales operating model. This model, which is driving increased productivity, includes common procedures, training, key operating metrics, compensation plans and reporting. Our sales account executives now lead with a total-solution selling strategy by vertical, focused on recurring revenue and driving more products per customer, higher ASPs and increased customer retention over the long-term. We believe that attaching training, analytics and payments improves the cloud experience, drives customer outcomes, improves retention and increases customer lifetime value. We continue to innovate and acquire solutions that create greater value for our customers. We spent the second half of 2018 ramping our direct sales hiring resulting in an increase in sales headcount of 19% since the end of 2017. We expect to continue making similar investments during 2019 and beyond. These incremental investments are intended to address the large market opportunity that we see for ourselves and fuel future revenue growth. Also, our partnership with Microsoft is

gaining momentum with Microsoft introducing us to new joint-selling opportunities.

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

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

In 2018, we announced our Cloud Solution for Faith Communities, our expanded Cloud Solution for Higher Education and the Integrated Cloud Initiative for Nonprofits, demonstrating that we are now in a position to organically build and not just acquire incremental TAM. These solution introductions added approximately \$2 billion to our TAM.

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We also acquired Reeher in the second quarter of 2018 to bolster our extensive performance benchmarking capabilities. In addition, our recent acquisition of YourCause, which closed on the first business day in January 2019, added another half-billion dollars to our TAM. Our TAM now stands at over \$10 billion.

***4. Improve Operating Efficiency***

We continue driving towards a more scalable operating model that creates efficiency and consistency in how we execute through infrastructure investments, productivity initiatives, and organizational re-alignments. Our organizational model, which we have evolved over the past few years, is largely complete and allows us to gain efficiency and consistency in how we execute. We have centralized our operations, including marketing, sustained engineering, product management, finance, customer support, customer success and professional services, which allows us to better manage the entire customer experience. We also created an operational excellence function inside of Blackbaud that focuses on maximizing the effectiveness of the business through continuous improvement.

In 2018, we continued executing against a cohesive workplace strategy in an effort to improve operating efficiency and further our organizational objectives, with our geographically diverse workforce. We also furthered our efforts to relocate some of our existing offices to highly modern and more collaborative workspaces with short-term financial commitments. These workspaces are more centrally located for our employees and closer to our customers. Our aim is optimizing our office utilization, improving our geographic sales coverage, and enhancing our employees' daily experience to improve productivity and effectiveness. We have continued this initiative into 2019 and expect to be largely complete by the end of this year.

We have also begun near-shoring certain functions such as customer operations and support on a selective basis to Costa Rica, enabling efficient resource investment to support our growing business.

***Attract Top Talent and Actively Engage Employee Base***

Our customers' passion is our purpose, and we have incredible customers whose missions make the world a better place for all of us. Driven by this purpose, our employees come to work every day knowing that they can make a real difference with our customers and thus, the world. Collaboration, innovation and high standards are core to our culture and help to enable the great work we do. We strive to hire the best employees and provide a workplace where their talents and potential are realized. Our employees' engagement is a focus of every leader at Blackbaud, and we continually work to understand what matters and to make our workplace better. We believe people with a passion for purpose can have a unique and fulfilling career experience on our team. Our leaders are committed to our employees' personal and career development and continually work to improve the training and tools provided to their teams.

***Build our Reputation as an Industry Thought Leader***

In our 37 years of experience in the philanthropic market, we have gained significant insight into the overall market and industry segments in which we operate. We produce a wide range of thought leadership materials, including blogs, monthly indices and white papers, which provide insights and guidance to the social good community. We also participate in a number of industry forums, where we exchange views and engage with industry and government leaders. Our annual user conference, **bbcon**<sup>™</sup>, is used in part as a forum to offer thought leadership to our customers, as are other market specific user conferences such as our annual K-12 conference. We intend to expand these activities and further build our reputation as a



thought leader within the industry. Additionally, the Blackbaud Institute for Philanthropic Impact brings together the best minds in philanthropy to develop and share leading-edge research and insight that accelerates the impact of the social good community. The research and reports the Blackbaud Institute produces serve to strengthen the social good community as a whole.

**Solutions and Services**

We offer a full spectrum of cloud and on-premises solutions, as well as a resource network that empowers and connects organizations of all sizes. The Blackbaud portfolio is delivered primarily through cloud solutions tailored to the unique needs of vertical markets, offering fundraising and relationship management, marketing and engagement, financial management, grant and award management, organizational and program management (such as education and church management and ticketing), social responsibility, payment services and analytics. We offer the social good community comprehensive cloud solutions to advance their missions, backed by our analytic services, which deliver insights powered

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by the world's most robust philanthropic data set. Our solutions can be combined with a range of consulting, training and professional services, maintenance and technical support, as well as payment processing, analytic and business intelligence services. In addition, we offer solutions that span the full spectrum of giving activities, including corporate social responsibility ("CSR") programs, grant management, employee involvement, foundation management and other philanthropic activities.

Our specific solutions and services include:

**Fundraising and Relationship Management**

*Blackbaud Raiser's Edge NXT®* is our flagship smart cloud fundraising and relationship management solution. Blackbaud Raiser's Edge NXT is the first and only cloud fundraising and relationship management solution that is all-inclusive, fully integrated with data, analytics, marketing tools, payment processing and tailored user-specific experiences. Blackbaud Raiser's Edge NXT is, we believe, the most advanced technology available to nonprofits seeking to operate more efficiently and raise more support for their missions.

*Blackbaud CRM™* is a comprehensive, customizable fundraising and relationship management solution. It is our lead offering for enterprise-level organizations seeking a powerful, yet adaptable solution for fundraising, marketing, and program management across the engagement lifecycle, specializing in supporting sophisticated major giving, membership and high-volume direct marketing programs. Blackbaud CRM helps organizations build deeper and more personalized relationships with constituents, build their brand through online engagement and multichannel communication tools, and more effectively fundraise, leveraging campaign management, business intelligence and analytics. Blackbaud CRM can be sold as an integrated solution with our enterprise online solutions to enable multi-channel marketing, online engagement and event fundraising.

*Blackbaud Luminate CRM™* is our Salesforce-based CRM offering for nonprofits and is sold as a single integrated solution with Blackbaud Luminate Online®. Blackbaud Luminate CRM is built on the Salesforce.com cloud computing application platform and offers nonprofits an extensible suite via the Salesforce App Exchange for consolidating information and business processes into one system. The core components of Blackbaud Luminate CRM are campaign management, constituent relations, business intelligence and analytics. When combined with Blackbaud Luminate Online, it provides best-in-class functionality to help nonprofits with online fundraising, peer-to-peer event fundraising, payment processing, email marketing, advocacy and website management.

*Blackbaud eTapestry®* is a simple, cloud fundraising and donor management solution built specifically for smaller, developing nonprofits in need of a cloud solution to support basic fundraising needs. It offers nonprofit organizations a cost-effective way to manage donors, process gifts, create reports, accept online donations and communicate with constituents. This technology provides a system that is simple to maintain, efficient to operate and is intuitively easy to learn without extensive training.

*Blackbaud TeamRaiser®* is the industry's most comprehensive cloud solution designed specifically for event fundraising. Powering thousands of events each year, Blackbaud TeamRaiser allows nonprofits' supporters to create personal or team fundraising web pages and send email donation appeals in support of events such as walks, runs and rides.

*everydayhero®* is an innovative, cloud crowdfunding solution designed to meet the peer-to-peer fundraising needs of nonprofits' supporters. It is a leading donor acquisition tool, and helps nonprofits connect with a younger, more online-focused generation of donors, a first step in helping nonprofits develop long-term relationships with their supporters. Founded in

Australia, where it is a market leader, everydayhero is now sold throughout Europe and the U.S. Its integrations with fitness applications such as Strava and MapMyFitness continue to enhance the fundraising landscape by providing millions across the globe the chance to easily integrate fitness and philanthropy.

*Blackbaud Peer-to-Peer Fundraising*,™ powered by *JustGiving*™ is one of the world's leading social platforms for giving. *Blackbaud Peer-to-Peer Fundraising*™, powered by *JustGiving*™ develops world-class technology and innovative tools to connect people with the causes they care about. By making giving more simple, social and rewarding, *JustGiving* helps all causes, charities and people in need to reach more people and raise more money.

*Blackbaud Guided Fundraising*™ and *Blackbaud Volunteer Network Fundraising*™ can work together or independently to help higher education institutions meet their advancement targets and development campaign goals. *Blackbaud Guided Fundraising* is used by institutions seeking to manage all the details behind the sophisticated, person-to-person solicitation strategies that drive fundraising results. *Blackbaud Volunteer Network Fundraising* helps

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**Blackbaud, Inc.**

institutions manage volunteer fundraising campaigns with tools for project management, communication, and reporting.

