

BLACKBAUD INC
Form 10-K
February 20, 2018

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, 2017

OR

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

For the transition period from _____ to _____.

Commission file number: 000-50600

Blackbaud, Inc.
(Exact name of registrant as specified in its charter)

Delaware 11-2617163
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
2000 Daniel Island Drive
Charleston, South Carolina 29492
(Address of principal executive offices, including zip code)
(843) 216-6200
(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

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filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
	(Do not check if a smaller reporting company)	Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2017 (based on the closing sale price of \$85.75 on that date) was approximately \$2,727,937,653. Common stock held by each officer and director and by each person known to the registrant who owned 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant's common stock outstanding as of February 5, 2018 was 48,078,048.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2018 Annual Meeting of Stockholders currently scheduled to be held June 12, 2018 are incorporated by reference into Part III hereof. Such definitive Proxy Statement will be filed with the Securities and Exchange Commission no later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2017.

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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 degree 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," "likely," "will," "targets," "plans," "announces," "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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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, corporations, education institutions, healthcare institutions and individual change agents—Blackbaud connects and empowers organizations to increase their impact through 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 constituent relationship management ("CRM"), marketing, advocacy, accounting, peer-to-peer fundraising, corporate social responsibility ("CSR"), 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 2017, we had over 40,000 customers located in over 50 countries. We are deeply proud to play a part in our customers' successes 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. In the U.S. alone, there were approximately 1.6 million nonprofit organizations registered with the Internal Revenue Service in 2016, which includes nonprofit organizations, education institutions and healthcare institutions. Worldwide, there are millions more organizations in this space. Corporations and foundations are also active participants in the social good community, and billions of individuals will donate funds, volunteer their time, advocate for a cause or otherwise engage with social good organizations. According to Giving USA, donations made to U.S. nonprofit organizations in 2016 were \$390 billion, amounting to 2.1% of U.S. GDP, a 2.7% increase from 2015. The average annual rate of change in total giving dollars over the last 40 years was 6.7%.

Our estimated current total addressable market ("TAM") is \$8.2 billion. This includes an expansion into new and near adjacencies in 2017 from our acquisitions of AcademicWorks, Inc. ("AcademicWorks") which supports scholarship management, within the education market, and Giving Limited ("JustGiving"), which supports personal crowdfunding capabilities for individuals.

Traditional methods of fundraising and organizational management are often costly and inefficient. Many nonprofits 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 nonprofit 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, educational institutions and healthcare institutions 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 institutions and educational 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.

Corporations, grant making institutions and foundations also face unique challenges

Corporations, grant making 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 a leading provider of cloud software and services for the global social good community, supporting their 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 the offerings we provide to our customers. We 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 different 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

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with comprehensive 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 to be more effective and achieve their missions.

Execute on our Four-Point Growth Strategy

During 2017, we continued to execute on our four-point growth strategy targeted to drive an extended period of solution and service innovation, quality enhancement, increasing operating efficiency and 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. There is a concerted effort underway to optimize our portfolio of solutions and integrate powerful capabilities — such as built-in data, analytics, payment services and tailored user-specific experiences — to bring even greater value and performance to our customers.

During 2017, we introduced SKY AI™ and SKY Analytics™, the intelligence engine behind the growing number of insights integrated into Blackbaud cloud software solutions, powered by artificial intelligence including machine learning, cognitive technology, predictive analytics and other advanced technologies. With SKY AI and SKY Analytics, we are enabling data-driven decisions by pairing one of the industry's largest data sets with an advanced set of integrated AI capabilities, ultimately having greater impact on our customers and their missions. For example, Affluence Insight, a new donor management segmentation tool enables the identification of annual, mid-level and major gift prospects. It offers the ability to use AI-powered analytics to identify high-value donor prospects and predict a prospect's likelihood to give. These embedded intelligence capabilities are one outcome of Blackbaud's Intelligence for Good™ approach — combining AI, Analytics and big data and expertise to drive insight for our customers across our solution portfolio.

We also made several portfolio announcements during 2017, ranging from solution integrations, to new capabilities for existing solutions, to new solution introductions.

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. In 2017, we created a new Senior Vice President of Global Sales position to lead sales effectiveness across the organization. We continued to make investments in our sales, marketing and customer success organizations and improved our market coverage by deploying these resources into key markets, while bifurcating sales to focus on either finding new customers or cultivating existing customers. In addition, we are continuing to optimize our go-to-market sales strategies such as offering solutions and services tailored to the needs of customers operating within vertical markets including K-12 private schools, foundations, higher education and healthcare institutions, among others. Our sales teams are now fully running and managed on a common sales operating model. This includes common procedures, training, key operating metrics, compensation plans and reporting, which is driving increased productivity.

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 total addressable market ("TAM"), provide entry into new and near adjacencies, accelerate our shift to the cloud, accelerate revenue growth, are accretive to margins and present synergistic opportunities.

In 2017, we launched Blackbaud Labs as a means to incubate new ideas and foster our strong culture of innovation and creativity, with the sole focus of bringing new capabilities to market organically. We also announced the promotion of our new Senior Vice President of Corporate Strategy and Business Development, who led the effort for many of our acquisitions, including AcademicWorks and JustGiving.

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4. Improve Operating Efficiency

We have largely completed the installations of best-in-breed back-office solutions that consolidate and standardize our business operations utilizing scalable tools and systems. Our focus is now shifting towards optimizing those systems, as well as operational excellence and quality initiatives focused on streamlining processes to gain efficiency and scalability. Our organizational model, which we have evolved over the last 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.

During 2017, in an effort to improve operating efficiency and further our organizational objectives, we also initiated a plan to relocate some of our existing offices to highly modern and more collaborative workspaces with short-term financial commitments. These workspaces are also more centrally located for our employees and closer to our customers.

Attract Top Talent and Actively Engage Employee Base

Our customer's 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 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 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 join our team and have a unique career experience. 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 36 years of experience in the philanthropic market, we have gained significant insight into the 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 governmental leaders. Our annual user conference, bbcon™, 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.

