



blackbaud®



Blackbaud Q1 Investor Presentation

Ticker: BLKB
April 30, 2018



Forward-Looking Statements

Forward-Looking Statements: This presentation contains forward-looking statements within the meaning of 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 in this presentation consist of, among other things, statements regarding future operating results, all of which are based on current expectations, estimates, and forecasts, and the beliefs and assumptions of the Company's management. Words such as "expects," "anticipates," "aims," "projects," "intends," "plans," "likely," "will," "should," "believes," "estimates," "seeks," variations of such words, and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that could cause actual results to differ materially from the Company's expectations expressed in this presentation include: expectations for achievement of 2018 financial guidance; risks associated with fluctuations in foreign exchange rates and the related impact on 2018 financial guidance; expectations for continuing to successfully execute the Company's growth and operational improvement strategies; expectations of future growth in the global giving software solutions market, segments within that market and the Company's total addressable market; expectations that achieving the Company's goals will extend its competitive advantage and provide improved product quality and innovative solutions for its customers; expectations that the consolidation of legacy systems into best-of-breed platforms will drive increasing operating efficiency and contribute to margin improvement; expectations that the Company's financial position provides flexibility to fuel future growth through acquisitions or other opportunities; expectations that past acquisitions have expanded the Company's customer and market opportunities; risks associated with acquisitions; uncertainty regarding increased business and renewals from existing customers; risks associated with implementation of software products; the ability to attract and retain key personnel; risks related to the Company's leverage, credit facility, dividend policy and share repurchase program; lengthy sales and implementation cycles; technological changes that make the Company's products and services less competitive; risk related to the adequacy of our data security procedures and the other risk factors set forth from time to time in the Company's SEC filings. Factors that could cause or contribute to such differences include, but are not limited to, those summarized under Risk Factors in the Company's most recent annual report on Form 10-K, and any quarterly reports on Forms 10-Q thereafter, copies of which are available free of charge at the SEC's website at www.sec.gov or upon request from the Company's investor relations department. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent the Company's beliefs and assumptions only as of the date of this presentation. Except as required by law, the Company does not intend, and undertakes no obligation, to revise or update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

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Historical Financials and Non-GAAP Financial Measures

Use of Non-GAAP Financial Measures: The Company has provided in this presentation financial information that has not been prepared in accordance with GAAP. The Company uses these non-GAAP financial measures internally in analyzing its financial results and believes they are useful to investors, as a supplement to GAAP measures, in evaluating the Company's ongoing operational performance. The Company believes that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing its financial results from period to period with other companies in the Company's industry, many of which present similar non-GAAP financial measures to investors. These non-GAAP financial measures may not be completely comparable to similarly titled measures of other companies due to potential differences in the exact method of calculation between companies. The Company believes that these non-GAAP financial measures reflect the Company's ongoing business in a manner that allows for meaningful period-to-period comparison and analysis of trends in the Company's business. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Investors are encouraged to review the reconciliation of these non-GAAP measures to their most directly comparable GAAP financial measures.

Blackbaud discusses non-GAAP organic revenue growth measures, including non-GAAP organic revenue growth, non-GAAP organic revenue growth on a constant currency basis and non-GAAP organic recurring revenue growth, which Blackbaud believes provide useful information for evaluating the periodic growth of its business as well as growth on a consistent basis. Each measure of non-GAAP organic revenue growth excludes incremental acquisition-related revenue attributable to companies acquired in the current fiscal year. For companies acquired in the immediately preceding fiscal year, if any, each measure of non-GAAP organic revenue growth reflects presentation of full year incremental non-GAAP revenue derived from such companies as if they were combined throughout the prior period, and it includes the current period non-GAAP revenue attributable to those companies, as if there were no acquisition-related write-downs of acquired deferred revenue to fair value as required by GAAP. In addition, each measure of non-GAAP organic revenue growth excludes prior period revenue associated with divested businesses. The exclusion of the prior period revenue is intended to present the results of the divested businesses within the results of the combined company for the same period of time in both the prior and current periods. Blackbaud believes this presentation provides a more comparable representation of our current business' organic revenue growth and revenue run-rate. In these materials, Blackbaud is presenting the following unaudited information: historical recurring and total revenue for the three month period ended March 31, 2018 and for the fiscal year ended December 31, 2017 and the interim periods therein; calculations for recurring revenue growth and total revenue growth for the period ended March 31, 2018; and calculations of non-GAAP organic recurring revenue growth, non-GAAP organic revenue growth and non-GAAP organic revenue growth on a constant currency basis for the same periods.

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

Historical Financial Statements Being Presented: In these materials, Blackbaud is presenting the following unaudited historical financial information: historical consolidated balance sheets as of the fiscal years ended December 31, 2017 and 2016 and interim consolidated balance sheets for each of the quarters within fiscal 2018 and 2017; historical consolidated statements of comprehensive income for the fiscal years ended December 31, 2017 and 2016 and interim consolidated statements of comprehensive income for each of the quarters within fiscal 2018 and 2017; historical consolidated statements of cash flows for the fiscal years ended December 31, 2017 and 2016 and interim consolidated statements of cash flows for each of the interim year-to-date periods within fiscal 2018 and 2017; and historical non-GAAP financial information for the fiscal years ended December 31, 2017 and 2016 and for each of the quarters within fiscal 2018 and 2017 as well as reconciliations of the non-GAAP measures to their most directly comparable GAAP measures and related non-GAAP adjustments. Blackbaud is providing this unaudited financial information to allow investors and analysts to more easily access and review the Company's historical consolidated financial data by including such information in one document. In order to provide comparability between periods presented, certain previously reported historical financial information has been reclassified to conform to the presentation of the most recent reporting period, which is discussed in more detail with that information. In addition, certain of the unaudited historical financial statements have been adjusted for the effects of recently adopted accounting pronouncements, which are discussed in more detail with that information.

Reconciliation of GAAP to Non-GAAP Financial Measures: Reconciliations of the most directly comparable GAAP measures to non-GAAP financial measures and related adjustments, as well as details of Blackbaud's methodology for calculating non-GAAP organic revenue growth, non-GAAP organic revenue growth on a constant currency basis and non-GAAP organic recurring revenue growth can be found in the Appendix to these materials and on the "Investor Relations" page of the company's website.

Blackbaud has not reconciled forward-looking non-GAAP financial measures contained in this investor material to their most directly comparable GAAP measures. Such reconciliations would require unreasonable efforts at this time to estimate and quantify with a reasonable degree of certainty various necessary GAAP components, including for example those related to compensation, acquisition transactions and integration, tax items or others that may arise. These components and other factors could materially impact the amount of the future directly comparable GAAP measures, which may differ significantly from their non-GAAP counterparts

Key Messages

01

The leader in
a large and
growing market

02

Highly
differentiated
from the
competition

03

Executing a clear
four-point growth
strategy



01

Our Markets

03

Strategy for Growth

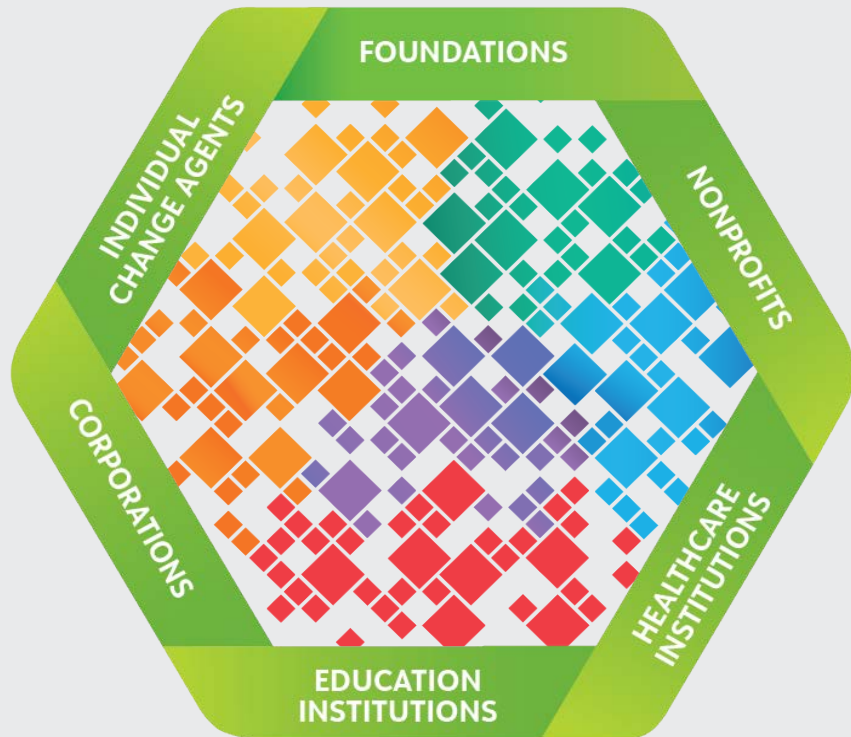
02

Key Differentiators

04

Financial Performance

Social good is a significant, stable, and growing market, spanning the public, private and social sectors.



More than 1.6M nonprofits in the US¹



Over \$2T in annual revenue and expenses¹



\$390B in charitable giving and growing²

- Tracks GDP and S&P 500
- 80% given by individuals
- Less than 10% given online³



3rd largest employer⁴



Foundations have over \$865B in assets⁵



Fortune 500 companies spend over \$15B on corporate social responsibility⁶

Blackbaud is **the world's leading cloud software company** powering social good.

