

BLACKBAUD INC
Form 10-Q
August 04, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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

(State or other jurisdiction of incorporation or organization)

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)

11-2617163

(I.R.S. Employer Identification 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

YES NO

The number of shares of the registrant's Common Stock outstanding as of July 24, 2017 was 48,061,063.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

Important factors that could cause actual results to differ materially from our expectations expressed in forward-looking statements include, but are not limited to, those summarized under "Item 1A. Risk factors" and elsewhere in this report, in our Annual Report on Form 10-K for the year ended December 31, 2016 and in our other SEC filings. Forward-looking statements represent our management's beliefs and assumptions only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update or revise any forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statement, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Blackbaud, Inc.

Consolidated balance sheets

(Unaudited)

(dollars in thousands)	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 17,268	\$ 16,902
Restricted cash due to customers	289,232	353,771
Accounts receivable, net of allowance of \$3,738 and \$3,291 at June 30, 2017 and December 31, 2016, respectively	129,890	88,932
Prepaid expenses and other current assets	51,285	48,314
Total current assets	487,675	507,919
Property and equipment, net	45,679	50,269
Software development costs, net	44,962	37,582
Goodwill	472,643	438,240
Intangible assets, net	263,347	253,676
Other assets	24,080	22,524
Total assets	\$ 1,338,386	\$ 1,310,210
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	\$ 17,660	\$ 23,274
Accrued expenses and other current liabilities	46,508	54,196
Due to customers	289,232	353,771
Debt, current portion	7,500	4,375
Deferred revenue, current portion	280,816	244,500
Total current liabilities	641,716	680,116
Debt, net of current portion	380,162	338,018
Deferred tax liability	40,780	29,558
Deferred revenue, net of current portion	6,067	6,440
Other liabilities	7,572	8,533
Total liabilities	1,076,297	1,062,665
Commitments and contingencies (see Note 10)		
Stockholders' equity:		
Preferred stock; 20,000,000 shares authorized, none outstanding	—	—
Common stock, \$0.001 par value; 180,000,000 shares authorized, 58,456,066 and 57,672,401 shares issued at June 30, 2017 and December 31, 2016, respectively	58	58
Additional paid-in capital	330,559	310,452
Treasury stock, at cost; 10,397,768 and 10,166,801 shares at June 30, 2017 and December 31, 2016, respectively	(231,881)	(215,237)
Accumulated other comprehensive loss	(558)	(457)
Retained earnings	163,911	152,729
Total stockholders' equity	262,089	247,545
Total liabilities and stockholders' equity	\$ 1,338,386	\$ 1,310,210

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

Blackbaud, Inc.

Consolidated statements of comprehensive income
(Unaudited)

(dollars in thousands, except per share amounts)	Three months ended		Six months ended	
	June 30, 2017	2016	June 30, 2017	2016
Revenue				
Subscriptions	\$125,252	\$104,039	\$243,431	\$200,890
Maintenance	32,917	37,449	66,698	74,609
Services and other	34,026	38,703	65,687	73,948
Total revenue	192,195	180,191	375,816	349,447
Cost of revenue				
Cost of subscriptions	57,365	52,163	112,291	101,829
Cost of maintenance	5,871	5,698	11,853	11,016
Cost of services and other	23,759	25,751	48,333	50,656
Total cost of revenue	86,995	83,612	172,477	163,501
Gross profit	105,200	96,579	203,339	185,946
Operating expenses				
Sales, marketing and customer success	42,961	39,408	85,201	75,017
Research and development	22,870	22,748	45,576	45,463
General and administrative	21,882	20,091	43,805	39,770
Amortization	739	708	1,430	1,460
Total operating expenses	88,452	82,955	176,012	161,710
Income from operations	16,748	13,624	27,327	24,236
Interest expense	(3,216)	(2,721)	(5,593)	(5,396)
Other income (expense), net	827	(65)	1,113	(170)
Income before provision for income taxes	14,359	10,838	22,847	18,670
Income tax provision	3,194	1,778	171	3,373
Net income	\$11,165	\$9,060	\$22,676	\$15,297
Earnings per share				
Basic	\$0.24	\$0.20	\$0.49	\$0.33
Diluted	\$0.23	\$0.19	\$0.48	\$0.32
Common shares and equivalents outstanding				
Basic weighted average shares	46,662,481	46,083,055	46,584,263	46,047,788
Diluted weighted average shares	47,691,340	47,263,844	47,586,893	47,184,926
Dividends per share	\$0.12	\$0.12	\$0.24	\$0.24
Other comprehensive (loss) income				
Foreign currency translation adjustment	(379)	(431)	(279)	(28)
Unrealized (loss) gain on derivative instruments, net of tax	(4)	(118)	178	(787)
Total other comprehensive loss	(383)	(549)	(101)	(815)
Comprehensive income	\$10,782	\$8,511	\$22,575	\$14,482

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

Blackbaud, Inc.

Consolidated statements of cash flows

(Unaudited)

	Six months ended June 30,	
	2017	2016
(dollars in thousands)		
Cash flows from operating activities		
Net income	\$22,676	\$15,297
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,481	35,549
Provision for doubtful accounts and sales returns	5,469	2,264
Stock-based compensation expense	20,129	16,187
Deferred taxes	(1,239)	(287)
Amortization of deferred financing costs and discount	468	478
Other non-cash adjustments	(540)	(429)
Changes in operating assets and liabilities, net of acquisition and disposal of businesses:		
Accounts receivable	(44,887)	(30,097)
Prepaid expenses and other assets	(2,501)	(6,011)
Trade accounts payable	(3,951)	8,857
Accrued expenses and other liabilities	(8,467)	(12,713)
Restricted cash due to customers	64,288	62,038
Due to customers	(64,288)	(62,038)
Deferred revenue	30,913	19,658
Net cash provided by operating activities	54,551	48,753
Cash flows from investing activities		
Purchase of property and equipment	(5,666)	(12,569)
Capitalized software development costs	(13,614)	(12,168)
Purchase of net assets of acquired companies, net of cash	(49,729)	530
Purchase of derivative instruments	(516)	—
Net cash used in investing activities	(69,525)	(24,207)
Cash flows from financing activities		
Proceeds from issuance of debt	575,700	120,900
Payments on debt	(529,169)	(126,088)
Debt issuance costs	(3,085)	—
Employee taxes paid for withheld shares upon equity award settlement	(16,644)	(8,037)
Proceeds from exercise of stock options	14	5
Dividend payments to stockholders	(11,530)	(11,398)
Net cash provided by (used in) financing activities	15,286	(24,618)
Effect of exchange rate on cash and cash equivalents	54	(27)
Net increase (decrease) in cash and cash equivalents	366	(99)
Cash and cash equivalents, beginning of period	16,902	15,362
Cash and cash equivalents, end of period	\$17,268	\$15,263

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

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Blackbaud, Inc.

Consolidated statement of stockholders' equity

(Unaudited)

(dollars in thousands)	Common stock		Additional paid-in capital	Treasury stock	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
	Shares	Amount					
Balance at December 31, 2016	57,672,401	\$ 58	\$ 310,452	\$(215,237)	\$ (457)	\$ 152,729	\$ 247,545
Net income	—	—	—	—	—	22,676	22,676
Payment of dividends	—	—	—	—	—	(11,530)	(11,530)
Exercise of stock options and stock appreciation rights and vesting of restricted stock units	311,520						