Operating Structure

Change in Reportable Segments

Prior to the fourth quarter of 2017, our three market groups, the General Markets Group ("GMG"), the Enterprise Markets Group ("EMG"), and the International Markets Group ("IMG"), represented our three operating and reportable segments. As is discussed above, we have centralized our business operations over the last few years to allow us to gain productivity, efficiency and scalability. Areas of our operations we have centralized, include, but are not limited to, marketing, finance, sales excellence, human resources, corporate IT, legal and contracting, real estate and facilities, research and development, customer support, customer success, product management, professional services and training services. With our organizational model now largely complete, we made changes to our internal reporting structure in the fourth quarter of 2017 to better support and assess the operations of our business going forward. As a result, commencing with the fourth quarter of 2017, a measure of profitability is no longer available at the market group level and our chief operating decision maker now uses consolidated financial information to make operating decisions, assess financial performance and allocate resources. Our chief operating decision maker is our chief executive officer ("CEO"). We assessed the resulting effect on our operating segments, reportable segments, as well as our reporting units for annual goodwill impairment testing, and determined that we now have one operating

segment, one reportable segment and one reporting unit. We have restated prior period financial information contained in this Annual Report on Form 10-K to reflect this change.

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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 tailored to the unique needs of vertical markets, with solutions for fundraising and CRM, marketing, advocacy, peer-to-peer fundraising, corporate social responsibility, school management, ticketing, grantmaking, financial management, payment processing and analytics. We offer the social good community complete solutions to advance their missions with the market-leading CRM system and online engagement platforms, backed by our analytic services, which deliver insights powered by the world's most robust philanthropic data set. In most cases, the core of our solution portfolio centers around a CRM system, which seamlessly integrates with other applications to help our customers conduct activities vital to advancing their missions, such as managing finances, analyzing prospects and market data, effectively communicating with current and prospective supporters and promoting their cause online and offline. 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 CSR programs, grant management, employee involvement, foundation management and other philanthropic activities.

Our specific solutions and services include:

Fundraising and Engagement

Raiser's Edge NXT® is our flagship smart cloud fundraising and relationship management solution. Raiser's Edge NXT is the first and only cloud fundraising and relationship management solution that is all-inclusive, fully integrated with data, analytics, payment processing and tailored user-specific experiences. Leveraging Blackbaud SKY®, our modern, integrated and open cloud, it is, we believe, the most advanced technology available that enables nonprofits 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.

Luminate® CRM is our Salesforce-based CRM offering for nonprofits and is sold as a single integrated solution with Luminate Online. 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 Luminate CRM are campaign management, constituent relations, business intelligence and analytics. When combined with 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.

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.

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. With recent integrations with fitness applications such as Strava and MapMyFitness, everydayhero continues to

enhance the fundraising landscape by providing millions across the globe the chance to easily integrate fitness and philanthropy.

JustGiving™ is one of the world's leading social platforms for giving. 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.

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Luminate 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 TeamRaiser, a solution within events management that allows nonprofits' constituents to create personal or team fundraising web pages and send email donation appeals in support of events such as walks, runs and rides.

Blackbaud Online Express™ is a simple, cloud fundraising and marketing tool designed for smaller nonprofit organizations using Raiser's Edge. It provides nonprofits with easy-to-use 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 requires a Raiser's Edge database to operate, it can only be sold with Raiser's Edge or to existing Raiser's Edge customers.

Financial Management

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. 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 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. 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.

Grant Management

GIFTS Online® 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.

FIMS™ is a fully-integrated foundation management system that helps community foundations, faith-based organizations and education and scholarship programs manage grants, finances and donors in one centralized, comprehensive system. It features an open, customizable framework that helps community foundations 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.

K-12 Schools and Higher Education

onMessage® 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.

onRecord® makes it easy for schools to manage schedules, transcripts and GPAs. A new Student Information System that works directly with onCampus (LMS), onRecord simplifies the process of sharing student data and academic records securely.

onCampus® 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, onCampus gives teachers the tools to meet the demands of a modern private school.

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onBoard® is an enrollment management system that simplifies a school's admissions process. onBoard helps admissions teams and prospective families manage and track their progress, from inquiry and application through acceptance and enrollment.

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.

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.

AcademicWorks® 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.

Arts and Cultural

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. 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.

Corporate Social Responsibility

AngelPoints® is an integrated CSR solution that helps corporations mobilize the collective power of their employees to make a positive impact on their people, their company, and the world. AngelPoints contains modules that help companies manage employee volunteer and giving programs.

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 Intelligence for Good™ 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

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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.

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 also 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. As discussed above, we also provide our K-12 private school customers with student tuition payment processing services.

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. 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.

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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 2017, we had over 40,000 customers including nonprofits, foundations, corporations, education institutions, healthcare organizations and other charitable giving entities. Our largest single customer accounted for approximately 1% of our 2017 consolidated revenue.

Sales and Marketing

The majority of our solutions and related services are sold through our direct sales force. Our direct sales force is complemented by a team of account 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, 2017, we had 434 direct sales employees. We plan to continue expanding our direct sales force in the Americas, Europe and Australia as our operations grow internationally and market demand increases.

We generally begin a customer relationship with the sale of one of our cloud solutions, such as Raiser's Edge NXT, and then offer additional solutions and services to the customer as the organization's needs increase.

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 nonprofit industry, such as consultants, educators, publishers, financial service providers, complementary technology providers and data providers. These companies promote or complement our nonprofit 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 86% saying our focus on nonprofits was a driver in their decision to join the company, 85% actively serving as volunteers and 25% serving on a nonprofit board or committee.

Competition

The market for software and related services in the nonprofit sector 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 nonprofits. However, once basic needs are met, programs unique to nonprofits like fundraising, gift and grant management, and peer-to-peer activism require highly specialized tools that are more complex to build or customize out of general business software. Moreover, because nonprofits rely heavily on relationships with and among their supporters, integration of these systems drives value beyond mere efficiency. Hence, we believe our experience, 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 competitors as the market matures and nonprofit organizations rely more heavily on technology to manage emerging revenue channels and increasingly complex operations.

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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 nonprofits. 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. However, they generally do not have nonprofit specific focus and, therefore, do not offer or intend to offer nonprofit-specific versions. As these products are also not easily customized, the adoption of general business software is limited to nonprofits with very basic operations and simple needs. We believe our solutions compete successfully against general business software as a nonprofit's needs grow more complex. There is a subset of general business software competitors who have introduced nonprofit-specific versions of their products. We believe that because these products were not originally designed to support the specific needs of nonprofits, they are not yet capable of meeting market needs without significant customization. As a result, we believe we are able to 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 and Virgin Money Giving 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.