OUR OVER 40,000 CUSTOMERS:

80%

of the "most influential" nonprofits ¹

\$100B

raised, invested, and managed annually ²

93%

of higher education Institutions with billion-dollar campaigns ³

80%

of the largest U.S. nonprofit hospital systems ⁴

OUR PEOPLE:

600+

engineers; Largest R&D investment in the sector

80%

of employees volunteer regularly

25%

employees serve on nonprofit boards

300+

employees worked previously for social good organizations



Read these stories and more in our [customer story showcase](#)

Source: (1) Top 50 listed by [The Street.com](#) featured by [MSN](#) 5/2016; validated 1/2018 (2) Internal Statistics, (3) Council for Advancement and Support of Education, (4) Becker's Hospital Review

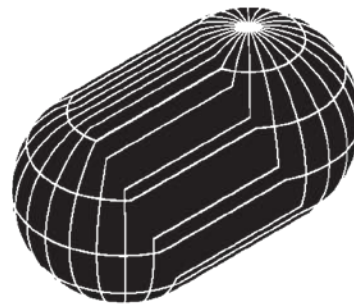
What Others Are Saying



AI Innovation Awards 2017

WINNER

Best AI Innovation
in Charity



FORTUNE®
CHANGE
THE WORLD
RISING STARS
2017



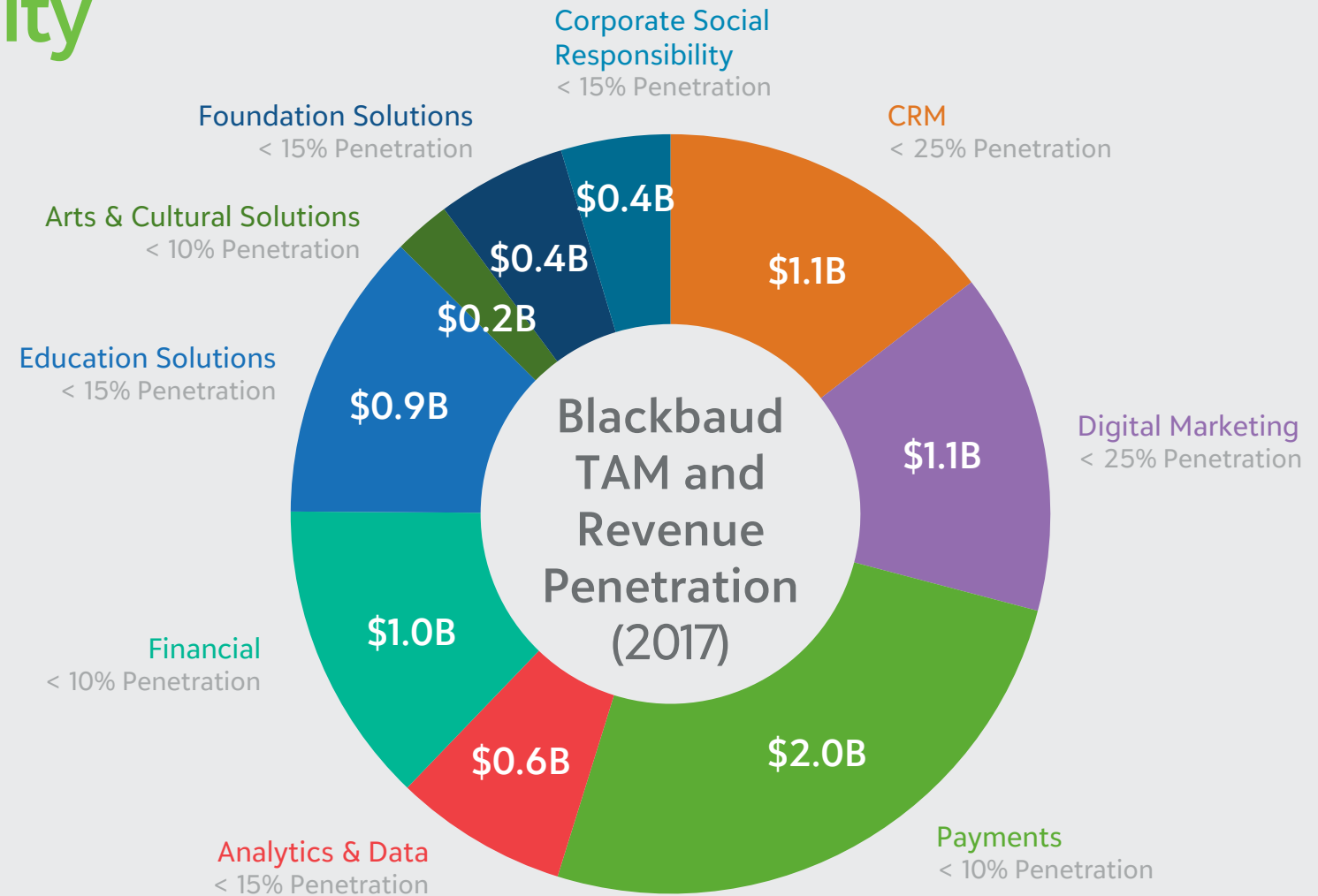
24th Largest Cloud
Software Provider
Worldwide

2017



Substantial TAM with **Significant Penetration Opportunity**

2018 TAM	\$8B+
Penetration	<15%
TAM CAGR	>7%
Acquired TAM (M&A 2014 - present)	~\$2B



TAM represents total estimated annual spend. FY 2017 TAM \$7.6B. FY 2018 TAM \$8.2B

Acquired TAM refers to acquisitions from 2014 to present

Sources: Based on 2013 data derived from primary research – Boston Analytics, Blackbaud Data – IRS, Canadian Customs & Revenue Agency, Caritas, Private School Universe, Carnegie Higher Education, Guidestar; estimated FY 2017 Blackbaud Revenue, OECD, CIA World Factbook, Johns Hopkins University, NTEN 2014 Nonprofit Technology Staffing and Investments Report, Blackbaud internal data



01

Our Markets

02

**Key
Differentiators**

03

Strategy for
Growth

04

Financial
Performance

The Clear Market Leader

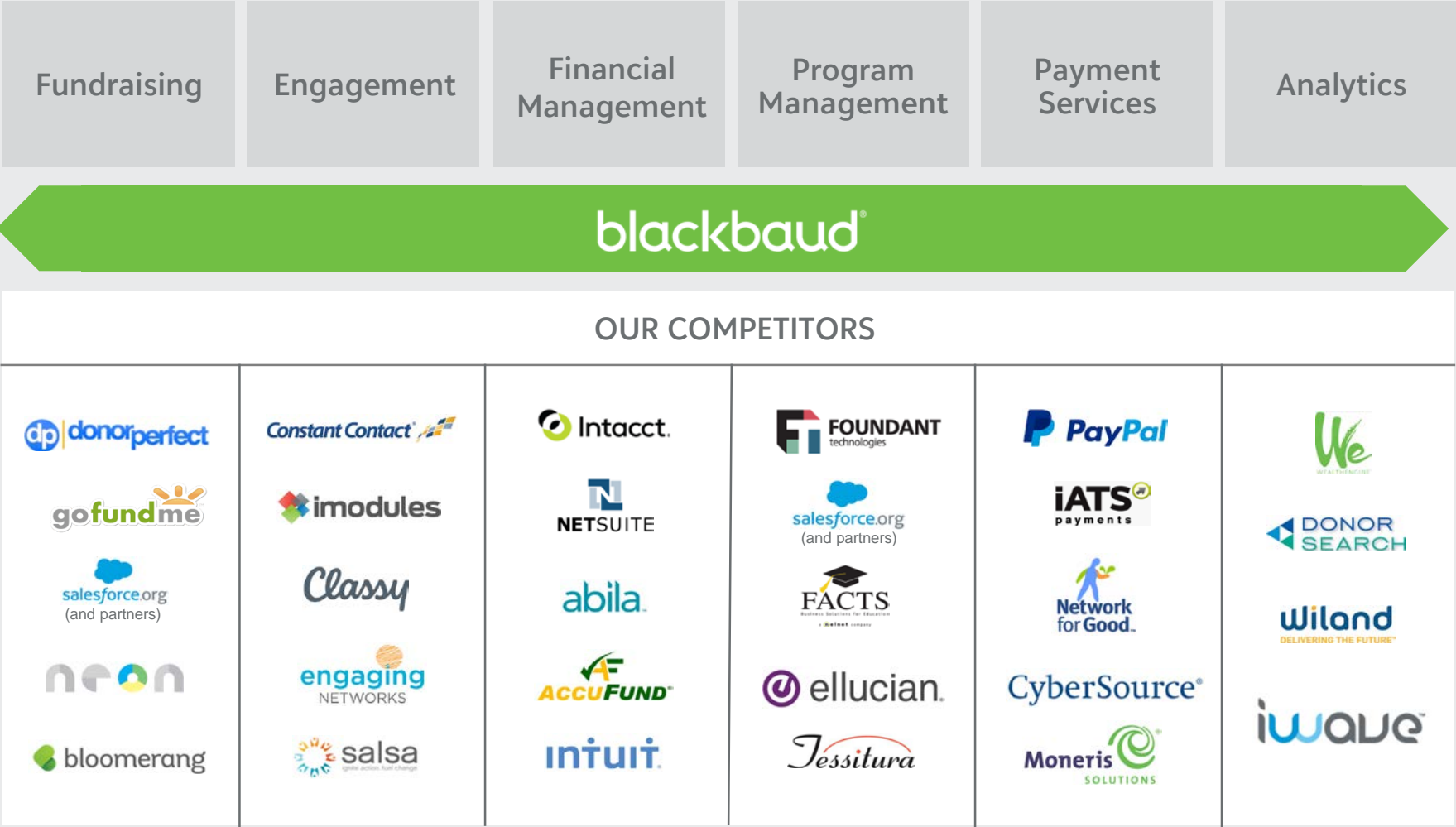
Blackbaud is the **largest cloud software vendor** focused on the social good community¹

Only Blackbaud offers the full portfolio of **purpose-built, integrated solutions**

Highly **fragmented competition** offering single-point solutions

Large customer base with **93% unit retention**

Strong balance sheet and cash flows **to support strategic acquisitions**



1 IDC #24th largest cloud software provider worldwide

The Market's Most Comprehensive Solutions for Social Good

Fundraising & Engagement	Financial Mgmt	Grant & Award Mgmt	Organizational & Program Mgmt	CSR	Payment Services	Analytics
Fundraising & CRM	Fund Accounting	Grantmaking	Ticketing	Employee Giving	Merchant Services	Modeling & Prospect Research
Peer to Peer Fundraising	Grantmaking	Award Mgmt	Advocacy	Employee Volunteering	Mobile Donations	Data Enrichment Services
Advocacy	Tuition Mgmt		Student Information	Peer to Peer Fundraising		Direct Marketing
Marketing	Financial Aid Mgmt		Learning Mgmt			Benchmarking
			Enrollment Mgmt			
			School Website			

Innovative, mobile-first cloud solutions

Industry Leading Cloud Technology

SKY Developer™

Extend and customize Blackbaud solutions with SKY API®, SKY UX® and a superior developer experience