**Marketing and Engagement**

*Blackbaud Luminare Online*®, delivered in the cloud, helps our customers better understand their online supporters, make the right ask at the right time, and raise money online. It includes tools to build online fundraising campaigns as part of an organization's existing website or as a stand-alone fundraising site. Donation forms, gift processing, and tools for communicating through web pages and email give our customers the essentials for building sustainable donor relationships. Customers can also purchase additional modules including Blackbaud Luminare Advocacy™, which combines online marketing tools and legislative data to mobilize supporters and influence policy-makers.

*Blackbaud Online Express*™ is a simple, cloud fundraising and marketing tool designed for smaller nonprofit organizations using Raiser's Edge® and Blackbaud Raiser's Edge NXT. It provides nonprofits with easy-to-use, fully integrated features and functionality such as email marketing, donation forms, event registrations and dashboard metrics.

*Blackbaud NetCommunity*™ is an online marketing and communications tool that enables organizations that utilize Raiser's Edge software to build interactive websites and manage email marketing campaigns. With Blackbaud NetCommunity, organizations can, among other things, establish online communities for social networking among constituents and also provide a platform for online giving, membership purchases and event registration. Because Blackbaud NetCommunity's deep integration requires a Raiser's Edge database to operate, it can only be sold with Raiser's Edge or to existing Raiser's Edge customers.

*Blackbaud Attentive.ly*™ is a cloud portal enriched with data that allows marketers to drive engagement with their organization or institution by providing social media insights. It can be used as a stand-alone application or integrated into Blackbaud's fundraising and marketing applications, helping marketers reach new audiences and shape meaningful conversations online.

*Blackbaud School Website System*™ is a content management system that gives schools the flexibility to build and edit webpages, with easy access to content types including photos, videos, downloads, text and more. It allows users to share material and contribute content across an entire school community.

**Financial Management**

*Blackbaud Financial Edge NXT*® is the first-of-its-kind cloud accounting solution for nonprofits that is intuitive, fully integrated, and built the way nonprofits need it on our modern Blackbaud SKY cloud architecture. Blackbaud Financial Edge NXT is advanced technology with powerful reporting tools to help accounting teams drive transparency, stewardship, and compliance while enabling them to seamlessly manage transactions and eliminate manual processes. It seamlessly integrates with Blackbaud Raiser's Edge NXT to simplify gift entry processing and relates information from both systems in an informative manner to eliminate redundant tasks and manual processes. Blackbaud Financial Edge NXT provides nonprofit organizations with the means to help manage fiscal and fiduciary responsibility, enabling them to be more accountable to their constituents.

*Blackbaud Smart Tuition*™ benefits schools by giving administrators better access to financial data and payment services, and by giving parents more ways to remit tuition payments. The solution helps ease the burden for administrative staff by offering invoicing, payment processing, customer service, enhanced communication with parents and later payer follow-up services.

*Blackbaud Smart Aid™* offers schools the ability to accept online, customized applications for financial aid and to make better financial aid decisions with a proprietary Hobbies, Interest and Lifestyles ("HIL") profile. The HIL profile provides in-depth information on an applicant, delivering to the school a way to make more informed decisions on how they distribute financial aid awards.

Grant and Award Management

*Blackbaud Grantmaking™* is a cloud solution built with core functions that provide comprehensive grant making capabilities, but with many additional capabilities and features, such as visual dashboards. It has a modern user interface, is user friendly, and can be highly personalized.

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*Blackbaud Award Management™* is a comprehensive, integrated scholarship management platform for higher education and K-12 institutions and foundations, allowing students to apply for all awards using one intuitive and streamlined application process and eliminating many time consuming administrative tasks. This leads to improved awarding, reporting, compliance, communication and stewardship.

*FIMS™* is a fully-integrated foundation management system that helps community foundations, faith communities, education institutions and scholarship programs manage grants, finances and donors in one centralized, comprehensive system. It features an open, customizable framework that helps manage everything from donors, gifts and investments to grants, grantees, funds and financials.

*Blackbaud Outcomes™* empowers funders and nonprofits to collaborate around their intended program outcomes and work together to achieve impact. The cloud software helps users define and measure their outcomes, allowing them to track the effectiveness of their programs, make informed decisions, better understand the impact of their social investments, and tell an impact story using ROI-focused results and a common outcomes measurement language.

**Organizational and Program Management**

*Blackbaud Student Information System™* makes it easy for schools to manage schedules, transcripts and GPAs. A new Student Information System that works directly with Blackbaud Learning Management System™, Blackbaud Student Information System simplifies the process of sharing student data and academic records securely.

*Blackbaud Learning Management System™* is a learning management system that makes it easy to manage, connect, and share information with students, parents, and an entire school community. Developed with direct input from our customers, Blackbaud Learning Management System gives teachers the tools to meet the demands of a modern private school.

*Blackbaud Enrollment Management System™* is an enrollment management system that simplifies a school's admissions process. Blackbaud Enrollment Management System helps admissions teams and prospective families manage and track their progress, from inquiry and application through acceptance and enrollment.

*Blackbaud Altru®* is a cloud solution that helps arts and cultural organizations consolidate admissions, membership, fundraising, merchandise, marketing and more, giving users a comprehensive view of their supporters. By helping general admissions arts and cultural organizations gain a clear, 360-degree view of their organization, it enables them to operate more efficiently, engage and cultivate patrons and supporters, streamline external and internal communication efforts, and reduce IT costs. Blackbaud Altru contains tools for constituent and membership management, program sales, retail sales and ticketing, volunteer management, and events management. It also has sophisticated reporting functionality and tools to manage marketing, communications and fundraising.

*Blackbaud Church Management®* is a comprehensive, end-to-end cloud solution to manage your church operations, relationships with congregants, and essential financial management needs. With Blackbaud Church Management, churches can track gifts and tithing, assimilate new members, directly communicate with congregations through multiple channels, enable members to make online and mobile contributions, manage small groups and volunteers, implement secure child check-in, conduct background checks, provide bulk tax statements, manage facilities, and more. Churches can also add other Blackbaud capabilities from the new Cloud Solution for Faith Communities as their needs scale all through one integrated

experience.

Corporate Social Responsibility

*Blackbaud Employee Giving™* and *Blackbaud Employee Volunteering™* are integrated social responsibility solutions that help companies and other organizations mobilize the collective power of their employees to make a positive impact on their people, their company, and the world.

*YourCause™* is a cloud platform for employee giving, volunteering, and communication used by Fortune 500 companies and small businesses to support corporate philanthropy by building meaningful connections between corporations, employees, and nonprofits. After implementing YourCause solutions, customers show significant growth in volunteers, donations, engagement and more. These reported successes demonstrate a larger trend: overall ability to attract employees and customers alike by strengthening a company's reputation. Eight million people can currently engage with YourCause's solution, which processes more than \$245,000 in donations every business hour and has coordinated, tracked and rewarded more than 30 million volunteer hours for its customers.

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**Blackbaud, Inc.**

**Analytics**

Our analytics offerings provide comprehensive solutions for donor acquisition, prospect research, data enrichment and performance management, enabling nonprofits to define effective campaign strategies and maximize fundraising results. These services either integrate with or are already integrated into our software solutions to give our customers a comprehensive view of their supporters and the market and provide information essential to making well-informed operating decisions.

Blackbaud's SKY Intelligence® is a unique, comprehensive approach through which we combine artificial intelligence, analytics, big data, and expertise in cloud-based services and other channels. This powerful approach enables social good organizations to transform data into insights.

Our analytics offerings include subscription solutions and services within the following areas:

*Donor Acquisition* - Our donor acquisition solutions leverage unique data assets to create acquisition mailing lists and predictive models that identify donor populations that meet the affinity, value and response criteria of our nonprofit customers. Nonprofit organizations use our prospect lists to solicit gifts and other support.

*Prospect Research* - Our prospect research solutions include: custom data modeling that delivers critical information on a prospect's likelihood to make a gift to an organization; wealth screenings that deliver detailed wealth information and giving capacity data on prospects; and web-based prospect management software that combines public data with donor information from a nonprofit's database to build a complete view of prospects for targeting and securing gifts.

*Data Enrichment* - Our data enrichment solutions enhance the quality of the data in our customers' databases. These solutions include: identifying outdated address files in the database and making corrections based on United States Postal Service data, as well as appending data by using known fields in an organization's constituent records to search and identify key demographic and contact information.

*Benchmarking and Performance Management* - Our performance management solutions create relevant and insightful reports that benchmark performance and illustrate key industry trends based on performance attributes provided by our nonprofit customers. Nonprofit organizations use our performance and industry analysis reports to assess marketing and operational effectiveness, and to influence operational planning.

**Payment Services**

Our solutions provide our customers payment processing capabilities that enable their donors to make donations and purchase goods and services using numerous payment options, including credit card and automated clearing house ("ACH") checking transactions, through secure online transactions.

*Blackbaud Merchant Services*™ is a value-added service integrated with our solutions that makes credit card processing simple and secure. Customers are charged one rate for credit card transactions, making Blackbaud Merchant Services a competitive option. The service also provides customers with a payment card industry ("PCI") compliant process and streamlined bank reconciliation. We also provide our K-12 private school customers with student tuition payment processing services.