Research and Development

We have made substantial investments in research and development and expect to continue to do so as a part of our strategy to introduce additional innovative solutions and services. As of December 31, 2017, we had 669 employees working on research and development. Our research and development expenses for 2017, 2016 and 2015 were \$89.9 million, \$89.9 million and \$84.6 million, respectively. In addition, we had cash outlays for qualifying capitalized software development costs during 2017, 2016 and 2015 of \$28.3 million, \$26.4 million and \$15.5 million, respectively. We plan to continue significantly investing in the innovation of our portfolio of solutions and services.

Technology and Architecture

Our cloud technology, SKY, combines the latest in cloud platform and infrastructure, leading edge development processes, and a modern and open micro service-oriented architecture, and is the foundation for all of our next generation solutions. The first of our solutions shipped were Raiser's Edge NXT and Financial Edge NXT, but virtually all new capabilities are being developed on top of the SKY platform. One component of SKY, SKY API®,

gives customers, partners and other application developers access to industry-standard, open, REST-based APIs and a comprehensive set of resources that enable them to integrate with or extend functionality of our solutions. Additionally, SKY UX®, our open-sourced user

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experience framework, increases the reach of our solutions by enabling developers to create interfaces that look and feel like a Blackbaud solution. In 2017, SKY UX continued to mature with the release of version 2 which added new functionality while also increasing the performance and available tooling and testing. You'll see SKY UX in Blackbaud's next generation solutions including Raiser's Edge NXT, Financial Edge NXT, Blackbaud Outcomes, the next generation of Luminate Online, our K-12 On Suite, and many other capabilities that are lighting up across our product portfolio. The SKY architecture enables rapid releases, scalable and high-quality services, and speedier time to market.

Each of our Luminate solutions, including Luminate Online, Luminate CRM and TeamRaiser, are cloud-based applications that are open and extensible and employ a multi-tenant architecture requiring only a web browser for customer access. Luminate Online and TeamRaiser share a common codebase and database, and are built on the Java runtime environment. Luminate CRM is built on the Salesforce.com platform.

Regardless of solution choice, our development strategies are designed to be:

Flexible. Our component-based architecture is programmable and easily extended by our customers without requiring modification of the source code, ensuring that the technology can be extended to accommodate changing demands of our customers and the market.

Adaptable. The architecture of our applications allows us to easily add features and functionality or to integrate with third-party applications in order to adapt to our customers' needs or market demands.

Scalable. We combine a scalable architecture with the performance, capacity and load balancing of industry-standard web servers and databases used by our customers to ensure that the applications can scale to the needs of larger 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 have numerous trademarks, including "Blackbaud," "Raiser's Edge NXT" and "Luminate." We have applied for additional trademarks. Depending upon the jurisdiction, trademarks are valid as long as they are in use and/or their registrations are properly maintained. We currently have three active patents on our technology and have a total of three pending patent applications.

Employees

As of December 31, 2017, we had 3,182 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.

Financial Information about Geographic Areas

For information about revenues by geographic region and long-lived assets by geographic region, please see Note 17 and Note 16, respectively, to our consolidated financial statements in this report. For a description of risks associated with our non-U.S. operations, please see "Risk Factors - If we do not successfully address the risks inherent in the expansion of our international operations, our business could suffer" in Item 1A 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.

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Available Information

Our website address is 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 at www.sec.gov. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Executive Officers of the Registrant

The following table sets forth information concerning our executive officers as of February 15, 2018:

Name	Age	Title
Michael P. Gianoni	57	President and Chief Executive Officer
Anthony W. Boor	55	Executive Vice President and Chief Financial Officer
Kevin W. Mooney	59	Executive Vice President and President, General Markets Group
Brian E. Boruff	58	Executive Vice President and President, Enterprise Markets Group
Jon W. Olson	54	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. He holds an AS in electrical engineering from Waterbury State Technical College, a BS with a business concentration from Charter Oak State College, and an 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, 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 holds an MBA in Finance from Georgia State University.

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Brian E. Boruff 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 of 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. Prior to that, Mr. Boruff spent 15 years at Microsoft, a platform and productivity software company, from July 1993 until September 2008 where he held various domestic and international executive roles as well as client-facing software sales and services roles. 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 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 that solves complex IT challenges at the intersection of modern and mission critical, 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 Regional Alliance for The Arts. He holds a BS from Georgetown University, a JD from Dickinson School of Law and an MBA from Seton Hall University.

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 ratably over the terms of the contract, downturns in sales may not be immediately reflected in our revenue.

We recognize our maintenance and subscriptions revenue monthly over the term of the customer agreement. Most of our maintenance arrangements are for a one-year term. Our subscription arrangements are typically either for a one-year term or a three-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.

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

Most of our maintenance arrangements are for a one-year term. Our subscription arrangements are typically either for a one-year term or a three-year term. As the end of the annual period approaches, we seek the renewal of the agreement with the customer. Historically, maintenance and subscriptions 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 maintenance and support arrangements or subscriptions 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.

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 some 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

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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 nonprofit, charitable giving and educational organizations might not grow and these organizations might not continue to adopt our solutions and services.

Many nonprofit organizations have not traditionally used integrated and comprehensive software and services for their nonprofit-specific needs. We cannot be certain that the market for such solutions and services will continue to develop and grow or that nonprofit 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 designed for the nonprofit market. Nonprofit 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 large percentage of our customers are nonprofits, foundations, educational institutions 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.

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 certified as compliant with the Payment Application Data Security Standard, which is a subset of the requirements for PCI DSS. In addition, currently some of our solutions are not fully compliant with PCI DSS.

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,

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results of operations, financial condition and liquidity and could result in litigation against us or the imposition of penalties. 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, including ProspectPoint, WealthPoint and donorCentrics, 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, 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. Even technical violations of these laws may result in penalties that are assessed for each non-compliant transaction. More recently, the European Union ("EU") General Data Protection Regulation ("GDPR"), which becomes effective in May 2018, extends the scope of the EU data protection law to all 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. Although we have an extensive program underway to address GDPR requirements, our efforts to comply with GDPR and other privacy and data protections laws may entail substantial expenses, may divert resources from other initiatives and projects, and could limit the services we are able to offer. 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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If we fail to respond to technological changes and 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 Canada, the United Kingdom and Australia, 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.