SKY Intelligence™

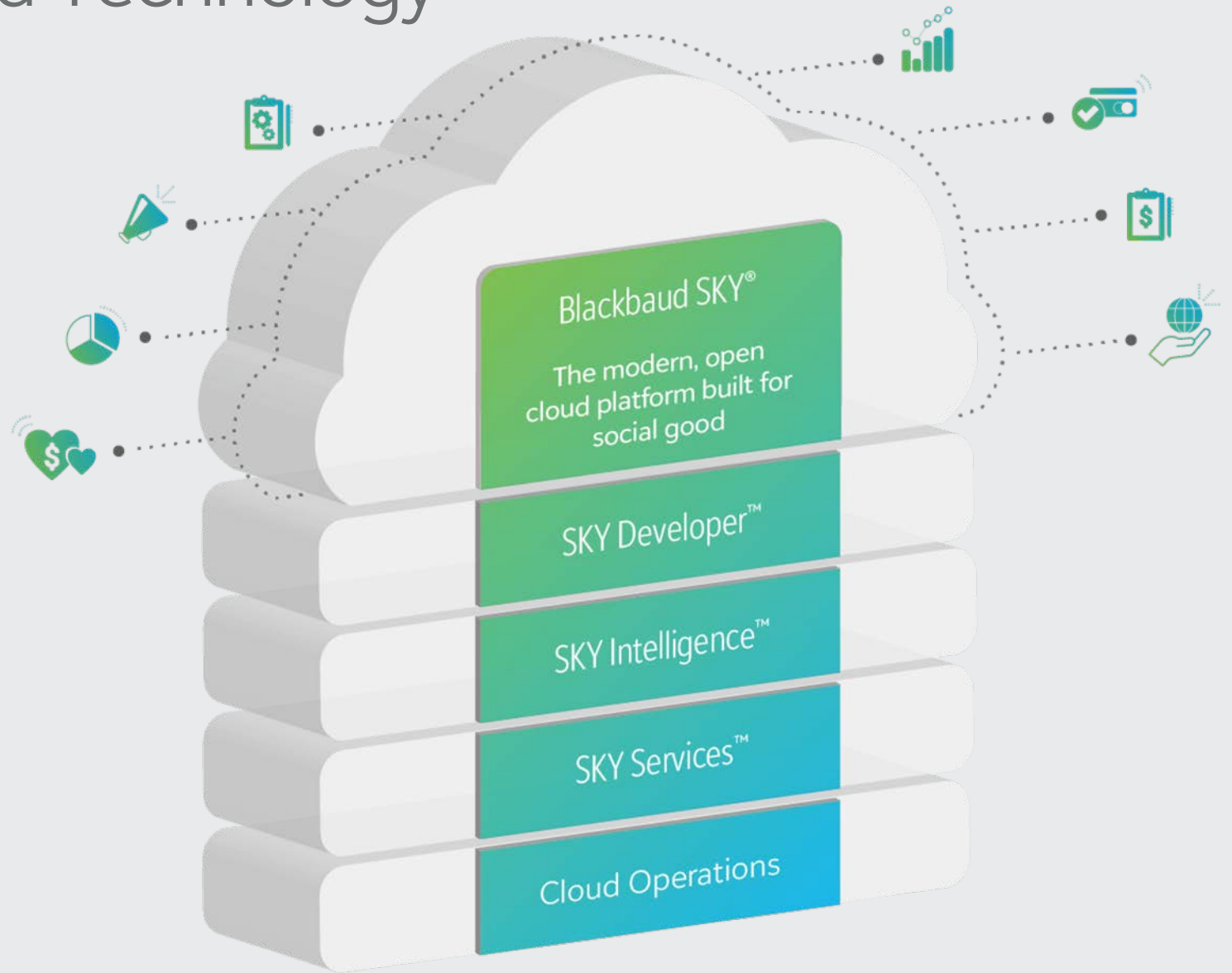
Unmatched insight leveraging the world's most robust data set on philanthropic giving, SKY AI™, SKY Analytics™, and SKY Reporting™

SKY Services™

Modern micro-services drive innovation velocity

Cloud Operations

Accessible anytime, anywhere; rapid enhancements; security and reliability



Unmatched Domain Expertise and Capability



CLOUD SOFTWARE

- Vertically-optimized solutions
- End-to-end platform – we build, support, and service
- Modern cloud 2.0 architecture
- Rapid, ongoing enhancements

SERVICES

- Implementation, adoption, and managed services
- Award-winning customer support and dedicated customer success teams
- Certified training
- Online communities

DATA INTELLIGENCE

- Industry's largest dataset
- Embedded analytics and artificial intelligence
- Common reporting engine
- Powerful modeling and benchmarking

EXPERTISE

- Blackbaud Institute for Philanthropic Impact
- Thought leadership events
- Uniquely qualified experts and data scientists (Social Good Scientists™)



01

Our Markets

02

Key
Differentiators

03

**Strategy for
Growth**

04

Financial
Performance

Executing a Clear **Four-Point Growth Strategy**

STRATEGY 1

Deliver integrated and open solutions in the cloud

STRATEGY 2

Drive sales effectiveness

STRATEGY 3

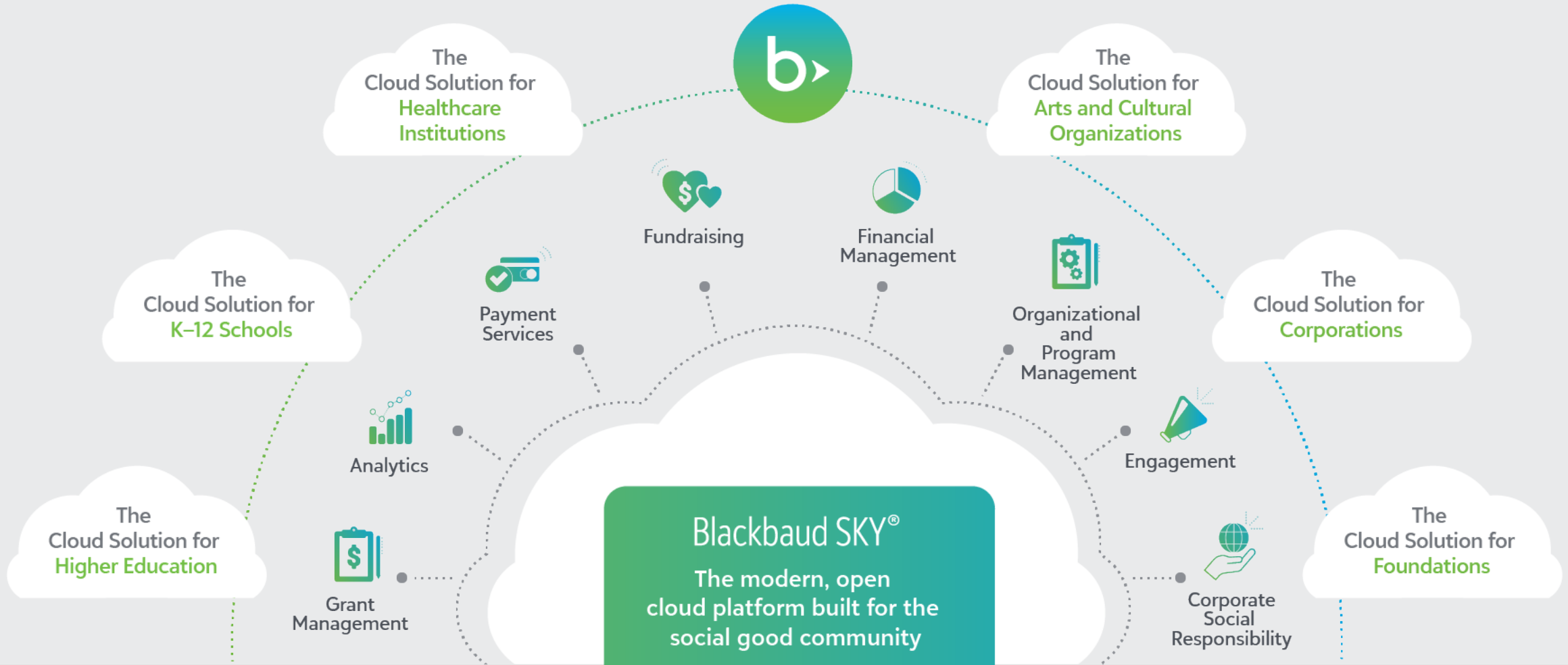
Expand total addressable market

STRATEGY 4

Improve operating efficiency

Deliver Integrated and Open Solutions in the Cloud

STRATEGY 1



Drive Sales Effectiveness

STRATEGY 2

Organizational Framework

Created company's first Global Head of Sales to oversee the complete sales function

Formed formal Customer Success function to take on account management. Allows sales to focus on selling

Bifurcated sales force into hunters and farmers to drive new customer acquisition

Increase Efficiency

Formed formal Sales Excellence program to ensure teams have the talent, processes and tools needed

Implemented common playbook, training across the sales organization to consistently apply best practices

Implemented best-in-breed systems and automated processes equipping reps for success

Market Coverage






Go-to-market organized by vertical to align with customer needs

Actively deploying headcount out of HQ and into major markets

Moving to modern, collaborative offices centrally located near customers and prospects

Expand TAM with Acquisitions

STRATEGY 3

Acquisitions	Vertical	Expand TAM	Accelerate shift to cloud	Accelerate rev growth	Accretive to margins
 JustGiving™	Peer-to-Peer	+\$0.2B	✓	✓	✓
 academicworks	Education & Foundations	+\$0.1B	✓	✓	✓
 SMART TUITION <small>Financial Solutions for Schools and Parents™</small>	Education	+\$0.7B	✓	✓	✓
 MicroEdge®	Foundation & Corporations	+\$0.6B	✓	✓	✓
 WhippleHill	Education	+\$0.3B	✓	✓	✓

JustGiving 10/2017 \$127.4M purchase price
 Academicworks 4/2017 \$50.0M purchase price
 Smart Tuition 10/2015 \$187.8M purchase price
 MicroEdge 10/2014 \$159.8M purchase price
 WhippleHill 6/2014 \$35.0M purchase price

TAM source: Blackbaud internal data

Improve Operating Efficiency

STRATEGY 4

Centers of Excellence

Centralize back-office, professional services and customer support functions with common systems, metrics and measurement

Operational Excellence

Simplify, standardize, optimize, automate

Productivity Improvement

Continuous improvement across all functions of the organization

Results

Highly Scalable
Improved Accuracy
Enriched Quality
Faster M&A Integration
Margin Expansion

Delivered ~100 bps/year
of operating margin
improvement
(2014 – 2017*)

*Assuming 2014 constant currency presentation delivered 320 bps improvement in non-GAAP operating margin (2014-2017). Without normalizing for constant currency delivered 280 bps improvement in non-GAAP operating margin (2014-2017).