*Blackbaud Purchase Cards*™ provide an efficient and convenient alternative to traditional procurement methods and paper-based payables processes such as checks, purchase orders and invoices for travel and operational purchases. Organizations can also set spend controls for individual cardholders, track business expenses across the organization and ensure that



policies are being enforced—all managed online and integrated with Blackbaud Financial Edge NXT.

Customer Success

Our Customer Success organization is responsible for managing the business and technical relationship with our customers. Their mission is to develop and foster relationships within all levels of the customer organization to build more demonstrated value in our solutions and services. Customer Success Managers ("CSMs") work to proactively communicate to drive overall satisfaction and retention of our customer's business. At every point of communication, they work to collect and analyze actionable information that can be used to make their experience positive and consistent. Their goal is to partner with customers to ensure that they are fully engaged and have an advocate within Blackbaud who works to meet their needs.

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### **Blackbaud, Inc.**

CSMs bring industry knowledge and expertise to the customer relationship and strive to help our customers achieve positive growth and outcomes.

#### **Customer Support & Maintenance**

Most customers that purchase our solutions also enroll in one of our support and maintenance programs. For many of our cloud-based subscription solutions, customer support is automatically included as part of the solution. Customers enrolled in the programs enjoy fast, reliable customer support, receive regular software updates, stay up-to-date with regular communication and have unlimited, around-the-clock access to support resources, including our extensive knowledgebase and forums. Customers who enroll in upgraded support and maintenance plans receive enhanced benefits such as call support priority and dedicated support resources.

#### **Professional and Managed Services**

Our expert consultants provide data conversion, implementation and customization services for each of our software solutions. These services include:

System implementation;

Data conversion, business process analysis and application customization;

Database merging and enrichment, and secure credit card transaction processing;

Database production activities; and

Website design services.

In addition, we apply our industry knowledge and experience, combined with expert knowledge of our solutions, to evaluate an organization's needs and consult on how to improve a business process.

#### **Training**

We provide a variety of onsite, instructor-led online and on-demand training services to our customers relating to the use of our solutions and application of best practices. Our instructors have extensive training in the use of our solutions and present course material that is designed to include hands-on lab exercises, as well as course materials with examples and problems to solve.

#### **Customers**

At the end of 2018, we had over 45,000 customers including nonprofits, foundations, companies, education institutions, healthcare organizations and other charitable giving entities. Our largest single customer accounted for less than 1% of our 2018 consolidated revenue.

#### **Sales and Marketing**

Most of our solutions and related services are sold through our direct sales force. Our direct sales force is complemented by a team of business development representatives responsible for sales lead generation and qualification. These sales and marketing professionals are primarily located throughout the United States, the United Kingdom, Canada and Australia. As of December 31, 2018, we had 518 direct sales employees. We plan to continue expanding our global direct sales force to meet our current market coverage needs.

We conduct marketing programs to create brand recognition and market awareness for our solutions and services. Our marketing efforts include participation at tradeshow, technical conferences and technology seminars, publication of technical and educational articles in industry journals and preparation of competitive analyses. Our customers and strategic partners provide references and recommendations that we often feature in our advertising and promotional activities.

We believe relationships with third parties can enhance our sales and marketing efforts. We have and will continue to establish additional relationships with companies that provide services to the philanthropic industry, such as consultants,

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### **Blackbaud, Inc.**

educators, publishers, financial service providers, complementary technology providers and data providers. These companies promote or complement our solutions and provide us access to new customers.

#### **Corporate Philanthropy and Volunteerism**

Blackbaud operates under a fundamental belief that the world would be better if good took over. The company is an active participant in the ecosystem of good, working to drive positive change both through what we do as a business and how we serve individually. We offer an array of philanthropy programs aimed at engaging our employees as agents of good, including matching gifts, competitive grants that honor excellent examples of volunteerism, employee-led grants committees, skills-based volunteerism initiatives, as well as science, technology, engineering and mathematics focused community programs. Blackbaud attracts people who are committed to service, with 87% saying our focus on nonprofits was a driver in their decision to join the company, 84% actively serving as volunteers and 23% serving on a nonprofit board or committee.

#### **Competition**

The market for software and related services in the philanthropic industry is competitive and highly fragmented. For certain areas of the market, entry barriers are low, as general tools for small businesses can usually be configured to manage the most basic marketing, contact management, and accounting needs of social good organizations. In parallel, as software development evolves from a highly-complex tradecraft with nuanced understanding of architectural patterns and discrete languages, to click-to-code and drag-and-drop development with natively cloud-based infrastructure, it becomes easier for competitors to quickly spin up basic applications with embedded security and functionality. However, once basic needs are met, programs unique to social good organizations like fundraising, gift and grant management, and peer-to-peer activism require highly specialized tools to configure and transform general business software to match the complexities of the industry. These specialized applications have a higher barrier of entry as they require industry insight to accurately articulate the business workflow that generates the requirements that are translated into code for software products. Moreover, because social good organizations rely heavily on relationships with and among their supporters, integration of systems drives value beyond mere efficiency. Hence, we believe our insight, the full spectrum of our current solutions and our ability to deliver on future solutions makes us a strong competitor. We expect to continue to see new entrants as focus on social investment solutions increases to satisfy Millennials and Gen Z donors, the barriers of entry continue to decline with natively cloud-based solutions, and social good organizations rely intrinsically on technology to manage emerging revenue channels and increasingly complex operations.

Our competition falls into four primary categories: (1) niche products that are tailored to specialized needs; (2) vertical-specific solutions; (3) general business software that can be configured to manage some nonprofit-specific processes; and (4) consumer-oriented fundraising platforms.

Niche products are usually developed as a solution for a single problem at an organization and are adopted by similar organizations to solve a specialized need. These are typically offered by vendors who may have deep industry expertise but may not have the resources to expand beyond a specialized area. We believe we compete against these solutions by offering a set of integrated solutions rather than a single point solution, which we believe improves the overall customer experience. In addition, our open platform allows integration to specialized applications so the opportunity for disruption from these competitors is minimized.

Vertical-specific solutions are offered by competitors seeking to meet the enterprise-wide needs of a specific sub-segment of social good community. Typically, these solutions are offered by vendors who may offer either a point solution or integrated suite of products used by a vertical. We believe we compete successfully against these competitors through a combination of our integrated suite of offerings within verticals where we compete, offering solutions with market leading robustness as well as the scale, reach, and reputation of our organization.

General business software vendors such as Salesforce.com and Oracle, compete with us in certain areas of our business. While there is a growing trend toward social investment that is prompting philanthropic solutions for these general business vendors, most do not have complete nonprofit specific focus and, therefore, do not offer or intend to offer nonprofit-specific versions for outside sales. However, there is a subset of general business software competitors who have introduced nonprofit-specific versions of their products. These products generally do not satisfy the needs of nonprofits from end-to-end as they were not designed to support the specific needs of nonprofits during the original architecture, design, and requirements elicitation phases; therefore, we believe that because these products were not originally designed for

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nonprofits, they are not yet capable of meeting market needs without significant customization. The significant customization required to transform general business products into nonprofit solutions often requires the use of consultants to guide the implementation, without which, leave the adoption of general business software limited to very basic operations and simple needs. We believe our solutions compete successfully against general business software as a nonprofit's needs grow more complex. As a result, we believe we can compete successfully to meet nonprofit-specific requirements, often integrating with general business platforms used for their more generalized operations.

Consumer-oriented fundraising platforms such as GoFundMe, Virgin Money Giving, and Facebook compete with our business where consumers raise funds directly. To drive adoption of their platforms, these vendors rely on a combination of direct-to-consumer marketing, marketing to nonprofits who in turn market to their supporters, and marketing to intermediate entities such as an event sponsor who will market to participants. We believe we compete well in this market through a combination of positive brand recognition among all three of these groups and the strength of our consumer-oriented tools relative to those of the competition.

Less frequently, we compete with providers of traditional, non-automated fundraising service providers, including parties providing services in support of traditional direct mail or email campaigns, special events fundraising, peer to peer, telemarketing and personal solicitations. We believe we compete successfully against these traditional fundraising service providers, primarily because our solutions and services are more automated, more robust, more tailored to the needs of nonprofit organization and more efficient.

**Technology and Architecture**

Blackbaud SKY provides the foundation for Blackbaud's next generation solutions such as Raiser's Edge NXT, enabling highly available and easy-to-use cloud capabilities that integrate seamlessly and offering best-in-class infrastructure, integrated shared services, and modern, effective, purpose-built solutions. The platform's service-oriented architecture organizes application features into independently deployable services and then leverages these self-contained services as integrated capabilities across our solution portfolio. This enables rapid innovation with high quality and high availability and lets Blackbaud evolve services over time at asymmetric paces as tech trends and tools emerge. Blackbaud SKY prioritizes customer value and speed of delivery. It enables rapid releases, scalable and high-quality services, and speedy time to market. Blackbaud SKY also provides a toolset for customers, partners, and developers to create and deploy self-contained services within the Blackbaud SKY ecosystem. SKY API enables developers to augment Blackbaud solutions with industry-standard REST APIs, standards-based authentication protocols, and a best-in-class developer experience. SKY UX allows developers to create applications with the same consistent, cohesive user interface as Blackbaud's native solutions using an open source framework that implements Blackbaud design patterns and provides guidelines and tooling for the entire application lifecycle.