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 in the past 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.

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Blackbaud, Inc.

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;
 - 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, 2017, we had \$530.2 million and \$314.7 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.

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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 will be 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, 2017, we had deferred tax assets of \$47.0 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.

This could be caused by, among other things, deterioration in performance, loss of key contracts, 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 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 determination of impairment of a significant portion of our deferred tax assets would have an adverse effect on our financial condition and results of operations.

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.

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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 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 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.

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ITEM 2. PROPERTIES

We lease our headquarters in Charleston, South Carolina, which consists of approximately 218,000 square feet. The lease on our Charleston headquarters expires in October 2023, and we have the option for two 5-year renewal periods. Please also see discussion about the construction of our new headquarters facility in Note 11 to our consolidated financial statements in this report.

We also lease or have purchased the right to use additional office space in Austin, Texas; Bedford, New Hampshire; Charleston, South Carolina; Edina, Minnesota; Glasgow, Scotland; Indianapolis, Indiana; London, England; Middlesex, New Jersey; and Sydney, Australia, 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.

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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." The following table sets forth, for the quarterly reporting periods indicated, the high and low market prices for shares of our common stock, as reported by Nasdaq, and dividend per share information.

	Common Stock Market Prices		Dividends Declared
	High	Low	
Fiscal year ended December 31, 2017			
Fourth quarter	\$103.79	\$87.51	\$ 0.12
Third quarter	92.82	82.85	0.12
Second quarter	90.36	75.92	0.12
First quarter	77.15	62.06	0.12
Fiscal year ended December 31, 2016			
Fourth quarter	\$67.42	\$58.29	\$ 0.12
Third quarter	71.09	64.32	0.12
Second quarter	68.40	58.36	0.12
First quarter	65.33	50.97	0.12

As of February 5, 2018, there were approximately 117 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 5, 2018, the closing price of our common stock was \$90.21.

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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 ending December 31, 2017. The graph assumes that the value of the investment in our common stock and each index was \$100.00 at December 31, 2012, and that all dividends are reinvested.

December 31,	2012	2013	2014	2015	2016	2017
Blackbaud, Inc.	\$100.00	\$167.43	\$194.95	\$299.48	\$293.26	\$435.45
Nasdaq Composite Index	100.00	141.63	162.09	173.33	187.19	242.29
Nasdaq Computer & Data Processing Index	100.00	151.54	173.50	208.25	224.83	315.58

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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, 2017. 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.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs ⁽¹⁾	Approximate dollar value of shares that may yet be purchased under the plans or programs (in thousands)
Beginning balance, October 1, 2017				\$ 50,000
October 1, 2017 through October 31, 2017	16,805	\$ 94.34	—	50,000
November 1, 2017 through November 30, 2017	32,867	99.91	—	50,000
December 1, 2017 through December 31, 2017	—	—	—	50,000
Total	49,672	\$ 98.03	—	\$ 50,000

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

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 2017 and 2016, resulting in aggregate dividend payments to stockholders of \$23.1 million and \$22.8 million in 2017 and 2016, respectively. In February 2018, our Board of Directors approved an annual dividend rate of \$0.48 per share for 2018 and we declared a first quarter dividend of \$0.12 per share payable on March 15, 2018, to stockholders of record on February 28, 2018.

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.

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Assumptions and Considerations

We estimate that the cash necessary to fund dividends on our common stock for 2018 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 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 2018, 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 2018, and we cannot assure our stockholders that during or following 2018 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, 2017, we had \$29.8 million in cash and cash equivalents. In addition, we anticipate that we will have sufficient earnings in 2018 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 2018, 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.

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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.

The following data, insofar as it relates to each of the years ended December 31, 2017, 2016 and 2015, has been derived from the audited annual financial statements, including the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, cash flows and stockholders’ equity for the three years ended December 31, 2017, 2016 and 2015 and notes thereto in Item 8 of this report. The following data, insofar as it relates to each of the years ended December 31, 2014 and 2013, and the consolidated balance sheets as of December 31, 2015, 2014 and 2013 are derived from audited financial statements not included in this report.

(in thousands, except per share data)	Year ending December 31,				
	2017	2016	2015	2014	2013
SUMMARY OF OPERATIONS					
Total revenue	\$788,306	\$730,815	\$637,940	\$564,421	\$503,817
Total cost of revenue	361,904	339,220	304,631	273,438	232,663
Gross profit	426,402	391,595	333,309	290,983	271,154
Total operating expenses	362,371	329,795	286,597	244,619	219,612
Income from operations	64,031	61,800	46,712	46,364	51,542
Net income	65,933	41,515	25,649	28,290	30,472
PER SHARE DATA					
Basic net income	\$1.41	\$0.90	\$0.56	\$0.63	\$0.68
Diluted net income	1.38	0.88	0.55	0.62	0.67
Cash dividends	0.48	0.48	0.48	0.48	0.48
BALANCE SHEET DATA					
Total assets ⁽¹⁾	\$1,759,426	\$1,310,210	\$1,223,336	\$942,503	\$706,025
Deferred revenue, including current portion	280,099	250,940	237,335	221,274	190,574
Total debt, including current portion ⁽¹⁾	438,224	342,393	408,087	279,891	152,323
Total long-term liabilities ⁽¹⁾	476,520	382,549	446,450	335,583	187,799

As previously disclosed, on January 1, 2016, we adopted ASU 2015-03, Interest - Imputation of Interest - Simplifying the Presentation of Debt Issuance Costs, on a retrospective basis. Accordingly, we retrospectively (1) adjusted other non-current assets and debt, net of current portion, which had the effect of reducing each of those respective line items in our consolidated balance sheets as of December 31, 2015, 2014, and 2013 by approximately \$0.5 million, \$0.7 million, and \$0.6 million, respectively.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Item 1A Risk factors and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The following discussion and analysis presents financial information denominated in millions of dollars which can lead to differences from rounding when compared to similar information contained in the consolidated financial statements and related notes which are primarily denominated in thousands of dollars.