01

Our Markets

02

Key
Differentiators

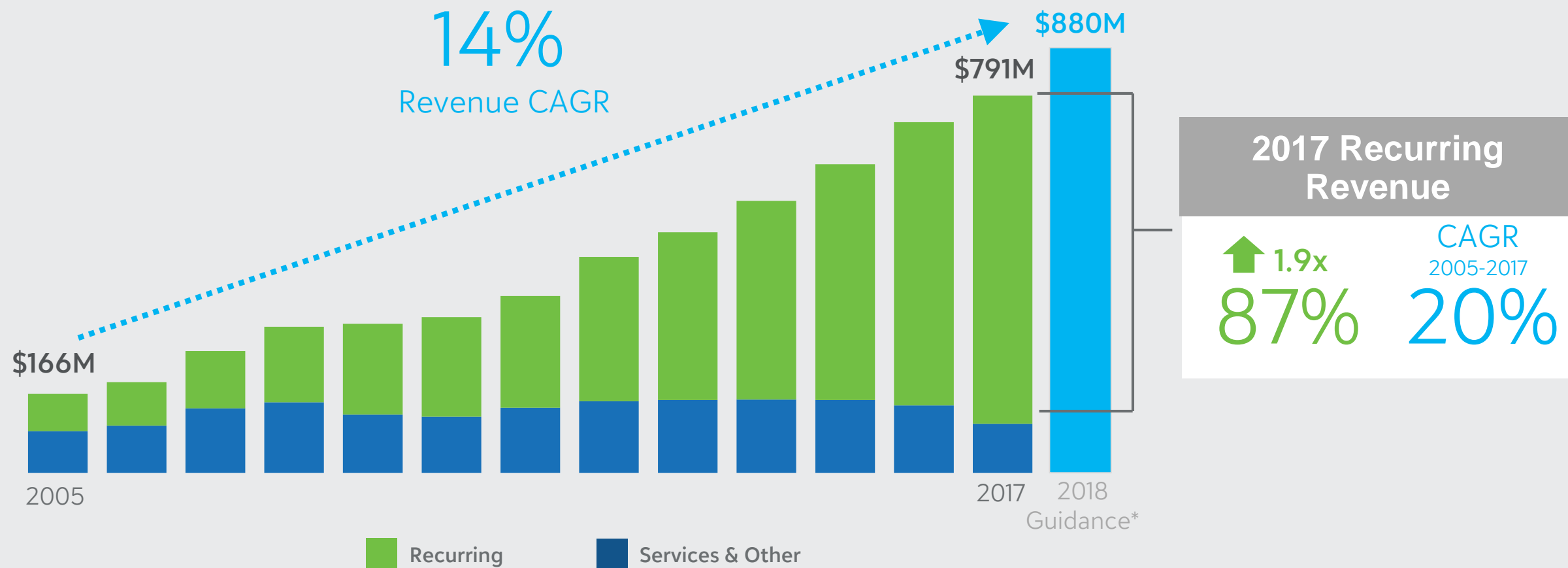
03

Strategy for
Growth

04

**Financial
Performance**

Business Model Drives Recurring Revenue



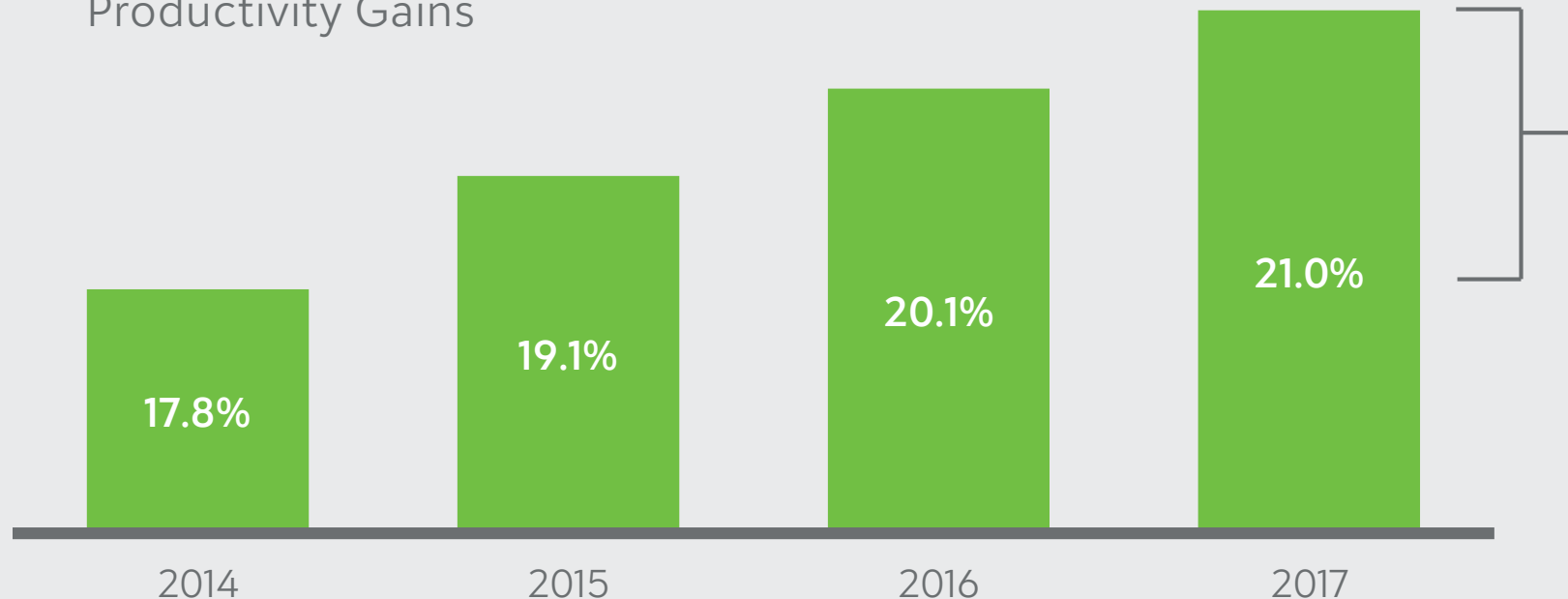
Non-GAAP Revenue. 2016 and 2017 reflect adoption of ASC 606

*Guidance issued 2/6/18. \$880M is the mid-point of Non-GAAP revenue guidance.

Balancing Investments with Operating Margin Expansion

Executing Strategy

Infrastructure Investments
Operational Excellence
Productivity Gains



Operating Margin

↑ 320 bps
2014-2017¹

Future expansion depends on level of investments in:

- Sales and marketing
- Engineering/Innovation

Non-GAAP operating margins at 2014 constant currency. Without normalizing for constant currency delivered 280 bps improvement (2014-2017).
2016 and 2017 shown as reported before adoption of ASC 606

Maintaining a Disciplined Capital Strategy

2018
Free Cash
Flow
\$170M*



~45%

Growth and operating initiatives

- Capital investments consistent with solution roadmap and strategy
- Invest in operational efficiencies
- Strategic acquisitions



~45%

Maintain strong balance sheet

- Cash balances
- Debt maintenance
- Debt to EBITDA < 3.5X



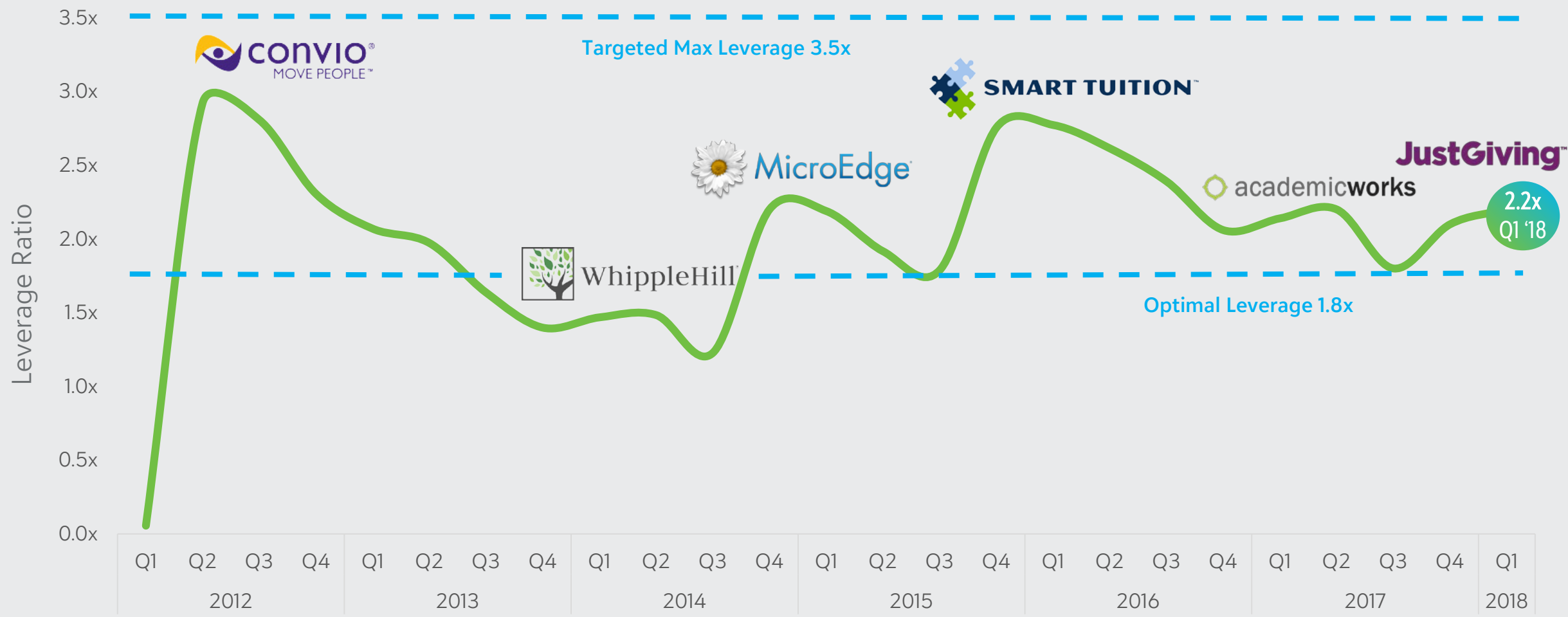
~10%

Return of capital to shareholders*

- Dividend of \$0.48 per share
- Share repurchase—
\$50M authorized and available

*2018 guidance at mid-point, issued on 2/6/2018. Non-GAAP free cash flow is defined as operating cash flow less capital expenditures, including costs required to be capitalized for software development, and capital expenditures for property and equipment. Dividend payments are not guaranteed and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, not to declare or pay further dividends and/or repurchase our common stock.