The development strategy for all Blackbaud solutions emphasizes flexibility, adaptability and scalability.

*Flexible:* Customers can extend our component-based architecture to accommodate changing demands without modifying source code.

*Adaptable:* The architecture of our applications allows us to easily add functionality or integrate with third-party applications to adapt to customer needs and market demands.

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*Scalable:* Scalable architecture and the performance, capacity and load balancing of our customers' industry-standard web servers and databases ensure that applications can scale to meet the needs of large organizations.

**Intellectual Property and Other Proprietary Rights**

To protect our intellectual property, we rely on a combination of patent, trademark, copyright and trade secret laws in various jurisdictions, as well as employee and third-party nondisclosure agreements and confidentiality procedures. We maintain many trademarks, including, but not limited to “Blackbaud,” “Raiser's Edge NXT” and “Luminate.” We currently have three active patents on our technology and have two pending patent applications.

**Table of Contents****Blackbaud, Inc.****Employees**

As of December 31, 2018, we had 3,353 employees, none of whom are represented by unions or are covered by collective bargaining agreements. We are not involved in any material disputes with any of our employees, and we believe that relations with our employees are satisfactory.

**Seasonality**

For a discussion of seasonal variations in our business, see “Management’s Discussion and Analysis of Financial Conditions and Results of Operations — Seasonality” in Item 7 in this report.

**Working Capital**

For a discussion of our working capital practices, see “Management’s Discussion and Analysis of Financial Conditions and Results of Operations — Liquidity and Capital Resources” in Item 7 in this report.

**Available Information**

Our website address is [www.blackbaud.com](http://www.blackbaud.com). We make available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC, but other information on our website is not incorporated into this report. The SEC maintains an Internet site that contains these reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

**Executive Officers of the Registrant**

The following table sets forth information concerning our executive officers as of February 15, 2019:

Michael P. Gianoni	58	President and Chief Executive Officer
Anthony W. Boor	56	Executive Vice President and Chief Financial Officer
Kevin W. Mooney	60	Executive Vice President and President, General Markets Group
Kevin P. Gregoire	51	Executive Vice President and President, Enterprise Markets Group
Brian E. Boruff	59	Executive Vice President, Partner Ecosystem and Global Alliances
Jon W. Olson	55	Senior Vice President and General Counsel

*Michael P. Gianoni* joined us as President and Chief Executive Officer in January 2014. Prior to joining us, he served as Executive Vice President and Group President, Financial Institutions at Fiserv, Inc., a global technology provider serving the financial services industry, from January 2010 to December 2013. He joined Fiserv as President of its Investment Services division in December 2007. Mr. Gianoni was Executive Vice President and General Manager of CheckFree Investment Services, which provided investment management solutions to financial services organizations, from June 2006 until December 2007 when CheckFree was acquired by Fiserv. From May 1994 to November 2005, he served as Senior Vice President of DST Systems Inc., a global provider of technology-based service solutions. Mr. Gianoni is a member of the Board of Directors of Teradata Corporation, a publicly traded global big data analytics and marketing applications company. Mr. Gianoni has served on several nonprofit boards across several segments, including relief organizations, hospitals and higher education. He currently is a board member of the International African American Museum and on the President’s advisory council board at Clemson University. He holds an AS in electrical engineering from Waterbury State Technical College, a BS with a business concentration from Charter Oak State College,



and a MBA and an honorary Doctorate from the University of New Haven. *Anthony W. Boor* joined us as Executive Vice President and Chief Financial Officer in November 2011 and served as our interim President and Chief Executive Officer from August 2013 to January 2014. Prior to joining us, he served as an executive with Brightpoint, Inc., a global provider of device lifecycle services to the wireless industry, beginning in 1999,

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most recently as its Executive Vice President, Chief Financial Officer and Treasurer. He also served as the interim President of Europe, Middle East and Africa during Brightpoint's significant restructuring of that region. Mr. Boor served as Director of Business Operations for Brightpoint North America from August 1998 to July 1999. Prior to joining Brightpoint, Mr. Boor was employed in various financial positions with Macmillan Computer Publishing, Inc., a Viacom owned book publishing company specializing in computer hardware and software related topics, Day Dream Publishing, Inc., a publishing company specializing in calendars, posters and time management materials, Ernst & Young LLP, an accounting firm, Expo New Mexico, a state-owned fair and expo grounds and live pari-mutual horse racing venue, KPMG LLP, an accounting firm, and Ernst & Whinney LLP, an accounting firm. He holds a BS in Accounting from New Mexico State University.

*Kevin W. Mooney* has served as our Executive Vice President and President, General Markets Group since January 2010. He joined us in July 2008 as our Chief Commercial Officer. Before joining Blackbaud, Mr. Mooney was a senior executive at Travelport GDS from August 2007 to May 2008. As Chief Commercial Officer of Travelport GDS, one of the world's largest providers of information services and transaction processing to the travel industry, Mr. Mooney was responsible for global sales, marketing, training, service and support activities. Prior to that he was Chief Financial Officer for Worldspan from March 2005 until it was acquired by Travelport in August 2007. Mr. Mooney has also held key executive positions in the telecommunications industry and he served as a member of the Board of Directors of Level 3 Communications, Inc., a publicly traded global managed network services company, from October 2014 to November 2017. He holds a BS in Finance from Seton Hall University, and a MBA in Finance from Georgia State University.

*Kevin P. Gregoire* joined us as Executive Vice President and President, Enterprise Markets Group in April 2018. Prior to joining us, Mr. Gregoire was Group President of the Financial Institutions Group at Fiserv, a global technology provider serving the financial services industry, from March 2014 until February 2018. He joined Fiserv in December 2002 and served in other key leadership roles including Division President and Chief Operating Officer, Card Services, and Senior Vice President of Product and Network Strategy. Mr. Gregoire is also a veteran of the United States Army, where he served as Lieutenant in the Corps of Engineers and was awarded three Army Commendation Medals. He holds a BS from the United States Military Academy at West Point, and a MBA from the F.W. Olin School of Business at Babson College.

*Brian E. Boruff* has served as our Executive Vice President, Partner Ecosystem and Global Alliances since April 2018. He joined us as our Executive Vice President and President, Enterprise Markets Group in May 2015. Prior to joining us, Mr. Boruff was the Global Vice President of Products, Platforms and Solutions at Infosys, a global provider of consulting technology and next-generation services, from June 2013 until April 2015. From May 2011 until June 2013 he was a Managing Director at Accenture, a global management consulting and technology services company. From January 2009 until May 2011, Mr. Boruff was the Global Vice President of Cloud Computing and Emerging Technologies at CSC, a global provider of information technology services and solutions. His tenure at Microsoft spanned 15 years from 1992 to 2009 where he held many different leadership roles in Atlanta, Redmond, Philadelphia, Paris France and Washington D.C. Prior to Microsoft, Mr. Boruff spent nine years at Apple and started his career in March 1982 at Hewlett-Packard. He holds a BA in Computer Science and Biochemistry from the University of Tennessee.

*Jon W. Olson* joined us as Senior Vice President and General Counsel in September 2008. Mr. Olson is responsible for Blackbaud's legal and real estate activities. Prior to joining us, he was an attorney with Alcatel-Lucent USA, the U.S. subsidiary of France-based Alcatel-Lucent (now owned by Nokia Corporation) that designs, develops, and builds wireline, wireless, and converged communications networks, from July 1997 to September 2008. Prior to joining Alcatel-Lucent, Mr. Olson was employed in legal positions with MCI, Inc., a global business and residential communications company, from September 1996 to July 1997, and Unisys Corporation, a global information technology company, from July 1992 to September 1996. Mr. Olson is a member of the MUSC (Medical University of South Carolina) Hollings Cancer Center Citizens Advisory Council and is on the board of the Charleston Symphony and Charleston Jazz. He holds a BS from Georgetown University, a JD from Dickinson School of Law and a MBA from Seton Hall University.

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**Blackbaud, Inc.**

**ITEM 1A. RISK FACTORS**

Our business operations face a number of risks. These risks should be read and considered with other information provided in this report.

***Our failure to compete successfully could cause our revenue or market share to decline.***

Our market is highly competitive and rapidly evolving and there are limited barriers to entry for many segments of this market.

The companies we compete with and other potential competitors may have greater financial, technical and marketing resources and generate greater revenue and better name recognition than we do. Also, a large diversified software enterprise could decide to enter the market directly, including through acquisitions. Competitive pressures can adversely impact our business by limiting the prices we can charge our customers and making the adoption and renewal of our solutions more difficult.