Executive Summary

We are the world's leading cloud software company powering social good. Serving the entire social good community—nonprofits, foundations, corporations, education institutions, healthcare institutions and individual change agents—we connect and empower organizations and individuals to increase their impact through software, services, expertise, and data intelligence. Our portfolio is tailored to the unique needs of vertical markets, with solutions for fundraising and CRM, marketing, advocacy, peer-to-peer fundraising, corporate social responsibility, school management, ticketing, grantmaking, financial management, payment processing, and analytics. Serving the industry for more than three decades, we are headquartered in Charleston, South Carolina and have operations in the United States, Australia, Canada and the United Kingdom. As of December 31, 2017, we had over 40,000 customers.

Our revenue is primarily generated from the following sources: (i) charging for the use of our software solutions in cloud-based and hosted environments; (ii) providing transaction and payment processing services; (iii) providing professional services including implementation, training, consulting, analytic, and other services; and (iv); providing software maintenance and support services.

During 2017, we continued to execute on our four-point growth strategy targeted to drive an extended period of solution and service innovation, quality enhancement, increasing operating efficiency and financial performance:

Four-Point Growth Strategy

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. There is a concerted effort underway to optimize our portfolio of solutions and integrate powerful capabilities — such as built-in data, analytics, payment processing and tailored user-specific experiences — to bring even greater value and performance to our customers.

During 2017, we introduced SKY AI™ and SKY Analytics™, the intelligence engine behind the growing number of insights integrated into Blackbaud cloud software solutions, powered by artificial intelligence including machine learning, cognitive technology, predictive analytics and other advanced technologies. With SKY AI and SKY Analytics, we are enabling data-driven decisions by pairing one of the industry's largest data sets with an advanced set of integrated AI capabilities, ultimately having greater impact on our customers and their missions. For example, Affluence Insight, a new donor management segmentation tool enables the identification of annual, mid-level and major gift prospects. It offers the ability to use AI-powered analytics to identify high-value donor prospects and predict a prospect's likelihood to give. These embedded intelligence capabilities are one outcome of Blackbaud's Intelligence for Good™ approach — combining AI, Analytics and big data and expertise to drive insight for our customers across our solution portfolio.

We also made several portfolio announcements during 2017, ranging from solution integrations, to new capabilities for existing solutions, to new solution introductions.

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Blackbaud, Inc.

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. In 2017, we created a new Senior Vice President of Global Sales position to lead sales effectiveness across the organization. We continued to make investments in our sales, marketing and customer success organizations and improved our market coverage by deploying these resources into key markets, while bifurcating sales to focus on either finding new customers or cultivating existing customers. In addition, we are continuing to optimize our go-to-market sales strategies such as offering solutions and services tailored to the needs of customers operating within vertical markets including K-12 private schools, foundations, higher education and healthcare institutions, among others. Our sales teams are now fully running and managed on a common sales operating model. This includes common procedures, training, key operating metrics, compensation plans and reporting, which is driving increased productivity.

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 total addressable market ("TAM"), provide entry into new and near adjacencies, accelerate our shift to the cloud, accelerate revenue growth, are accretive to margins and present synergistic opportunities.

In 2017, we launched Blackbaud Labs as a means to incubate new ideas and foster our strong culture of innovation and creativity, with the sole focus of bringing new capabilities to market organically. We also announced the promotion of our new Senior Vice President of Corporate Strategy and Business Development, who led the effort for many of our acquisitions, including our 2017 acquisitions, AcademicWorks and JustGiving.

AcademicWorks is the market leader in scholarship management for higher education and K-12 institutions, foundations, and grant-making institutions. Their cloud platform enables students to apply for all awards at an institution using one intuitive and streamlined process, while offering schools and awarding institutions a common platform for improved awarding, reporting, compliance, communication and stewardship of those awards.

JustGiving is the United Kingdom-based online fundraising services provider, whose online social giving platform has played a powerful role in the growth of peer-to-peer fundraising. The acquisition enhances our capability to serve both individual donors and nonprofits, expanding the peer-to-peer fundraising capabilities we currently offer today through TeamRaiser and everydayhero, which are used by leading nonprofit organizations to connect their causes to the individuals who support them. JustGiving also adds personal crowdfunding to our portfolio, which is an offering we did not previously provide and a fast-growing segment of charitable giving.

Additional details regarding our acquisitions of AcademicWorks and JustGiving are provided in Note 3 to our consolidated financial statements in this report. Both AcademicWorks and JustGiving meet the acquisition criteria discussed above. We remain active in the evaluation of acquisition opportunities to broaden our portfolio, provide better integrated solutions for our customers, differentiate ourselves from the competition and improve our financial performance.

4. Improve Operating Efficiency

We have largely completed the installations of best-in-breed back-office solutions that consolidate and standardize our business operations utilizing scalable tools and systems. Our focus is now shifting towards optimizing those systems, as well as operational excellence and quality initiatives focused on streamlining processes to gain efficiency and scalability. Our organizational model, which we have evolved over the last 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.

During 2017, in an effort to improve operating efficiency and further our organizational objectives, we also initiated a plan to relocate some of our existing offices to highly modern and more collaborative workspaces with short-term financial commitments. These workspaces are also more centrally located for our employees and closer to our

customers.

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Blackbaud, Inc.

Total revenue

	Years ended December	
	31,	
(dollars in millions)	2017	Change 2016
Total revenue	\$788.37.9	% \$730.8

Total revenue increased by \$57.5 million during 2017, which was primarily driven by growth in subscriptions revenue as our business model continues to shift towards providing predominantly cloud-based subscription solutions.

Subscriptions revenue also grew as a result of increases in the number of customers and the volume of transactions for which we process payments. Services and other revenue, as well as maintenance revenue, declined during 2017 from our continued shift in focus towards selling cloud-based subscription solutions. In general, our NXT and other cloud-based solutions require less implementation services, which we expect to continue to negatively impact services and other revenue over time. In addition, we have also used promotions and discounts for our consulting services as incentives to accelerate the migration of our existing customer base from on-premises solutions toward our cloud-based subscriptions. In the near-term, the transition to subscription-based solutions negatively impacts total revenue growth, as time-based license revenue from subscription arrangements is deferred and recognized ratably over the subscription period, typically three years at contract inception, whereas on-premises license revenue from arrangements that include perpetual licenses is recognized up-front.