Proven History of Deleveraging

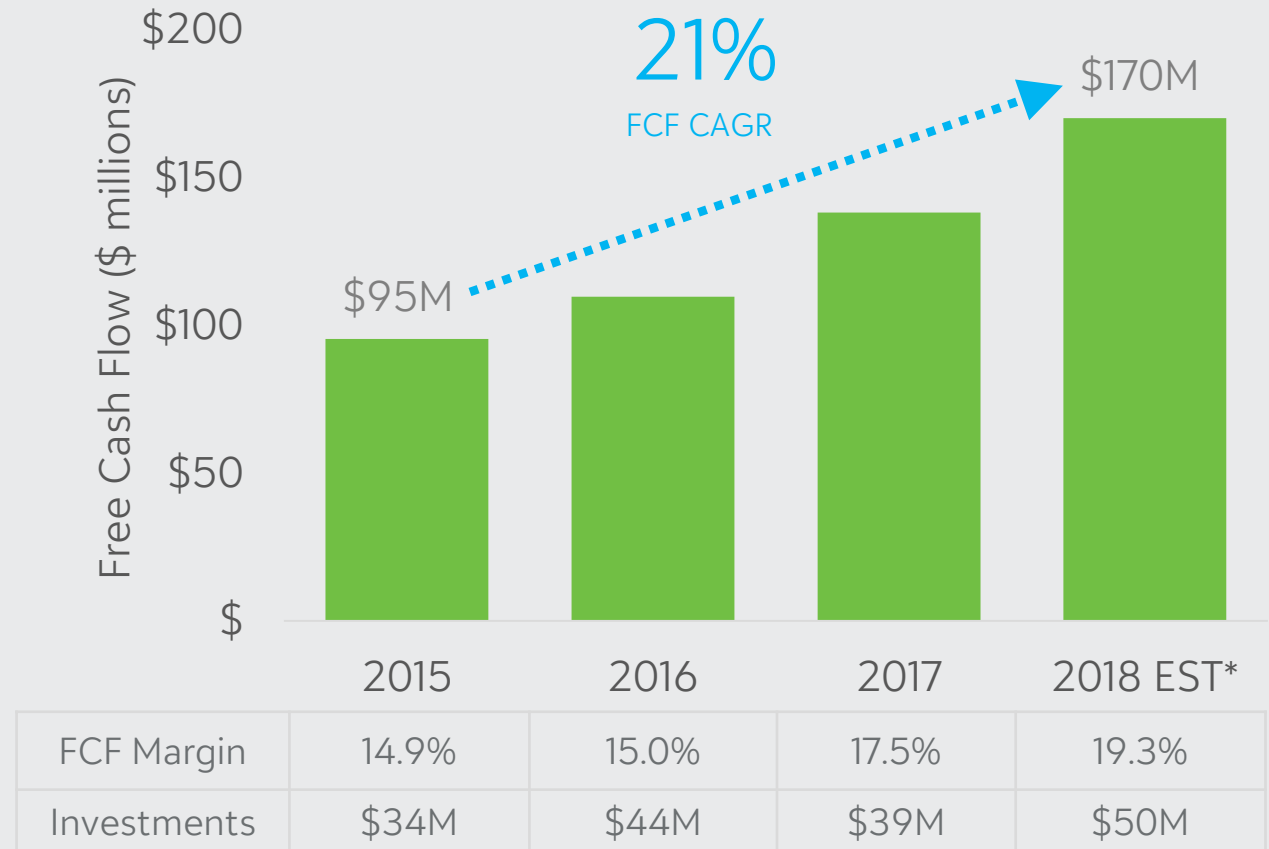


Note: Current covenant for leverage ratio is less than or equal to 3.5x. Calculation of debt over TTM EBITDA is based on credit agreement in place at the end of the respective reporting quarter.

Generating Healthy Free Cash Flow Inclusive of Investments

Free Cash Flow Highlights

- Invest in innovation (capitalized software development)
- Cloud infrastructure investments and workplace strategy (capitalized expenditures)
- Estimating minimal federal cash tax payment in 2018
- Delivering strong Free Cash Flow growth and margin accretion



*Calculations based on 2018 guidance issued 2/6/2018; non-GAAP free cash flow of \$170M at the mid-point inclusive of total capital expenditures and capitalized software development of -\$50M. Non-GAAP free cash flow is defined as operating cash flow less capital expenditures, including costs required to be capitalized for software development, and capital expenditures for property and equipment

Strong Returns on Increasing Investment Base

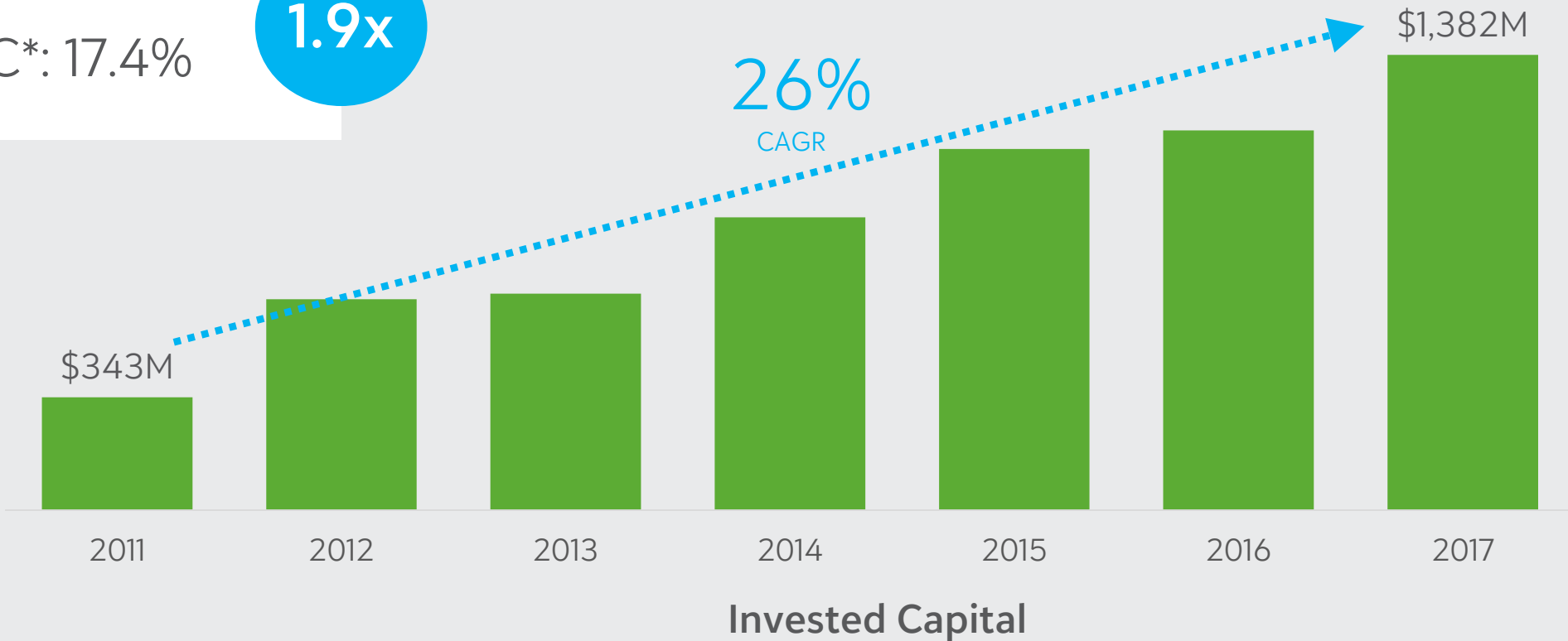
Strong Returns

2017 WACC: 9.0%

2017 ROIC*: 17.4%

1.9x

26%
CAGR



*See appendix for detailed ROIC calculation

Estimating Strong Financial Performance in 2018

Guidance Issued February 2018

		Mid-Point	YoY Growth
Total Revenue	\$870M – \$890M	\$880M	↑ 11%
Operating Margin	20.6%–21.0%	20.8%	↓ 30 bps
Diluted EPS	\$2.75–\$2.88	\$2.81	↑ 26%
Free Cash Flow	\$165M – \$175M	\$170M	↑ 23%

Non-GAAP. Operating margin guidance implies 30 bps decline at the mid-point inclusive of one-time workplace strategy investments. EPS guidance assumes a non-GAAP tax rate of 20%.

Improving Shareholder Value

Performance

Strategy execution is accelerating financial performance

Technology

Early days of integrated vertical cloud solution strategy & TAM expansion

Capital Strategy

Healthy cash flow growth and strong balance sheet

Appendix

Return on Invested Capital (ROIC) Calculation

	<u>2017</u>
Total Assets	1,759,426
Less restricted cash	(611,880)
Less non-interest bearing current liabilities	(355,548)
Add: Accumulated depreciation	103,600
Add: Accumulated amortization of software development	30,306
Add: Accumulated amortization of intangibles	210,957
Add: Research & development (excluding stock-based compensation) 3Y Expense ¹	245,320
Invested Capital	<u>1,382,181</u>
Income from Operations	64,031
Add: Depreciation	17,802
Add: Amortization of software development	12,764
Add: Amortization of intangibles	43,370
EBITDA	<u>137,967</u>
Add: Stock-based compensation	40,631
Add: R&D Exp (excl SBC)	82,146
Adjusted EBITDA	<u>260,744</u>
Less: Implied taxes (assumes 32% tax rate)	(20,490)
Adjusted NOPAT	<u>240,254</u>
Return on invested capital (ROIC)	<u>17.4%</u>

1. Sum of previous three years R&D expense excluding any stock-based compensation

Note: Non-GAAP EBITDA, Adjusted EBITDA, Adjusted NOPAT

Historical Reconciliations of GAAP and Non-GAAP Organic Revenue Growth (Unaudited)

(dollars in thousands)	Three months ended		Year ended	Three months ended			
	03/31/2018	03/31/2017	12/31/2017	12/31/2017	09/30/2017	06/30/2017	03/31/2017
GAAP revenue	\$ 204,184	\$ 185,072	\$ 788,487	\$ 217,402	\$ 194,424	\$ 191,589	\$ 185,072
GAAP revenue growth	10.3%						
Add: Non-GAAP acquisition-related revenue ⁽¹⁾	348	9,202	32,832	1,799	10,228	11,603	9,202
Total Non-GAAP adjustments	348	9,202	32,832	1,799	10,228	11,603	9,202
Non-GAAP revenue ⁽²⁾	\$ 204,532	\$ 194,274	\$ 821,319	\$ 219,201	\$ 204,652	\$ 203,192	\$ 194,274
Non-GAAP organic revenue growth	5.3%						
Non-GAAP revenue ⁽²⁾	\$ 204,532	\$ 194,274	821,319	\$ 219,201	\$ 204,652	\$ 203,192	\$ 194,274
Foreign currency impact on Non-GAAP revenue ⁽³⁾	(2,093)	—	—	—	—	—	—
Non-GAAP revenue on constant currency basis ⁽³⁾	\$ 202,439	\$ 194,274	\$ 821,319	\$ 219,201	\$ 204,652	\$ 203,192	\$ 194,274
Non-GAAP organic revenue growth on constant currency basis	4.2%						
GAAP recurring revenue	180,846	160,047	684,583	190,641	167,506	166,389	160,047
GAAP recurring revenue growth	13.0%						
Add: Non-GAAP acquisition-related recurring revenue ⁽¹⁾	303	9,009	32,503	1,754	10,182	11,558	9,009
Total Non-GAAP adjustments	303	9,009	32,503	1,754	10,182	11,558	9,009
Non-GAAP recurring revenue	\$ 181,149	\$ 169,056	\$ 717,086	\$ 192,395	\$ 177,688	\$ 177,947	\$ 169,056
Non-GAAP organic recurring revenue growth	7.2%						

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

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

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

Reconciliation of GAAP to Non-GAAP Consolidated Statements of Operations (Unaudited)