Our competitors might also establish or strengthen cooperative relationships with resellers and third-party consulting firms or other parties with whom we have had relationships, thereby limiting our ability to promote our solutions. These competitive pressures could cause our revenue and market share to decline.

***Because a significant portion of our revenue is recognized over time on a ratable basis over the contract term, downturns in sales may not be immediately reflected in our revenue.***

We generally recognize our subscription and maintenance revenue ratably over time over the contract term. Our subscription arrangements are generally for a term of three years at contract inception with one to three-year renewals thereafter. Most of our maintenance arrangements are for a one-year term. As a result, much of the revenue we report in each quarter is attributable to arrangements entered into during previous quarters. Consequently, a decline in sales to new customers, renewals by existing customers or market acceptance of our solutions in any one quarter will not necessarily be fully reflected in the revenues in that quarter and could negatively affect our revenues and profitability in future quarters.

***If our customers do not renew their subscriptions for our solutions or annual maintenance and support arrangements or if they do not renew them on terms that are favorable to us, our business might suffer.***

Our subscription arrangements are generally for a term of three years at contract inception with one to three-year renewals thereafter. Most of our maintenance arrangements are for a one-year term. As the end of the contract term approaches, we seek the renewal of the agreement with the customer. Historically, subscription and maintenance renewals have represented a significant portion of our total revenue. Because of this characteristic of our business, if our customers choose not to renew their subscriptions or maintenance and support arrangements with us on beneficial terms or at all, our business, operating results and financial condition could be harmed. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our solutions and services and their ability to continue their operations and spending levels.

***More rapid than expected success in implementing our strategic shift from a license-based and one-time services business model to a cloud-based subscription business model could negatively impact our total revenue growth and financial performance.***

We continue to intentionally shift our focus towards selling cloud-based subscription solutions,

which generally require less implementation and customization services. Also, our cloud-based solution contracts now frequently include subscription-based professional, analytic and training services. This strategic shift to migrate our existing customers and sell new customers our cloud-based subscription solutions results in a decrease in our one-time services contracts and revenue. Although our business model seeks to anticipate the rate of migration and resulting negative impact on our total revenue growth, more rapid than expected success in implementing this strategic shift could negatively impact our total revenue growth and financial performance.

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Table of Contents**Blackbaud, Inc.*****Defects, delays or interruptions in our cloud-based solutions and hosting services could diminish demand for these services and subject us to substantial liability.***

We currently utilize data center hosting facilities to provide cloud-based solutions to most of our subscription customers and hosting services to our on-premise license customers. Any damage to, or failure of, these data center systems generally could result in interruptions in service to our customers, notwithstanding any business continuity or disaster recovery agreements that may currently be in place at these facilities. Because our cloud-based solutions and hosting service offerings are complex, and we have incorporated a variety of new computer hardware and software systems at our data centers, our services might have errors or defects that users identify after they begin using our services. This could result in unanticipated downtime for our customers and harm to our reputation and business results. Internet-based services sometimes contain undetected errors when first introduced or when new versions or enhancements are released. We have from time to time found defects in our web-based services and new errors might again be detected in the future. In addition, our customers might use our Internet-based offerings in unanticipated ways that cause a disruption in service for other customers attempting to access their data.

Because our customers use these services for important aspects of their businesses, any defects, delays or disruptions in service or other performance problems with our services could hurt our reputation and damage our customers' businesses. If that occurs, customers could elect to cancel their service, delay or withhold payment to us, not purchase from us in the future or make claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation. Any of these could harm our business and reputation.

***Material defects or errors in the software we use to deliver our services could harm our reputation, result in significant costs to us and impair our ability to sell our services.***

The software applications underlying our services are inherently complex and may contain material defects or errors, particularly when first introduced or when new versions or enhancements are released. We have from time to time found defects in our software, and new errors in our existing software may be detected in the future.

After the release of our software, defects or errors may also be identified from time to time by our internal team and our customers. The costs incurred in correcting any material defects or errors in our software may be substantial and could harm our operating results. Furthermore, our customers may use our software together with solutions from other companies. As a result, when problems occur, it might be difficult to identify the source of the problem. Even when our software does not cause these problems, the existence of these errors might cause us to incur significant costs, divert the attention of our technical personnel from our solution development efforts, impact our reputation and cause significant customer relations problems.

***Our failure to obtain licenses for third-party technologies could harm our business.***

We expect to continue licensing technologies from third parties, including applications used in our research and development activities, technologies which are integrated into our solutions and solutions that we resell. We believe that the loss of any third-party technologies currently integrated into our solutions could have a material adverse effect on our business. Our inability in the future to obtain any third-party licenses on commercially reasonable terms, or at all, could delay future solution development until equivalent technology can be identified, licensed or developed and integrated. This inability in turn could harm our business and

operating results. Our use of third-party technologies exposes us to increased risks including, but not limited to, risks associated with the integration of new technology into our solutions, the diversion of our resources from development of our own proprietary technology and our inability to generate revenue from licensed technology sufficient to offset associated acquisition and maintenance costs.

***The market for software and services for the social good community might not grow and the organizations in that community might not continue to adopt our solutions and services.***

Many organizations in the social good community, including nonprofits, foundations, companies, education institutions and healthcare organizations, have not traditionally used integrated and comprehensive software and services for their specific needs. We cannot be certain that the market for such solutions and services will continue to develop and grow or that these organizations will elect to adopt our solutions and services rather than continue to use traditional, less automated methods, attempt to develop software internally, rely upon legacy software systems, or use software solutions not specifically

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designed for this market. Organizations that have already invested substantial resources in other fundraising methods or other non-integrated software solutions might be reluctant to adopt our solutions and services to supplement or replace their existing systems or methods. In addition, the implementation of one or more of our core software solutions can involve significant time and capital commitments by our customers, which they may be unwilling or unable to make. If demand for and market acceptance of our solutions and services does not increase, we might not grow our business as we expect.

***A reduction in the growth or amount of charitable giving could adversely affect our operating results and financial condition.***

A large percentage of our customers are nonprofits, foundations, education institutions, healthcare organizations and other members of the social good community that rely on charitable donations. If charitable giving, including online giving, does not continue to grow or declines, it could limit our current and potential customers' ability to use and pay for our solutions and services, which could adversely affect our operating results and financial condition.

In addition, we derive a significant portion of our revenue from transaction-based payment processing fees that we collect from our customers through our Blackbaud Merchant Services solution, which enables our customers' donors to make donations and purchase goods and services using various payment options. A reduction in the growth of, or a decline in, charitable giving to these customers, whether due to deteriorating general economic conditions, the impact of recent or future changes to applicable tax laws, or otherwise, could negatively impact the volume and size of such payment processing transactions and thereby adversely affect our operating results and financial condition.

***If we are unable, or our customers believe we are unable, to detect and prevent unauthorized use of payment card information and safeguard confidential donor data, we could be subject to financial liability, our reputation could be harmed and customers may be reluctant to use our solutions and services.***

The rules of payment card associations in which we participate require that we comply with Payment Card Industry Data Security Standard ("PCI DSS") in order to preserve security of payment card data. Under PCI DSS, we are required to adopt and implement internal controls over the use, storage and security of payment card data to help prevent card fraud.

Conforming our solutions and services to PCI DSS or other payment services related regulations or requirements imposed by payment networks or our customers or payment processing partners is expensive and time-consuming. However, failure to comply may subject us to fines, penalties, damages and civil liability, may impair the security of payment card data in our possession, and may harm our reputation and our business prospects, including by limiting our ability to process transactions. Currently some of our solutions are not fully compliant with PCI DSS, primarily due to the lag time required for integrating acquired businesses.

***If the security of our software is breached, we fail to securely collect, store and transmit customer information, or we fail to safeguard confidential donor data, we could be exposed to liability, litigation, penalties and remedial costs and our reputation and business could suffer.***

Fundamental to the use of our solutions is the secure collection, storage and transmission of confidential donor and end user data and transaction data, including in our payment services. Despite the network and application security, internal control measures, and physical security procedures we employ to safeguard our systems, we may still be vulnerable to a security



breach, intrusion, loss or theft of confidential donor data and transaction data, which may harm our business, reputation and future financial results.

Like many major businesses, we are, from time to time, a target of cyber-attacks and phishing schemes, and we expect these threats to continue. Because of the numerous and evolving cybersecurity threats, including advanced and persistent cyber-attacks, phishing and social engineering schemes, used to obtain unauthorized access, disable or degrade systems have become increasingly more complex and sophisticated and may be difficult to detect for periods of time, we may not anticipate these acts or respond adequately or timely. As these threats continue to evolve and increase, we may be required to devote significant additional resources in order to modify and enhance our security controls and to identify and remediate any security vulnerabilities.

A compromise of our data security that results in customer or donor personal or payment card data being obtained by unauthorized persons could adversely affect our reputation with our customers and others, as well as our operations, results of operations, financial condition and liquidity and could result in litigation against us or the imposition of penalties.