Income from operations

	Years	
	ended December	31,
(dollars in millions)	2017	Change 2016
Income from operations	\$64.03.6	% \$61.8

Income from operations increased by \$2.2 million during 2017, when compared to 2016. The positive impact of growth in total revenue driven by subscriptions was partially offset by investments we are making in our sales organization and customer success program and, to a lesser extent, increases in stock-based compensation of \$8.0 million, rent expense of \$4.4 million and employee severance costs of \$2.4 million. A net increase of \$5.2 million in acquisition-related expenses and integration costs also negatively impacted income from operations. The increase in stock-based compensation expense was primarily driven by an increase in the grant date fair value of our annual equity awards granted to employees during 2017, when compared to the grant date fair value of the awards granted during 2016. The increase in rent expense was primarily driven by the end in the fourth quarter of 2016 of the South Carolina state incentive payments we received as a result of locating our headquarters facility in Berkeley County, South Carolina. These amounts were recorded as a reduction of rent expense upon receipt. Also contributing to the increase in rent expense were new operating leases for equipment that we have historically purchased.

Customer retention

Subscription contracts are typically for a term of three years at contract inception with one to three-year renewals thereafter. Over time, we anticipate a decrease in maintenance contract renewals as we transition our solution portfolio and maintenance customers from a perpetual license-based model to a cloud-based subscription delivery model. We also anticipate an increase in subscription contract renewals as we continue focusing on innovation, quality and the integration of our subscription solutions which we believe will provide value-adding capabilities to better address our customers' needs. Due primarily to these factors, we believe a recurring revenue customer retention measure that combines subscription and maintenance customer contracts provides a better representation of our customers' overall behavior. During 2017 and 2016, approximately 93% of our customers with recurring subscription or maintenance contracts were retained. As discussed above, we are investing in our customer success program, which we believe will drive increased customer retention over the long-term.

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Blackbaud, Inc.

Balance sheet and cash flow

At December 31, 2017, our cash and cash equivalents were \$29.8 million and the carrying amount of our debt under the 2017 Credit Facility was \$437.1 million. Our net leverage ratio was 2.13 to 1.00.

During 2017, we generated \$176.3 million in cash flow from operations, had net cash outlays of \$146.8 million for the acquisitions of AcademicWorks and JustGiving, returned \$23.1 million to stockholders by way of dividends and had cash outlays of \$38.6 million for purchases of property and equipment and capitalized software development costs.

Results of Operations

Change in Reportable Segments

Prior to the fourth quarter of 2017, we operated in three business segments: (i) GMG (ii) EMG and (iii) IMG. As discussed above, we have centralized our business operations over the last few years to allow us to gain productivity, efficiency and scalability. Areas of our operations we have centralized, include, but are not limited to, marketing, finance, sales excellence, human resources, corporate IT, legal and contracting, real estate and facilities, research and development, customer support, customer success, product management, professional services and training services. With our organizational model now largely complete, we made changes to our internal reporting structure in the fourth quarter of 2017 to better support and assess the operations of our business going forward. As a result, we now have one operating and reportable segment. See Note 2 of our consolidated financial statements in this report for additional information.

Comparison of 2017 to 2016 and 2016 to 2015

During 2017, 2016 and 2015, we acquired companies that provided us with strategic opportunities to expand our TAM and share of the philanthropic giving market through the integration of complementary solutions and services to serve the changing needs of our customers. The following are the companies we acquired and their respective acquisition dates:

- Giving Limited ("JustGiving") – October 2, 2017;
- AcademicWorks, Inc. ("AcademicWorks") – April 3, 2017;
- Good+Geek, Inc., ("Attentive.ly") – July 11, 2016; and
- Smart, LLC ("Smart Tuition") – October 2, 2015.

We have included the results of operations of acquired companies in our consolidated results of operations from the date of their respective acquisition. We determined that the JustGiving, AcademicWorks and Attentive.ly acquisitions were not material business combinations; therefore, revenue and earnings since the acquisition date and pro forma information are not required or presented. Because we have integrated the operations of Smart Tuition into ours, it is impracticable to determine amounts of revenue and operating costs attributable solely to this acquired company for 2017 and 2016. See Note 3 to our consolidated financial statements in this report for a summary of these acquisitions.

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Blackbaud, Inc.

Operating results

Subscriptions

(dollars in millions)	Years ended December 31,					
	2017	Change	2016	Change	2015	
Subscriptions revenue ⁽¹⁾	\$522.9	21.9	% \$429.0	29.3	% \$331.8	
Cost of subscriptions	242.7	13.5	% 213.9	27.8	% 167.3	
Subscriptions gross profit ⁽²⁾	\$280.1	30.2	% \$215.1	30.8	% \$164.4	
Subscriptions gross margin	53.6	%	50.1	%	49.6	%

(1) Included in subscriptions revenue for 2016 was \$39.3 million attributable to the inclusion of Smart Tuition.

(1) Included in subscriptions revenue for 2015 was \$8.3 million attributable to the inclusion of Smart Tuition.

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

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

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

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

2017 vs. 2016

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

The increase in cost of subscriptions during 2017, when compared to 2016, was driven primarily by increases in transaction-based costs related to our payments services of \$19.0 million, costs of third-party technology embedded in certain of our subscription solutions of \$7.4 million and amortization of software development costs of \$4.3 million. The increase in amortization of software development costs was primarily due to investments made on innovation, quality and the integration of our cloud-based solutions.

The increase in subscriptions gross margin when comparing 2017 to 2016 was primarily the result of the positive economics of shifting customers to our next generation cloud-based solutions as growth in subscriptions revenue outpaced the growth in related costs.

2016 vs. 2015

Excluding the incremental subscriptions revenue from Smart Tuition as discussed above, subscriptions revenue increased by \$66.2 million during 2016 when compared 2015. The increase was primarily due to strong demand across our cloud-based solution portfolio and, to a lesser extent, increases in the number of customers and the volume of transactions for which we process payments.

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Blackbaud, Inc.

The increase in cost of subscriptions during 2016, when compared to 2015, was slightly lower than the increase in revenue. The increase in cost of subscriptions was driven primarily by increases in transaction-based costs related to our payments services and those of Smart Tuition of \$21.8 million, amortization of intangible assets from business combinations of \$8.2 million, third-party contractor expenses \$4.4 million, costs of third-party technology embedded in certain of our subscription solutions of \$4.4 million and increases in amortization of software development costs of \$3.0 million. The increase in amortization of intangible assets from business combinations was primarily due the incremental amortization of intangible assets arising from the acquisition of Smart Tuition in October 2015. The increases in third-party contract costs and amortization of software development costs were from investments made on innovation, quality and the integration of our cloud-based solutions.