Three Months Ended March 31, 2018										
(dollars in thousands, except per share amounts)	GAAP	Acquisition-related Deferred Revenue Write-down	Stock-based Compensation Expense	Amortization of Intangibles from Business Combinations	Employee Severance	Acquisition-related Integration Costs	Acquisition-related Expenses	Restructuring	Non-GAAP Adjustments Subtotal	Non-GAAP
Revenue										
Recurring	\$ 180,846	\$ 303	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 303	\$ 181,149
One-time services and other	23,338	45	—	—	—	—	—	—	45	23,383
Total revenue	204,184	348	—	—	—	—	—	—	348	204,532
Cost of revenue										
Cost of recurring	69,079	—	(452)	(9,785)	(181)	—	—	—	(10,418)	58,661
Cost of one-time services and other	18,958	—	(643)	(601)	(394)	—	—	—	(1,638)	17,320
Total cost of revenue	88,037	—	(1,095)	(10,386)	(575)	—	—	—	(12,056)	75,981
Gross profit	116,147	348	1,095	10,386	575	—	—	—	12,404	128,551
<i>Recurring gross margin</i>	<i>61.8%</i>								<i>5.8%</i>	<i>67.6%</i>
<i>One-time services and other gross margin</i>	<i>18.8%</i>								<i>7.1%</i>	<i>25.9%</i>
Total Gross Margin	56.9%								6.0%	62.9%
Operating expenses										
Sales, marketing and customer success	45,477	—	(1,825)	—	(274)	(9)	—	—	(2,108)	43,369
Research and development	25,958	—	(2,136)	—	(73)	—	—	—	(2,209)	23,749
General and administrative	25,051	—	(6,036)	—	(9)	(424)	(394)	—	(6,863)	18,188
Amortization	1,269	—	—	(1,269)	—	—	—	—	(1,269)	—
Restructuring	811	—	—	—	—	—	—	(811)	(811)	—
Total operating expenses	98,566	—	(9,997)	(1,269)	(356)	(433)	(394)	(811)	(13,260)	85,306
Income from operations	17,581	348	11,092	11,655	931	433	394	811	25,664	43,245
Total Operating Margin	8.6%								12.5%	21.1%
Net Income	\$ 17,751									\$ 31,910
Shares used in computing diluted earnings per share	48,009									48,009
Diluted earnings per share	\$ 0.37									\$ 0.66

Reconciliation of GAAP to Non-GAAP Consolidated Statements of Operations (Unaudited)

Three Months Ended March 31, 2017										
(dollars in thousands, except per share amounts)	GAAP	Acquisition-related Deferred Revenue Write-down	Stock-based Compensation Expense	Amortization of Intangibles from Business Combinations	Employee Severance	Acquisition-related Integration Costs	Acquisition-related Expenses	Non-GAAP Adjustments Subtotal	Non-GAAP	
Revenue										
Recurring	\$ 160,047	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$	160,047
One-time services and other	25,025	—	—	—	—	—	—	—	—	25,025
Total revenue	185,072	—	—	—	—	—	—	—	—	185,072
Cost of revenue										
Cost of recurring	63,875	—	(380)	(9,204)	(433)	(44)	—	(10,061)		53,814
Cost of one-time services and other	21,607	—	(411)	(651)	(519)	(42)	—	(1,623)		19,984
Total cost of revenue	85,482	—	(791)	(9,855)	(952)	(86)	—	(11,684)		73,798
Gross profit	99,590	—	791	9,855	952	86	—	11,684		111,274
<i>Recurring gross margin</i>	<i>60.1%</i>							<i>6.3%</i>		<i>66.4%</i>
<i>One-time services and other gross margin</i>	<i>13.7%</i>							<i>6.4%</i>		<i>20.1%</i>
Total Gross Margin	53.8%							6.3%		60.1%
Operating expenses										
Sales, marketing and customer success	40,997	—	(1,439)	—	(495)	(18)	—	(1,952)		39,045
Research and development	22,706	—	(1,717)	—	(545)	(32)	—	(2,294)		20,412
General and administrative	21,923	—	(5,347)	—	(754)	(94)	(570)	(6,765)		15,158
Amortization	691	—	—	(691)	—	—	—	(691)		—
Restructuring	—	—	—	—	—	—	—	—		—
Total operating expenses	86,317	—	(8,503)	(691)	(1,794)	(144)	(570)	(11,702)		74,615
Income from operations	13,273	—	9,294	10,546	2,746	230	570	23,386		36,659
Total Operating Margin	7.2%							12.6%		19.8%
Net Income	\$ 13,142								\$	23,506
Shares used in computing diluted earnings per share	47,483									47,483
Diluted earnings per share	\$ 0.28								\$	0.50

Adjusted Unaudited Historical Financial Statements and Non-GAAP Financial Information Being Presented

Recently adopted accounting pronouncements

On January 1, 2018, the Company, adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), using the full retrospective method of transition, which requires that the standard be applied to all periods presented. Adoption of ASU 2014-09 had a material impact on the Company's consolidated balance sheets and statements of comprehensive income, but had no impact on net cash provided by or used in operating, investing or financing activities on the consolidated statements of cash flows. The primary impacts of adopting ASU 2016-09 relate to the deferral of incremental commission and other costs of obtaining contracts with customers and the increase to the amortization period for those costs. Previously, the Company deferred only direct and incremental commission costs to obtain a contract and amortized those costs over the contract term, generally three years, as the revenue was recognized. Under the new standard, the Company defers all incremental commission and related fringe benefit costs to obtain a contract and amortizes these costs in a manner that aligns with the expected period of benefit, which was determined to be five years.

Reclassifications to the unaudited historical financial information

In order to provide comparability between periods presented, certain previously reported historical financial information has been reclassified to conform to the presentation of the most recent reporting period. A summary of those prior period reclassifications is as follows:

- "Our revenue from "subscriptions" and "maintenance" and a portion of our "services and other" have been combined within "recurring" revenue in the consolidated statements of comprehensive income. Similarly, "cost of subscriptions" and "cost of maintenance" and a portion of "cost of services and other" have been combined within "cost of recurring" in the consolidated statements of comprehensive income.
- "Services and other" revenue has been renamed as "one-time services and other" and consists of revenue that did not meet the description of "recurring" revenue in the consolidated statements of comprehensive income.

Historical Consolidated Balance Sheets (Unaudited)

(in thousands)	Restated for ASU 2014-09		Previously Reported		Change	
	Q4 2016	Q4 2017	Q4 2016	Q4 2017	Q4 2016	Q4 2017
Assets						
Current assets:						
Cash and cash equivalents	\$ 16,902	\$ 29,830	\$ 16,902	\$ 29,830	\$ —	\$ —
Restricted cash due to customers	353,771	610,344	353,771	610,344	—	—
Accounts receivable, net of allowance	88,261	95,679	88,932	96,293	(671)	(614)
Customer funds receivable	—	1,536	—	1,536	—	—
Prepaid expenses and other current assets	54,211	61,978	48,314	56,099	5,897	5,879
Deferred tax asset, current portion	—	—	—	—	—	—
Total current assets	513,145	799,367	507,919	794,102	5,226	5,265
Property and equipment, net	50,269	42,243	50,269	42,243	—	—
Software development costs, net	37,582	54,098	37,582	54,098	—	—
Goodwill	438,240	530,249	438,240	530,249	—	—
Intangible assets, net	253,676	314,651	253,676	314,651	—	—
Other assets	52,097	57,238	22,524	24,083	29,573	33,155
Total assets	\$ 1,345,009	\$ 1,797,846	\$ 1,310,210	\$ 1,759,426	\$ 34,799	\$ 38,420
Liabilities and stockholders' equity						
Current liabilities:						
Trade accounts payable	\$ 23,274	\$ 24,693	\$ 23,274	\$ 24,693	\$ —	\$ —
Accrued expenses and other current liabilities	54,196	54,399	54,196	54,399	—	—
Due to customers	353,771	611,880	353,771	611,880	—	—
Debt, current portion	4,375	8,576	4,375	8,576	—	—
Deferred revenue, current portion	243,849	275,063	244,500	276,456	(651)	(1,393)
Total current liabilities	679,465	974,611	680,116	976,004	(651)	(1,393)
Debt, net of current portion	338,018	429,648	338,018	429,648	—	—
Deferred tax liability	43,475	48,023	29,558	37,597	13,917	10,426
Deferred revenue, net of current portion	6,440	3,643	6,440	3,643	—	—
Other liabilities	8,533	5,632	8,533	5,632	—	—
Total liabilities	1,075,931	1,461,557	1,062,665	1,452,524	13,266	9,033
Commitments and contingencies						
Stockholders' equity:						
Preferred stock	—	—	—	—	—	—
Common stock, \$0.001 par value	58	59	58	59	—	—
Additional paid-in capital	310,452	351,042	310,452	351,042	—	—
Treasury stock, at cost	(215,237)	(239,199)	(215,237)	(239,199)	—	—
Accumulated other comprehensive loss	(604)	(642)	(457)	(649)	(147)	7
Retained earnings	174,409	225,029	152,729	195,649	21,680	29,380
Total stockholders' equity	269,078	336,289	247,545	306,902	21,533	29,387
Total liabilities and stockholders' equity	\$ 1,345,009	\$ 1,797,846	\$ 1,310,210	\$ 1,759,426	\$ 34,799	\$ 38,420

Historical Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands, except share and per share amounts)	Restated for ASU 2014-09		Previously Reported ⁽²⁾		Change	
	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017
Revenue						
Recurring	\$ 609,063	\$ 684,583	\$ 575,933	\$ 651,031	\$ 33,130	\$ 33,552
One-time services and other	122,579	103,904	154,882	137,275	(32,303)	(33,371)
Total revenue	731,642	788,487	730,815	788,306	827	181
Cost of revenue						
Cost of recurring	246,669	277,639	235,977	265,713	10,692	11,926
Cost of one-time services and other	92,551	84,265	103,243	96,191	(10,692)	(11,926)
Total cost of revenue	339,220	361,904	339,220	361,904	—	—
Gross profit	392,422	426,583	391,595	426,402	827	181
Operating expenses						
Sales, marketing and customer success	150,157	169,559	155,754	173,525	(5,597)	(3,966)
Research and development	89,870	89,911	89,870	89,911	—	—
General and administrative	81,331	94,870	81,331	94,870	—	—
Amortization	2,840	3,271	2,840	3,271	—	—
Restructuring	—	794	—	794	—	—
Total operating expenses	324,198	358,405	329,795	362,371	(5,597)	(3,966)
Income from operations	68,224	68,178	61,800	64,031	6,424	4,147
Interest expense	(10,583)	(12,097)	(10,583)	(12,097)	—	—
Other income (expense), net	(291)	2,260	(291)	2,260	—	—
Income before provision (benefit) for income taxes	57,350	58,341	50,926	54,194	6,424	4,147
Income tax provision (benefit)	11,946	(15,292)	9,411	(11,739)	2,535	(3,553)
Net income	\$ 45,404	\$ 73,633	\$ 41,515	\$ 65,933	\$ 3,889	\$ 7,700
Earnings per share						
Basic	\$ 0.98	\$ 1.58	\$ 0.90	\$ 1.41	\$ 0.08	\$ 0.17
Diluted	\$ 0.96	\$ 1.54	\$ 0.88	\$ 1.38	\$ 0.08	\$ 0.16
Common shares and equivalents outstanding						
Basic weighted average shares	46,132,389	46,669,440	46,132,389	46,669,440	—	—
Diluted weighted average shares	47,316,538	47,775,702	47,316,538	47,775,702	—	—
Dividends per share	\$ 0.48	\$ 0.48	\$ 0.48	\$ 0.48	\$ —	\$ —
Other comprehensive income (loss)						
Foreign currency translation adjustment	204	(788)	324	(943)	(120)	155
Unrealized gain (loss) on derivative instruments, net of tax	45	751	44	751	1	—
Total other comprehensive income (loss)	249	(37)	368	(192)	(119)	155
Comprehensive income	\$ 45,653	\$ 73,596	\$ 41,883	\$ 65,741	\$ 3,770	\$ 7,855

Note 1: The individual amounts for each quarter may not sum to full year totals due to rounding.