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**Blackbaud, Inc.**

We might be required to expend significant capital and other resources to protect further against security breaches or to rectify problems caused by any security breach, including notification under data privacy laws and regulations and expenses related to remediating our information security systems. Even though we carry cyber-technology insurance policies that may provide insurance coverage under certain circumstances, we might suffer losses as a result of a security breach that exceed the coverage available under our insurance policies or for which we do not have coverage. A security breach and any efforts we make to address such breach could also result in a disruption of our operations, particularly our online sales operations.

Further, the existence of vulnerabilities, even if they do not result in a security breach, may harm client confidence and require substantial resources to address, and we may not be able to discover or remedy such security vulnerabilities before they are exploited, which may harm our business, reputation and future financial results.

***Privacy and data protection concerns, including evolving domestic and international government regulation in the area of consumer data privacy or data protection, could adversely affect our business and operating results.***

The effectiveness of our software solutions relies on our customers' storage and use of data concerning their customers, including financial, personally identifying or other sensitive data. Our customers' collection and use of this data for donor profiling, data analytics or communications outreach might raise privacy and data protection concerns and negatively impact the demand for our solutions and services. For example, our custom modeling and analytical services rely heavily on processing and using of data we gather from customers and various sources. Privacy and data protection laws could restrict or add regulatory and compliance processes to our ability to market and profit from those services.

Governments in some jurisdictions have enacted or are considering enacting consumer data privacy or data protection legislation, including laws and regulations applying to the solicitation, collection, transfer, processing and use of personal data. This legislation could reduce the demand for our software solutions if we fail to design or enhance our solutions to enable our customers to comply with the privacy and data protection measures required by the legislation. Moreover, we may be exposed to liability under existing or new consumer privacy or data protection legislation. For example, when providing our solutions to certain customers in the healthcare industry, we must comply with applicable provisions of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), and might be subject to similar provisions of the Gramm-Leach-Bliley Act and related regulations. We are currently evaluating operational and solution changes that need to be made to allow us and our customers to comply with the California Consumer Privacy Act of 2018, which will become effective January 1, 2020, and may apply to some of our customers and areas of business. Even technical violations of these laws may result in penalties that are assessed for each non-compliant transaction.

Recently, the European Union ("EU") General Data Protection Regulation ("GDPR"), which became effective in May 2018, extended the scope of the EU data protection law to many companies processing data of EU residents, regardless of the company's location. The law requires companies to meet new requirements regarding the handling of personal data, including new rights such as the portability of personal data. We completed an extensive program of product and operational changes to address GDPR requirements and all future solutions sold to customers subject to GDPR must include GDPR features. The implementation of GDPR has affected our ability to offer some features and services to customers in the EU.

Furthermore, actions and investigations by regulatory authorities related to data security incidents and privacy violations continue to increase, which could impact us through increased costs or restrictions on our business, and noncompliance could result in significant regulatory penalties and legal liability.

If our customers or we were found to be subject to and in violation of any privacy or data protection laws or regulations, our business may be materially and adversely impacted and we and/or our customers would likely have to change our business practices. In addition, these laws and regulations could impose significant costs on our customers and us and make it more difficult for donors to make online donations.

We are in the information technology business, and our solutions and services store, retrieve, transfer, manipulate and manage our customers' information and data. The effectiveness of our software solutions relies on our customers' storage and use of data concerning their donors, including financial, personally identifying and other sensitive data and our business uses similar systems that require us to store and use data with respect to our customers and personnel. Our collection and our customers' collection and use of this data might raise privacy and data protection concerns and negatively impact our business or the demand for our solutions and services. If a breach of data security were to occur, or other violation of privacy or data protection laws and regulations were to be alleged, our business may be materially and adversely impacted and solutions may be perceived as less desirable, which would negatively affect our business and operating results.

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**Blackbaud, Inc.**

***If we fail to respond to technological changes or successfully introduce new and improved solutions, our competitive position may be harmed and our business may suffer.***

The introduction of solutions encompassing new technologies can render existing solutions obsolete and unmarketable. As a result, our future success will depend, in part, upon our ability to continue to enhance existing solutions and develop and introduce in a timely manner or acquire new solutions that keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance. If we are unable to develop or acquire on a timely and cost-effective basis new software solutions or enhancements to existing solutions or if such new solutions or enhancements do not achieve market acceptance, our business, results of operations and financial condition may be materially adversely affected.

***Because competition for highly qualified personnel is intense, we might not be able to attract and retain key personnel needed to support our planned growth.***

To meet our objectives successfully, we must attract and retain highly qualified personnel with specialized skill sets. If we are unable to attract suitably qualified management, there could be a material adverse impact on our business.

Further, in the past, we have used equity incentive programs as part of our overall employee compensation agreements to both attract and retain personnel. A decline in our stock price could negatively impact the value of these equity incentive and related compensation programs as retention and recruiting tools. We may need to create new or additional equity incentive programs and/or compensation packages to remain competitive, which could be dilutive to our existing stockholders and/or adversely affect our results of operations.

***If we do not successfully address the risks inherent in the expansion of our international operations, our business could suffer.***

We currently have non-U.S. operations primarily in the United Kingdom, Canada, Australia and Costa Rica, and we intend to expand further into international markets. Expansion of our international operations will require a significant amount of attention from our management and substantial financial resources and might require us to add qualified management in these markets. Our direct sales model requires us to attract, retain and manage qualified sales personnel capable of selling into markets outside the United States. In some cases, our costs of sales might increase if our customers require us to sell through local distributors. If we are unable to grow our international operations in a cost-effective and timely manner, our business and operating results could be harmed. Doing business internationally involves additional risks that could harm our operating results.

We expect that an increasing portion of our international revenues will be denominated in foreign currencies, subjecting us to fluctuations in foreign currency exchange rates. If we expand our international operations, exposures to gains and losses on foreign currency transactions may increase.

Along with risks similar to those faced by our U.S. operations, our international operations are also subject to risks related to differing legal, political, social and regulatory requirements and economic conditions, including:

the imposition of additional withholding taxes or otherwise tax our foreign income, impose tariffs or adopt other restrictions on foreign trade or investment, including currency exchange controls;

greater risk of a failure of our employees and partners to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery

Act of 2010, and any trade regulations ensuring fair trade practices; and the imposition of, or unexpected adverse changes in, foreign laws or regulatory requirements may occur, including those pertaining to export restrictions, privacy and data protection, trade and employment restrictions and intellectual protections.

***The vote by the U.K. to leave the EU could adversely affect us.***

The UK held a referendum on June 23, 2016 on its membership in the EU, in which a majority of UK voters voted to exit the EU (commonly referred to as "Brexit"). The referendum was advisory, and the terms of any withdrawal are subject to

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a negotiation period triggered by the U.K.'s formal initiation of the withdrawal process, which began in March 2017 and is set to expire in 2019, unless otherwise extended. These negotiations will determine the future terms of the U.K.'s relationship with the EU, including the terms of trade between the U.K. and the EU. The ultimate effects of Brexit on us are difficult to predict, but because we currently conduct business in the UK and in Europe, the results of the referendum and any eventual withdrawal creates uncertainty and could disrupt our business. For example, Brexit could affect the business of and/or our relationships with our customers and partners, as well as alter the relationship among tariffs and currencies, including the value of the British Pound and the Euro relative to the US dollar. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, business opportunities, results of operations, financial condition and cash flows.

***Unfavorable media coverage related to peer-to-peer fundraising campaigns on our social platforms could negatively impact our business.***

Our online social giving platforms receive a high degree of media coverage for particularly news-worthy or controversial fundraising campaigns, as well as for our fee-based business model. Although our terms of service provide express limitations on the platforms' user-initiated fundraising campaigns and reserve our right to remove content that violates our terms of service, it may not always be possible to remove such content prior to it receiving attention in the media. Negative publicity related to our online social giving platforms could have an adverse effect on the size, engagement and loyalty of our user base and could result in decreased revenue, which could adversely affect our business and financial results.

***Acquisitions could prove difficult to integrate, disrupt our business, dilute stockholder value and strain our resources.***

As part of our business strategy, we have made acquisitions and continue to evaluate opportunities to acquire companies, technologies and/or services. The successful integration of acquired companies requires, among other things, coordination of various departments, including solution development, engineering, sales and marketing and finance, as well as integration in our system of internal controls. Acquisitions and investments involve numerous risks.

Acquisitions also frequently result in recording of goodwill and other intangible assets, which are subject to potential impairments in the future that could harm our operating results. In addition, if we finance acquisitions by issuing equity securities or securities convertible into equity securities, our existing stockholders would be diluted which, in turn, could affect the market price of our stock. Moreover, we could finance any acquisition with debt, resulting in higher leverage and interest costs. As a result, if we fail to evaluate and execute acquisitions or investments properly, we might not achieve the anticipated benefits of any such acquisition and we may incur costs in excess of what we anticipate. Furthermore, if we incur additional debt to fund acquisitions and are unable to service our debt obligation we may have a greater risk of default under our credit facility. In addition, acquisitions may cause a disruption to our ongoing business, including diversion of resources and management's attention from our existing business and a greater than expected investment of resources or operating expenses.