The increase in subscriptions gross margin when comparing 2016 to 2015 was primarily the result of disciplined management of headcount and compensation costs as the growth in subscriptions revenue outpaced the growth in related costs.

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Blackbaud, Inc.

Maintenance

(dollars in millions)	Years ended December 31,				
	2017	Change	2016	Change	2015
Maintenance revenue	\$128.2	(12.8)%	\$146.9	(4.5)%	\$153.8
Cost of maintenance	23.0	4.0 %	22.1	(18.4)%	27.1
Maintenance gross profit ⁽¹⁾	\$105.2	(15.7)%	\$124.9	(1.5)%	\$126.7
Maintenance gross margin	82.1 %		85.0 %		82.4 %

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

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

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

2017 vs. 2016

The decrease in maintenance revenue during 2017, when compared to 2016, was primarily comprised of (i) reductions in maintenance from contracts that were migrated to a cloud-based subscription or not renewed and reductions in contracts with existing customers of \$30.3 million; partially offset by (ii) incremental maintenance from new customers associated with new license contracts and increases in contracts with existing customers of \$10.7 million; and (iii) incremental maintenance from contractual inflationary rate adjustments of \$0.9 million.

Cost of maintenance increased during 2017, when compared to 2016, primarily as a result of an increase in compensation costs of \$1.0 million, driven by a refinement in the method in which we allocate customer support costs between cost of maintenance and cost of subscriptions.

Maintenance gross margin decreased during 2017, when compared to 2016, primarily due to the increase in maintenance customer support costs combined with the decline in maintenance revenue as discussed above.

2016 vs. 2015

The decrease in maintenance revenue during 2016, when compared to 2015, was primarily related to a reduction in maintenance contracts associated with our on-premises Raiser's Edge and Financial Edge solutions as customers migrated to our cloud-based NXT solutions, partially offset by increases in maintenance contracts associated with Blackbaud Enterprise CRM.

The decrease in maintenance revenue during 2016 was primarily comprised of (i) \$23.2 million of reductions in maintenance from contracts that were migrated to a cloud-based subscription or not renewed and reductions in contracts with existing customers; partially offset by (ii) \$15.3 million of incremental maintenance from new customers associated with new license contracts and increases in contracts with existing customers; and (iii) \$1.0 million of incremental maintenance from contractual inflationary rate adjustments.

Cost of maintenance decreased during 2016, when compared to 2015, primarily as a result of a decrease in compensation costs of \$4.9 million, from a shift in support headcount from maintenance towards sales, marketing and customer success expense, and a shift in the volume of customer support requests from maintenance towards subscriptions. Also contributing to the decrease in compensation costs was an improvement in the efficiency of our customer support center.

Maintenance gross margin increased during 2016, when compared to 2015, primarily due to the shift in compensation costs from maintenance as discussed above, as well as the improvement in the efficiency of our customer support center.

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Blackbaud, Inc.

Services and other

(dollars in millions)	Years ended December 31,					
	2017	Change	2016	Change	2015	
Services and other revenue	\$137.3	(11.4)%	\$154.9	1.6	%	\$152.4
Cost of services revenue and other	96.2	(6.8)%	103.2	(6.3)%	110.2	
Services and other gross profit ⁽¹⁾	\$41.1	(20.4)%	\$51.6	22.5	%	\$42.2
Services and other gross margin	29.9	%	33.3	%	27.7 %	

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

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

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

2017 vs. 2016

Services and other revenue decreased during 2017, when compared to 2016, primarily due to a \$14.4 million decrease in consulting revenue and, to a much lesser extent, declines in license fees revenue and analytics revenue. We expected the ongoing shift in our go-to-market strategy towards cloud-based subscription offerings, which, in general, require less implementation services and little to no customization services to negatively impact services and other revenue. We have also used promotions and discounts for our consulting services as incentives to accelerate the migration of our existing customer base from on-premises solutions toward our cloud-based subscriptions. The maturation of our Blackbaud Enterprise CRM solution is lessening the extent of implementation services required for that solution. In addition, we are increasingly selling our Blackbaud CRM solution as a subscription offering, which has resulted in less license fees revenue. We expect that the ongoing shift in our go-to-market strategy, as discussed above, will continue to negatively impact services and other revenue in the near-term, but the impact is expected to be more modest.

The decrease in cost of services and other during 2017, when compared to 2016, was primarily due to a decrease in compensation costs of \$3.7 million, which is in line with the ongoing shift in our go-to-market strategy as discussed above.

Services and other gross margin decreased during 2017, when compared to 2016, primarily due to the declines in consulting, license fees and analytics revenue coupled with the more modest reductions in costs of services and other.

2016 vs. 2015

Services and other revenue increased modestly during 2016, when compared to 2015, primarily due to increases in deliveries of consulting and training services related to our cloud-based solutions, as well as a reduction in non-billable implementation service hours. The growth in services revenue was partially offset by a decrease in license fees revenue primarily due to the continued transition of our solution portfolio away from a perpetual license-based model.

The decrease in cost of services and other during 2016, when compared to 2015, was primarily due to a decrease in compensation costs of \$4.2 million, related to utilization improvements and a reduction in non-billable implementation service hours for our Blackbaud Enterprise CRM solution.

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Blackbaud, Inc.

Services gross margin increased during 2016, when compared to 2015, primarily due to increased consulting and training revenue coupled with improvements in the utilization of consulting services personnel and a reduction in non-billable implementation hours.

Operating expenses

Sales, marketing and customer success

(dollars in millions)	Years ended December 31,					
	2017	Change	2016	Change	2015	
Sales, marketing and customer success expense	\$173.5	11.4 %	\$155.8	26.0 %	\$123.6	
% of total revenue	22.0 %		21.3 %		19.4 %	

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

2017 vs. 2016

We continue to make investments to drive sales effectiveness, which is a component of our four-point growth strategy to accelerate revenue growth. We also continue investing in our customer success organization to drive customer loyalty, retention and referrals. The increases in sales, marketing and customer success expense in dollars and as a percentage of total revenue during 2017, when compared to 2016, was primarily due to an increase in compensation costs of \$12.8 million. Also contributing to the increase in sales, marketing and customer success expense was an increase in commissions expense of \$2.0 million. Compensation costs increased primarily due to incremental headcount associated with the increase in direct sales, marketing, and customer success efforts of our growing operations. The increase in commissions expense was primarily driven by an increase in commissionable sales.