Note 2: See the discussion of our reclassifications of previously reported revenue and costs of revenue above.

Historical Reconciliations of GAAP to Non-GAAP Financial Measures (Unaudited)

(in thousands, except share and per share amounts)	Restated for ASU 2014-09		Previously Reported		Change	
	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017
GAAP Revenue	\$ 731,642	\$ 788,487	\$ 730,815	\$ 788,306	\$ 827	\$ 181
Non-GAAP adjustments:						
Add: Acquisition-related deferred revenue write-down	3,639	2,496	3,639	2,496	—	—
Non-GAAP revenue	\$ 735,281	\$ 790,983	\$ 734,454	\$ 790,802	\$ 827	\$ 181
GAAP gross profit	\$ 392,422	\$ 426,583	\$ 391,595	\$ 426,402	\$ 827	\$ 181
GAAP gross margin	53.6%	54.1%	53.6%	54.1%	—%	—%
Non-GAAP adjustments:						
Add: Acquisition-related deferred revenue write-down	3,639	2,496	3,639	2,496	—	—
Add: Stock-based compensation expense	3,297	3,470	3,297	3,470	—	—
Add: Amortization of intangibles from business combinations	39,558	40,099	39,558	40,099	—	—
Add: Employee severance	382	994	382	994	—	—
Add: Acquisition-related integration costs	—	86	—	86	—	—
Subtotal	46,876	47,145	46,876	47,145	—	—
Non-GAAP gross profit	\$ 439,298	\$ 473,728	\$ 438,471	\$ 473,547	\$ 827	\$ 181
Non-GAAP gross margin	59.7%	59.9%	59.7%	59.9%	—%	—%
GAAP income from operations	\$ 68,224	\$ 68,178	\$ 61,800	\$ 64,031	\$ 6,424	\$ 4,147
GAAP operating margin	9.3%	8.6%	8.5%	8.1%	0.8%	0.5%
Non-GAAP adjustments:						
Add: Acquisition-related deferred revenue write-down	3,639	2,496	3,639	2,496	—	—
Add: Stock-based compensation expense	32,638	40,631	32,638	40,631	—	—
Add: Amortization of intangibles from business combinations	42,398	43,370	42,398	43,370	—	—
Add: Employee severance	1,995	4,345	1,995	4,345	—	—
Add: Acquisition-related integration costs	1,419	966	1,419	966	—	—
Add: Acquisition-related expenses	301	5,914	301	5,914	—	—
Add: Restructuring costs	—	794	—	794	—	—
Subtotal	82,390	98,516	82,390	98,516	—	—
Non-GAAP income from operations	\$ 150,614	\$ 166,694	\$ 144,190	\$ 162,547	\$ 6,424	\$ 4,147
Non-GAAP operating margin	20.5%	21.1%	19.6%	20.6%	0.9%	0.5%
GAAP income before provision for income taxes	\$ 57,350	\$ 58,341	\$ 50,926	\$ 54,194	\$ 6,424	\$ 4,147
GAAP net income	\$ 45,405	\$ 73,633	\$ 41,515	\$ 65,933	\$ 3,890	\$ 7,700
Shares used in computing GAAP diluted earnings per share	47,316,538	47,775,702	47,316,538	47,775,702	—	—
GAAP diluted earnings per share	\$ 0.96	\$ 1.54	\$ 0.88	\$ 1.38	\$ 0.08	\$ 0.16
Non-GAAP adjustments:						
Add: GAAP income tax provision (benefit)	11,946	(15,292)	9,411	(11,739)	2,535	(3,553)
Add: Total Non-GAAP adjustments affecting income from operations	82,390	98,516	82,390	98,516	—	—
(Less) add: (Gain) loss on derivative instruments	—	(462)	—	(462)	—	—
Add: Loss on debt extinguishment	—	299	—	299	—	—
Non-GAAP income before provision for income taxes	139,740	156,694	133,316	152,547	6,424	4,147
Assumed non-GAAP income tax provision ⁽²⁾	44,717	50,142	42,861	48,815	2,056	1,327
Non-GAAP net income	\$ 95,023	\$ 106,552	\$ 90,655	\$ 103,732	\$ 4,368	\$ 2,820
Shares used in computing Non-GAAP diluted earnings per share	47,316,538	47,775,702	47,316,538	47,775,702	—	—
Non-GAAP diluted earnings per share	\$ 2.01	\$ 2.23	\$ 1.92	\$ 2.17	\$ 0.09	\$ 0.06

Note 1: The individual amounts for each quarter may not sum to full year totals due to rounding.

Note 2: Beginning in 2018, we now apply a non-GAAP effective tax rate of 20.0% in our determination of non-GAAP net income. All 2016 and 2017 measures of the tax impact related to non-GAAP adjustments, non-GAAP net income and non-GAAP diluted earnings per share included in these materials are calculated under Blackbaud's historical non-GAAP effective tax rate of 32.0%.

Historical Consolidated Balance Sheets Reflecting the Adoption of ASU 2014-09 (Unaudited)

(in thousands)	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Assets						
Current assets:						
Cash and cash equivalents	\$ 16,902	\$ 13,872	\$ 17,268	\$ 17,050	\$ 29,830	\$ 25,013
Restricted cash due to customers	353,771	157,574	267,940	139,095	610,344	170,792
Accounts receivable, net of allowance	88,261	89,823	129,129	100,097	95,679	88,911
Customer funds receivable	—	—	—	—	1,536	6,373
Prepaid expenses and other current assets	54,211	59,012	59,780	56,638	61,978	68,474
Total current assets	513,145	320,281	474,117	312,880	799,367	359,563
Property and equipment, net	50,269	47,200	45,679	43,903	42,243	44,647
Software development costs, net	37,582	41,139	44,962	48,618	54,098	57,062
Goodwill	438,240	438,307	472,643	472,776	530,249	537,433
Intangible assets, net	253,676	243,263	263,347	252,713	314,651	306,776
Other assets	52,097	50,577	51,902	54,095	57,238	62,453
Total assets	\$ 1,345,009	\$ 1,140,767	\$ 1,352,650	\$ 1,184,985	\$ 1,797,846	\$ 1,367,934
Liabilities and stockholders' equity						
Current liabilities:						
Trade accounts payable	\$ 23,274	\$ 20,666	\$ 17,660	\$ 17,830	\$ 24,693	\$ 23,619
Accrued expenses and other current liabilities	54,196	39,072	46,508	45,650	54,399	40,113
Due to customers	353,771	157,574	267,940	139,095	611,880	177,165
Debt, current portion	4,375	4,375	7,500	8,576	8,576	8,576
Deferred revenue, current portion	243,849	236,143	279,637	275,687	275,063	254,877
Total current liabilities	679,465	457,830	619,245	486,838	974,611	504,350
Debt, net of current portion	338,018	351,995	380,162	329,380	429,648	458,592
Deferred tax liability	43,475	44,195	54,405	55,196	48,023	48,080
Deferred revenue, net of current portion	6,440	7,681	6,067	5,412	3,643	5,075
Other liabilities	8,533	7,802	7,572	7,800	5,632	7,516
Total liabilities	1,075,931	869,503	1,067,451	884,626	1,461,557	1,023,613
Commitments and contingencies						
Stockholders' equity:						
Preferred stock	—	—	—	—	—	—
Common stock, \$0.001 par value	58	58	58	59	59	59
Additional paid-in capital	310,452	319,731	330,559	341,476	351,042	362,113
Treasury stock, at cost	(215,237)	(230,065)	(231,881)	(234,329)	(239,199)	(261,710)
Accumulated other comprehensive loss	(604)	(270)	(623)	(998)	(642)	7,041
Retained earnings	174,409	181,810	187,086	194,151	225,029	236,818
Total stockholders' equity	269,078	271,264	285,199	300,359	336,289	344,321
Total liabilities and stockholders' equity	\$ 1,345,009	\$ 1,140,767	\$ 1,352,650	\$ 1,184,985	\$ 1,797,846	\$ 1,367,934

Historical Consolidated Statements of Comprehensive Income Reflecting the Adoption of ASU 2014-09 (Unaudited)

(in thousands, except share and per share amounts)	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018
Revenue							
Recurring	\$ 609,063	\$ 160,047	\$ 166,389	\$ 167,506	\$ 190,641	\$ 684,583	\$ 180,846
One-time services and other	122,579	25,025	25,200	26,918	26,761	103,904	23,338
Total revenue	731,642	185,072	191,589	194,424	217,402	788,487	204,184
Cost of revenue							
Cost of recurring	246,669	63,875	66,178	66,747	80,839	277,639	69,079
Cost of one-time services and other	92,551	21,607	20,817	20,258	21,583	84,265	18,958
Total cost of revenue	339,220	85,482	86,995	87,005	102,422	361,904	88,037
Gross profit	392,422	99,590	104,594	107,419	114,980	426,583	116,147
Operating expenses							
Sales, marketing and customer success	150,157	40,997	42,580	42,646	43,336	169,559	45,477
Research and development	89,870	22,706	22,870	22,071	22,264	89,911	25,958
General and administrative	81,331	21,923	21,882	23,545	27,520	94,870	25,051
Amortization	2,840	691	739	734	1,107	3,271	1,269
Restructuring	—	—	—	—	794	794	811
Total operating expenses	324,198	86,317	88,071	88,996	95,021	358,405	98,566
Income from operations	68,224	13,273	16,523	18,423	19,959	68,178	17,581
Interest expense	(10,583)	(2,377)	(3,216)	(3,092)	(3,412)	(12,097)	(3,517)
Other (expense) income, net	(291)	286	827	468	679	2,260	160
Income before provision (benefit) for income taxes	57,350	11,182	14,134	15,799	17,226	58,341	14,224
Income tax provision (benefit)	11,946	(1,960)	3,105	2,975	(19,412)	(15,292)	(3,527)
Net income	\$ 45,404	\$ 13,142	\$ 11,029	\$ 12,824	\$ 36,638	\$ 73,633	\$ 17,751
Earnings per share							
Basic	\$ 0.98	\$ 0.28	\$ 0.24	\$ 0.27	\$ 0.78	\$ 1.58	\$ 0.38
Diluted	\$ 0.96	\$ 0.28	\$ 0.23	\$ 0.27	\$ 0.76	\$ 1.54	\$ 0.37
Common shares and equivalents outstanding							
Basic weighted average shares	46,132,389	46,501,761	46,662,481	46,711,709	46,794,744	46,669,440	47,019,603
Diluted weighted average shares	47,316,538	47,482,840	47,691,340	47,846,997	48,014,250	47,775,702	48,009,395
Dividends per share	\$ 0.48	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.48	\$ 0.12
Other comprehensive income (loss)							
Foreign currency translation adjustment	204	152	(348)	(108)	(484)	(788)	6,437
Unrealized gain (loss) on derivative instruments, net of tax	45	182	(4)	(267)	840	751	1,079
Total other comprehensive income (loss)	249	334	(352)	(375)	356	(37)	7,516
Comprehensive income	\$ 45,653	\$ 13,476	\$ 10,677	\$ 12,449	\$ 36,994	\$ 73,596	\$ 25,267

Note 1: The individual amounts for each quarter may not sum to full year totals due to rounding.