The success of our acquisitions will depend in part on our ability to retain their engineering, sales, marketing, development and other personnel. It is possible that these employees might decide to terminate their employment. If key employees terminate their employment, the sales, marketing or development activities of acquired companies might be adversely affected, our management's attention might be diverted from successfully integrating the

acquired operations to hiring suitable replacements and, as a result, our business might suffer.

***We significantly increased our leverage in connection with acquisitions.***

We incurred a substantial amount of indebtedness in connection with recent acquisitions. As a result of this indebtedness, our interest payment obligations have increased. The degree to which we are leveraged could have adverse effects on our business, including the following:

- Requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions, dividends and other general corporate purposes;
- Limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;

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**Blackbaud, Inc.**

Restricting us from making additional strategic acquisitions or exploiting business opportunities;

Placing us at a competitive disadvantage compared to our competitors that have less debt;

Limiting our ability to borrow additional funds; and

Decreasing our ability to compete effectively or operate successfully under adverse economic and industry conditions.

If we incur additional debt, these risks may intensify. Our ability to meet our debt service obligations will depend upon our future performance, which will be subject to the financial, business and other factors affecting our operations, many of which are beyond our control.

***Our balance sheet includes significant amounts of goodwill and intangible assets. The impairment of a significant portion of these assets could negatively affect our operating results.***

As of December 31, 2018, we had \$545.2 million and \$291.6 million of goodwill and intangible assets, respectively. On at least an annual basis, we assess whether there have been impairments in the carrying value of goodwill and intangible assets. If the carrying value of an asset is determined to be impaired, then it is written down to fair value by a non-cash charge to operating earnings. Changes in circumstances that could indicate that the carrying value of goodwill or intangible assets may not be recoverable include declines in our stock price, market capitalization, cash flows and slower growth rates in our industry. We cannot accurately predict the likelihood or potential amount and timing of any impairment of goodwill or other intangible assets. An impairment of a significant portion of goodwill or intangible assets could materially and negatively affect our results of operations and financial condition.

***Restrictions in our credit facility may limit our activities, including dividend payments, share repurchases and acquisitions.***

Our credit facility contains restrictions, including covenants limiting our ability to incur additional debt, grant liens, make acquisitions and other investments, prepay specified debt, consolidate, merge or acquire other businesses, sell assets, pay dividends and other distributions, repurchase stock and enter into transactions with affiliates. There can be no assurance that we will be able to remain in compliance with the covenants to which we are subject in the future and, if we fail to do so, that we will be able to obtain waivers from our lenders or amend the covenants.

In the event of a default under our credit facility, we could be required to immediately repay all outstanding borrowings, which we might not be able to do. In addition, certain of our material domestic subsidiaries are required to guarantee amounts borrowed under the credit facility, and we have pledged the shares of certain of our subsidiaries as collateral for our obligations under the credit facility. Any such default could have a material adverse effect on our ability to operate, including allowing lenders under the credit facility to enforce guarantees of our subsidiaries, if any, or exercise their rights with respect to the shares pledged as collateral.

***We have recorded significant deferred tax assets, and we might never realize their full value, which would result in a charge against our earnings.***

As of December 31, 2018, we had deferred tax assets of \$51.1 million. Realization of our deferred tax assets is dependent upon our generating sufficient taxable income in future years to realize the tax benefit from those assets. Deferred tax assets are reviewed at least annually for realizability. A charge against our earnings would result if, based on the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized beyond our existing valuation allowance. This could be caused by, among other



things, deterioration in performance, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the solutions sold by our business and a variety of other factors. If a deferred tax asset net of our valuation allowance was determined to be not realizable in a future period, the charge to earnings would be recognized as an expense in our results of operations in the period the determination is made. Additionally, if we are unable to utilize our deferred tax assets, our cash flow available to fund operations could be adversely affected.

Depending on future circumstances, it is possible that we might never realize the full value of our deferred tax assets. Any future impairment charges related to a significant portion of our deferred tax assets would have an adverse effect on our financial condition and results of operations.

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Table of Contents**Blackbaud, Inc.*****Claims that we or our technologies infringe upon the intellectual property or other proprietary rights of a third party may require us to incur significant costs, enter into royalty or licensing agreements or develop or license substitute technology.***

We may be subject to claims that our technologies in our solutions and services infringe upon the intellectual property or other proprietary rights of a third party. In addition, the vendors providing us with technology that we use in our own technology could become subject to similar infringement claims. Although we believe that our solutions and services do not infringe any intellectual property or other proprietary rights, we cannot be certain that our solutions and services do not, or that they will not in the future, infringe intellectual property or other proprietary rights held by others. Any claims of infringement could cause us to incur substantial costs defending against the claim, even if the claim is without merit, and could distract our management from our business. Moreover, any settlement or adverse judgment resulting from the claim could require us to pay substantial amounts, or obtain a license to continue to use the solutions and services that are the subject of the claim, and/or otherwise restrict or prohibit our use of the technology. There can be no assurance that we would be able to obtain a license on commercially reasonable terms from the third party asserting any particular claim, or that we would be able to successfully develop alternative technology on a timely basis, or that we would be able to obtain a license from another provider of suitable alternative technology to permit us to continue offering, and our customers to continue using, the solutions and services. In addition, we generally provide in our customer arrangements for certain solutions and services that we will indemnify our customers against third-party infringement claims relating to technology we provide to those customers, which could obligate us to pay damages if the solutions and services were found to be infringing. Infringement claims asserted against us, our vendors or our customers may have a material adverse effect on our business, prospects, financial condition and results of operations.

***Our solutions utilize open source software, which may subject us to litigation, require us to re-engineer our solutions, or otherwise divert resources away from our development efforts.***

We use open source software in connection with certain of our solutions. Such open source software is generally licensed by its authors or other third parties under open source licenses, including, for example, the GNU General Public License, the GNU Lesser General Public License, "Apache-style" licenses, "BSD-style" licenses and other open source licenses. There is little legal precedent governing the interpretation of many of the terms of some of these licenses and, therefore, the potential impact of these terms on our business is currently unable to be determined and may result in unanticipated obligations regarding our solutions and technologies. From time to time, companies that incorporate open source software into their products have faced claims challenging the ownership of open source software and/or compliance with open source license terms. Therefore, we could be subject to litigation by parties claiming ownership of open source software or noncompliance with open source licensing terms. Some open source software licenses require users who distribute open source software as part of their own software to publicly disclose all or part of the source code to such software and/or make available any derivative works of the open source code on unfavorable terms or at no cost. While we monitor our use of open source software and try to ensure that none is used in a manner that would require us to disclose the source code or that would otherwise breach the terms of an open source agreement, such use could inadvertently occur and we may be required to release proprietary source code, pay damages for breach of contract, re-engineer our applications, discontinue sales in the event re-engineering cannot be

accomplished on a timely basis, or take other remedial action that may divert resources away from our development efforts, any of which could adversely affect our business.

***We rely upon trademark, copyright, patent and trade secret laws to protect our proprietary rights, which might not provide us with adequate protection.***

Our success and ability to compete depends to a significant degree upon the protection of our proprietary technology rights. We might not be successful in protecting our proprietary technology and our proprietary rights might not provide us with a meaningful competitive advantage. To protect our core proprietary technology, we rely on a combination of patent, trademark, copyright and trade secret laws, as well as nondisclosure agreements, each of which affords only limited protection.

***Increasing and evolving domestic and international government regulation could affect our business.***

Pending and enacted legislation at the state and federal levels and internationally, including those related to taxation, fundraising activities and payment processing, may also restrict further our information gathering and disclosure practices, for example, by requiring us to comply with extensive and costly registration, reporting or disclosure requirements. Any

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### **Blackbaud, Inc.**

substantial increase in government regulation affecting our business, or any failure to comply with existing regulations, could require substantial investments to achieve compliance, which could adversely affect our operating results and financial condition.

#### ***Our operations might be affected by the occurrence of a natural disaster or other catastrophic event.***

We depend on our principal executive offices and other facilities for the continued operation of our business. Although we have contingency plans in effect for natural disasters or other catastrophic events, these events, including terrorist attacks, computer hacker attacks and natural disasters such as hurricanes, flooding and earthquakes, could disrupt one or more of these facilities and adversely affect our operations. Our principal executive offices are located in a coastal region that has experienced hurricanes in the past. Even though we carry business interruption insurance policies and typically have provisions in our commercial contracts that protect us in certain events, we might suffer losses as a result of business interruptions that exceed the coverage available under our insurance policies or for which we do not have coverage. Any natural disaster or catastrophic event affecting us could have a significant negative impact on our operations.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

We lease our new headquarters facility in Charleston, South Carolina, which consists of approximately 172,000 square feet (the "New Headquarters Facility"). The lease on our New Headquarters Facility expires in April 2038 and we have the option for four 5-year renewal periods. The lease agreement also grants us a Phase Two option to request that the landlord construct and lease to us a second office building and related improvements. We continue to lease our former headquarters facility, now called our Customer Operations Center, in Charleston, South Carolina, which consists of approximately 218,000 square feet. The lease on our Customer Operations Center expires in October 2023, and we have the option for two 5-year renewal periods.