2016 vs. 2015

The increases in sales, marketing and customer success expense in dollars and as a percentage of total revenue during 2016, when compared to 2015, was primarily due to increases in compensation costs of \$21.5 million and commissions expense of \$5.6 million. Compensation costs increased primarily due to incremental headcount to support the increase in direct sales, marketing, and customer success efforts of our growing operations. The expansion of our customer success program is targeted to ensure our customers are fully realizing the value of our solutions, which we believe will drive customer loyalty and retention and will also result in increased customer referrals. The increases in commission expense were primarily driven by increases in commissionable revenue during 2016 when compared to 2015. The inclusion of Smart Tuition for the full year in 2016 also contributed to the increases in compensation costs and commissions expense.

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Blackbaud, Inc.

Research and development

(dollars in millions)	Years ended December 31,					
	2017	Change	2016	Change	2015	
Research and development expense ⁽¹⁾	\$89.9	—	% \$89.9	6.2	%	\$84.6
% of total revenue	11.4	%	12.3	%	13.3	%

Not included in research and development expense for 2017, 2016 and 2015 were \$28.0 million, \$26.2 million, and \$15.5 million, respectively, of qualifying costs associated with development activities that are required to be capitalized under the internal-use software accounting guidance such as those related to development of our next (1) generation cloud-based solutions, as well as development costs associated with acquired companies. Qualifying capitalized software development costs associated with our cloud-based solutions are subsequently amortized to cost of subscriptions revenue over the related asset's estimated useful life, which generally range from three to seven years.

Research and development expense includes compensation costs for engineering and product management personnel, third-party contractor expenses, software development tools and other expenses related to researching and developing new solutions, upgrading and enhancing existing solutions, and allocated depreciation, facilities and IT support costs. 2017 vs. 2016

We continue to make investments to deliver integrated and open solutions in the cloud, which is a component of our four-point growth strategy to accelerate revenue growth. Research and development expense remained unchanged during 2017, when compared to 2016. During 2017, an increase in compensation costs of \$1.3 million associated with our addition of specialized engineering resources to help drive our solution development efforts was offset primarily by an increase in the amount of software development costs that were capitalized of \$1.9 million. As discussed above, the increases in the amounts capitalized were a result of incurring more qualifying costs associated with development activities that are required to be capitalized under the internal-use software guidance. We expect that the amount of software development costs capitalized will continue to increase modestly in the near-term as we make investments in innovation, quality and the integration of our solutions, which we believe will drive long-term revenue growth. Research and development expense decreased as a percentage of total revenue during 2017, when compared to 2016, primarily due to productivity gains, which have allowed us to scale our business. The increases in the amounts of software development costs capitalized as discussed above also contributed to the decreases in research and development expense as a percentage of total revenue.

2016 vs. 2015

The increase in research and development expense during 2016, when compared to 2015, was primarily due to an increase in compensation costs of \$13.0 million. We have added engineering headcount to drive our solution development efforts, and the inclusion of Smart Tuition added to the increases in compensation costs. Also contributing to the increase in research and development expense during 2016 was an increase in third-party contractor expenses of \$1.8 million, to assist in our solution development efforts. Partially offsetting these increases during 2016 was an increase of \$10.7 million in the amount of software development costs that were capitalized. As discussed above, the increase in the amount capitalized was a result of incurring more qualifying costs associated with development activities that are required to be capitalized under the internal-use software accounting guidance. Research and development expense decreased as a percentage of total revenue during 2016, when compared to 2015, primarily due to the increase in the amount of software development costs capitalized as discussed above.

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Blackbaud, Inc.

General and administrative

(dollars in millions)	Years ended December 31,					
	2017	Change		2016	Change	2015
General and administrative expense	\$94.9	16.6	%	\$81.3	6.9	% \$76.1
% of total revenue	12.0	%		11.1	%	11.9 %

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

2017 vs. 2016

The increase in general and administrative expense during 2017, when compared to 2016, was primarily due to increases in rent expense of \$4.4 million and employee severance costs of \$2.4 million. A net increase in acquisition-related expenses and integration costs of \$5.2 million during 2017 also drove up general and administrative expense. The increase in rent expense was primarily driven by the end in the fourth quarter of 2016 of the South Carolina state incentive payments we received as a result of locating our headquarters facility in Berkeley County, South Carolina. These amounts were recorded as a reduction of rent expense upon receipt. Also contributing to the increase in rent expense were new operating leases for equipment that we have historically purchased. General and administrative expense as a percentage of total revenue increased during 2017, when compared to 2016, primarily due to the incremental acquisition-related costs and rent expense discussed above.

2016 vs. 2015

The increase in general and administrative expense during 2016 was driven primarily by an increase in compensation costs of \$5.1 million. Compensation costs increased primarily due to increases in stock-based compensation expense, employee benefit costs and salaries for the resources needed to support the growth of our business. The increase in stock-based compensation expense was primarily driven by an increase in the grant date fair value of our annual equity awards granted during 2016 when compared to the grant date fair value of our annual equity awards granted during 2015. The inclusion of Smart Tuition also contributed to the growth in general and administrative expense during 2016.

General and administrative expense decreased as a percentage of total revenue during 2016, when compared to the same periods in 2015, primarily due our successful integration of Smart Tuition as well as progress against our operating efficiency initiative, which allowed us to improve resource effectiveness and maintain tight control over discretionary spending.

Restructuring

During 2017, in an effort to improve operating efficiency and further our organizational objectives, we initiated a plan to relocate some of our existing offices to highly modern and more collaborative workspaces with short-term financial commitments. These workspaces are also more centrally located for our employees and closer to our customers. We are currently evaluating the total before-tax restructuring costs we expect to incur as a result of this plan through 2019. Restructuring costs expected to be incurred consist primarily of costs to terminate existing lease agreements. For the year ended December 31, 2017, we incurred restructuring costs of \$0.8 million related to the termination of our lease for office space in Emeryville, CA. For additional details about our restructuring activity, see Note 20