Historical Consolidated Statements of Cash Flows Reflecting the Adoption of ASU 2014-09 (Unaudited)

(in thousands)	12 months ending 12/31/2016	3 months ending 3/31/2017	6 months ending 6/30/2017	9 months ending 9/30/2017	12 months ending 12/31/2017	3 months ending 3/31/2018
Cash flows from operating activities						
Net income	\$ 45,404	\$ 13,142	\$ 24,171	\$ 36,995	\$ 73,633	\$ 17,751
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	70,491	18,091	36,481	54,765	73,948	19,820
Provision for doubtful accounts and sales returns	3,730	2,738	5,469	7,246	11,686	1,774
Stock-based compensation expense	32,638	9,294	20,129	31,055	40,631	11,092
Deferred taxes	5,415	592	(1,524)	(568)	(17,814)	902
Amortization of deferred financing costs and discount	958	239	468	650	838	188
Other non-cash adjustments	(864)	(243)	(540)	572	504	(197)
Changes in operating assets and liabilities, net of acquisition of businesses:						
Accounts receivable	(13,007)	(4,027)	(44,809)	(17,097)	(15,821)	5,088
Prepaid expenses and other assets	(8,495)	(3,195)	(3,262)	(2,524)	(9,550)	(10,052)
Trade accounts payable	3,689	(1,267)	(3,951)	(2,891)	1,024	(1,655)
Accrued expenses and other liabilities	(751)	(15,536)	(8,467)	(9,522)	(4,973)	(14,092)
Deferred revenue	14,420	(7,064)	30,386	24,704	22,184	(18,866)
Net cash provided by operating activities	153,628	12,764	54,551	123,385	176,290	11,753
Cash flows from investing activities						
Purchase of property and equipment	(17,694)	(2,719)	(5,666)	(8,417)	(10,208)	(5,771)
Capitalized software development costs	(26,359)	(6,583)	(13,614)	(20,605)	(28,345)	(7,103)
Purchase of net assets of acquired companies, net of cash and restricted cash acquired	(3,377)	59	(49,729)	(49,729)	(146,789)	(5,036)
Purchase of derivative instruments	—	—	(516)	(516)	(568)	—
Proceeds from settlement of derivative instruments	—	—	—	1,030	1,030	—
Net cash used in investing activities	(47,430)	(9,243)	(69,525)	(78,237)	(184,880)	(17,910)
Cash flows from financing activities						
Proceeds from issuance of debt	227,200	67,600	575,700	588,300	774,500	81,700
Payments on debt	(293,575)	(53,794)	(529,169)	(594,144)	(679,119)	(52,875)
Debt issuance costs	—	—	(3,085)	(3,085)	(3,085)	—
Employee taxes paid for withheld shares upon equity award settlement	(15,376)	(14,828)	(16,644)	(19,092)	(23,962)	(22,511)
Proceeds from exercise of stock options	16	11	14	14	15	9
Change in due to customers	96,000	(195,999)	(85,581)	(214,244)	226,717	(434,640)
Customer funds receivable	—	—	—	—	6,644	(4,783)
Dividend payments to stockholders	(22,811)	(5,765)	(11,530)	(17,299)	(23,069)	(5,825)
Net cash (used in) provided by financing activities	(8,546)	(202,775)	(70,295)	(259,550)	278,641	(438,925)
Effect of exchange rate on cash, cash equivalents, and restricted cash	2,622	26	(196)	(126)	(550)	713
Net increase (decrease) in cash, cash equivalents, and restricted cash	100,274	(199,228)	(85,465)	(214,528)	269,501	(444,369)
Cash, cash equivalents, and restricted cash, beginning of period	270,399	370,673	370,673	370,673	370,673	640,174
Cash, cash equivalents, and restricted cash, end of period	\$ 370,673	\$ 171,445	\$ 285,208	\$ 156,145	\$ 640,174	\$ 195,805

Historical Reconciliations of GAAP to Non-GAAP Financial Measures Reflecting the Adoption of ASU 2014-09 (Unaudited)

(in thousands, except share and per share amounts)	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018
GAAP Revenue	\$ 731,642	\$ 185,072	\$ 191,589	\$ 194,424	\$ 217,402	\$ 788,487	\$ 204,184
Non-GAAP adjustments:							
Add: Acquisition-related deferred revenue write-down	3,639	—	348	349	1,799	2,496	348
Non-GAAP revenue	\$ 735,281	\$ 185,072	\$ 191,937	\$ 194,773	\$ 219,201	\$ 790,983	\$ 204,532
GAAP gross profit	\$ 392,422	\$ 99,590	\$ 104,594	\$ 107,419	\$ 114,980	\$ 426,583	\$ 116,147
GAAP gross margin	53.6%	53.8%	54.6%	55.2%	52.9%	54.1%	56.9%
Non-GAAP adjustments:							
Add: Acquisition-related deferred revenue write-down	3,639	—	348	349	1,799	2,496	348
Add: Stock-based compensation expense	3,297	791	950	934	795	3,470	1,095
Add: Amortization of intangibles from business combinations	39,558	9,855	10,072	9,976	10,196	40,099	10,386
Add: Employee severance	382	952	21	—	21	994	575
Add: Acquisition-related integration costs	—	86	—	—	—	86	—
Subtotal	46,876	11,684	11,391	11,259	12,811	47,145	12,404
Non-GAAP gross profit	\$ 439,298	\$ 111,274	\$ 115,985	\$ 118,678	\$ 127,791	\$ 473,728	\$ 128,551
Non-GAAP gross margin	59.7%	60.1%	60.4%	60.9%	58.3%	59.9%	62.9%
GAAP income from operations	\$ 68,224	\$ 13,273	\$ 16,523	\$ 18,423	\$ 19,959	\$ 68,178	\$ 17,581
GAAP operating margin	9.3%	7.2%	8.6%	9.5%	9.2%	8.6%	8.6%
Non-GAAP adjustments:							
Add: Acquisition-related deferred revenue write-down	3,639	—	348	349	1,799	2,496	348
Add: Stock-based compensation expense	32,638	9,294	10,835	10,926	9,576	40,631	11,092
Add: Amortization of intangibles from business combinations	42,398	10,546	10,811	10,710	11,303	43,370	11,655
Add: Employee severance	1,995	2,746	120	128	1,351	4,345	931
Add: Acquisition-related integration costs	1,419	230	—	383	353	966	433
Add: Acquisition-related expenses	301	570	1,762	1,519	2,063	5,914	394
Add: Restructuring costs	—	—	—	—	794	794	811
Subtotal	82,390	23,386	23,876	24,015	27,239	98,516	25,664
Non-GAAP income from operations	\$ 150,614	\$ 36,659	\$ 40,399	\$ 42,438	\$ 47,198	\$ 166,694	\$ 43,245
Non-GAAP operating margin	20.5%	19.8%	21.0%	21.8%	21.5%	21.1%	21.1%
GAAP income before provision for income taxes	\$ 57,350	\$ 11,182	\$ 14,134	\$ 15,799	\$ 17,226	\$ 58,341	\$ 14,224
GAAP net income	\$ 45,405	\$ 13,142	\$ 11,029	\$ 12,824	\$ 36,638	\$ 73,633	\$ 17,751
Shares used in computing GAAP diluted earnings per share	47,316,538	47,482,840	47,691,340	47,846,997	48,014,250	47,775,702	48,009,395
GAAP diluted earnings per share	\$ 0.96	\$ 0.28	\$ 0.23	\$ 0.27	\$ 0.76	\$ 1.54	\$ 0.37
Non-GAAP adjustments:							
Add: GAAP income tax provision (benefit)	11,946	(1,960)	3,105	2,975	(19,412)	(15,292)	(3,527)
Add: Total Non-GAAP adjustments affecting income from operations	82,390	23,386	23,876	24,015	27,239	98,516	25,664
(Less) add: (Gain) loss on derivative instruments	—	—	(475)	3	10	(462)	—
Add: Loss on debt extinguishment	—	—	162	137	—	299	—
Non-GAAP income before provision for income taxes	139,740	34,568	37,697	39,954	44,475	156,694	39,888
Assumed non-GAAP income tax provision ⁽²⁾	44,717	11,062	12,063	12,785	14,232	50,142	7,978
Non-GAAP net income	\$ 95,023	\$ 23,506	\$ 25,634	\$ 27,169	\$ 30,243	\$ 106,552	\$ 31,910
Shares used in computing Non-GAAP diluted earnings per share	47,316,538	47,482,840	47,691,340	47,846,997	48,014,250	47,775,702	48,009,395
Non-GAAP diluted earnings per share	\$ 2.01	\$ 0.50	\$ 0.54	\$ 0.57	\$ 0.63	\$ 2.23	\$ 0.66

Note 1: The individual amounts for each quarter may not sum to full year totals due to rounding.

Note 2: Beginning in 2018, we now apply a non-GAAP effective tax rate of 20.0% in our determination of non-GAAP net income. All 2016 and 2017 measures of the tax impact related to non-GAAP adjustments, non-GAAP net income and non-GAAP diluted earnings per share included in these materials are calculated under Blackbaud's historical non-GAAP effective tax rate of 32.0%.

Historical Reconciliations of GAAP to Non-GAAP Financial Measures Reflecting the Adoption of ASU 2014-09 (Unaudited)

(in thousands)	12 months ending 12/31/2016	3 months ending 3/31/2017	6 months ending 6/30/2017	9 months ending 9/30/2017	12 months ending 12/31/2017	3 months ending 3/31/2018
GAAP net cash provided by operating activities	153,628	12,764	54,551	123,385	176,290	11,753
Less: purchase of property and equipment	(17,694)	(2,719)	(5,666)	(8,417)	(10,208)	(5,771)
Less: capitalized software development costs	(26,359)	(6,583)	(13,614)	(20,605)	(28,345)	(7,103)
Non-GAAP free cash flow	\$ 109,575	\$ 3,462	\$ 35,271	\$ 94,363	\$ 137,737	\$ (1,121)