We also lease or have purchased the right to use additional office space in Austin, Texas; Bedford, New Hampshire; Charleston, South Carolina; Glasgow, Scotland; London, England; Plano, Texas; St. Paul, Minnesota; San Jose, Costa Rica; Sydney, Australia; and Toronto, Canada, among other locations. We believe that our properties are in good operating condition and adequately serve our current business operations. We also anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

## **ITEM 3. LEGAL PROCEEDINGS**

From time to time we may become involved in litigation relating to claims arising from our ordinary course of business. We do not believe that there are any claims or actions pending or threatened against us, the ultimate disposition of which would have a material adverse effect on us.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents****Blackbaud, Inc.****PART II.****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is trading on the Nasdaq Stock Market LLC ("Nasdaq") under the symbol "BLKB." As of February 4, 2019, there were approximately 104 stockholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, this number is not representative of the total number of stockholders represented by these stockholders of record. On February 4, 2019, the closing price of our common stock was \$70.07.

**Stock Performance Graph**

The following performance graph shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act except as shall be expressly set forth by specific reference in such filing. The performance graph compares the performance of our common stock to the Nasdaq Composite Index and the Nasdaq Computer and Data Processing Index. The graph covers the most recent five-year period ended December 31, 2018. The graph assumes that the value of the investment in our common stock and each index was \$100.00 at December 31, 2013, and that all dividends are reinvested.

Blackbaud, Inc.	\$100.00	\$116.44	\$178.87	\$175.15	\$260.07	\$174.04
Nasdaq Composite Index	100.00	114.62	122.81	133.19	172.11	165.84
Nasdaq Computer & Data Processing Index	100.00	113.68	140.03	150.12	209.72	212.97

**Table of Contents****Blackbaud, Inc.****Common Stock Acquisitions and Repurchases**

The following table provides information about shares of common stock acquired or repurchased during the three months ended December 31, 2018. All of these acquisitions were of common stock withheld by us to satisfy minimum tax obligations of employees due upon exercise of stock appreciation rights and vesting of restricted stock awards and units. The level of acquisition activity varies from period to period based upon the timing of grants and vesting as well as employee exercise decisions.

Beginning balance, October 1, 2018				\$ 50,000
October 1, 2018 through October 31, 2018	195	\$ 73.91	—	50,000
November 1, 2018 through November 30, 2018	3,717	73.38	—	50,000
December 1, 2018 through December 31, 2018	—	—	—	50,000
<b>Total</b>	<b>3,912</b>	<b>\$ 73.41</b>	<b>—</b>	<b>\$ 50,000</b>

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

**Dividend Policy**

Our Board of Directors has adopted a dividend policy which reflects an intention to distribute to our stockholders a portion of the cash generated by our business that exceeds our operating needs and capital expenditures as regular quarterly dividends. This policy reflects our judgment that we can provide greater value to our stockholders by distributing to them a portion of the cash generated by our business.

In accordance with this dividend policy, we paid quarterly dividends at an annual rate of \$0.48 per share in 2018 and 2017, resulting in aggregate dividend payments to stockholders of \$23.3 million and \$23.1 million in 2018 and 2017, respectively. In February 2019, our Board of Directors approved an annual dividend rate of \$0.48 per share for 2019 and we declared a first quarter dividend of \$0.12 per share payable on March 15, 2019, to stockholders of record on February 27, 2019.

Dividends on our common stock will not be cumulative. Consequently, if dividends on our common stock are not declared and/or paid at the targeted level, our stockholders will not be entitled to receive such payments in the future. We are not obligated to pay dividends, and as described more fully below, our stockholders might not receive any dividends as a result of the following factors:

- Our credit facility limits the amount of dividends we are permitted to pay;
- Our Board of Directors could decide to reduce dividends or not to pay dividends at all, at any time and for any reason;
- The amount of dividends distributed is subject to state law restrictions (as discussed below); and
- We might not have enough cash to pay dividends due to changes to our operating earnings, working capital requirements and anticipated cash needs.

**Assumptions and Considerations**

We estimate that the cash necessary to fund dividends on our common stock for 2019 at an annual rate of \$0.48 per share is approximately \$23.5 million (assuming 49.0 million shares of common stock are outstanding, net of treasury stock).

We have a stock repurchase program that authorizes us to purchase up to \$50.0 million of our outstanding shares of common stock. The program does not have an expiration date. The shares could be purchased in a self-tender for our stock, from time to time on the open market or in privately negotiated transactions depending upon market conditions

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and other factors, all in accordance with the requirements of applicable law. Any open market purchases under the repurchase program will be made in compliance with Rule 10b-18 of the Securities Exchange Act of 1934 and all other applicable securities regulations. We might not purchase any shares of common stock and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, to cancel the stock repurchase program.

We believe that our cash on hand and the cash flows we expect to generate from operations will be sufficient to meet our liquidity requirements through 2019, including dividends and purchases under our stock repurchase program. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations — Liquidity and Capital Resources” in Item 7 in this report.

If our assumptions as to operating expenses, working capital requirements and capital expenditures are too low or if unexpected cash needs arise that we are not able to fund with cash on hand or with borrowings under our credit facility, we would need to either reduce or eliminate dividends. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash available for future dividends and other purposes, which could negatively impact our stock price, financial condition, results of operations and ability to maintain or expand our business.

We have estimated our dividend only for 2019, and we cannot assure our stockholders that during or following 2019 we will pay dividends at the estimated levels, or at all except with regard to dividends previously declared by the Board of Directors but not yet paid. We are not required to pay dividends and our Board of Directors may modify or revoke our dividend policy at any time. Dividend payments are within the absolute discretion of our Board of Directors and will be dependent upon many factors and future developments that could differ materially from our current expectations. Over time, our capital and other cash needs, including unexpected cash needs, will invariably change and remain subject to uncertainties, which could impact the level of any dividends we pay in the future.

We believe that our dividend policy could limit, but not preclude, our ability to pursue growth as we intend to retain sufficient cash after the distribution of dividends to permit the pursuit of growth opportunities. In order to pay dividends at the level currently anticipated under our dividend policy and to fund any substantial portion of our stock repurchase program, we could require financing or borrowings to fund any significant acquisitions or to pursue growth opportunities requiring capital significantly beyond our anticipated levels. Management will evaluate potential growth opportunities as they arise and, if our Board of Directors determines that it is in our best interest to use cash that would otherwise be available for distribution as dividends to pursue an acquisition opportunity, to materially increase capital spending or for some other purpose, the Board would be free to depart from or change our dividend policy at any time.

***Restrictions on Payment of Dividends***

Under Delaware law, we can only pay dividends either out of “surplus” (which is defined as total assets at fair market value minus total liabilities, minus statutory capital) or out of current or the immediately preceding year’s earnings. As of December 31, 2018, we had \$30.9 million in cash and cash equivalents. In addition, we anticipate that we will have sufficient earnings in 2019 to pay dividends at the level described above. Although we believe we will have sufficient surplus and earnings to pay dividends at the anticipated levels for 2019, our Board of Directors will seek periodically to assure itself of this sufficiency before actually declaring any dividends.



Under our 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: (1) no default or event of default shall have occurred and be continuing under the credit facility, and (2) our pro forma net leverage ratio, as set forth in the credit agreement, must be 0.25 less than the net leverage ratio requirement at the time of dividend declaration or share repurchase. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations — Liquidity and Capital Resources” in Item 7 in this report.

Table of Contents**Blackbaud, Inc.****ITEM 6. SELECTED FINANCIAL DATA**

The selected financial data set forth below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 in this report and our financial statements and the related notes included elsewhere in this report to fully understand factors, including our business acquisitions and dispositions, that may affect the comparability of the information presented below.

Year ended December 31,

**SUMMARY OF OPERATIONS**

Total revenue	\$848,606	\$788,487	\$731,642	\$637,940	\$564,421
Total cost of revenue	381,742	361,904	339,220	304,631	273,438
Gross profit	466,864	426,583	392,422	333,309	290,983
Total operating expenses	407,447	358,405	324,198	286,597	244,619
Income from operations	59,417	68,178	68,224	46,712	46,364
Net income	44,841	73,633	45,404	25,649	28,290

**PER SHARE DATA**

Basic net income	\$0.95	\$1.58	\$0.98	\$0.56	\$0.63
Diluted net income	0.93	1.54	0.96	0.55	0.62
Cash dividends	0.48	0.48	0.48	0.48	0.48

**BALANCE SHEET DATA**