

BLACKBAUD INC
Form 10-Q
May 04, 2016

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 March 31, 2016

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)

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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

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 April 26, 2016 was 47,496,620.

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Blackbaud, Inc.

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, 2015 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)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,084	\$ 15,362
Restricted cash due to customers	115,000	255,038
Accounts receivable, net of allowance of \$4,541 and \$4,943 at March 31, 2016 and December 31, 2015, respectively	78,456	80,046
Prepaid expenses and other current assets	48,435	48,666
Total current assets	253,975	399,112
Property and equipment, net	54,543	52,651
Software development costs, net	23,021	19,551
Goodwill	435,994	436,449
Intangible assets, net	284,188	294,672
Other assets	20,207	20,901
Total assets	\$ 1,071,928	\$ 1,223,336
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	\$ 18,286	\$ 19,208
Accrued expenses and other current liabilities	37,577	57,461
Due to customers	115,000	255,038
Debt, current portion	4,375	4,375
Deferred revenue, current portion	222,415	230,216
Total current liabilities	397,653	566,298
Debt, net of current portion	417,989	403,712
Deferred tax liability	28,546	27,996
Deferred revenue, net of current portion	6,583	7,119
Other liabilities	8,000	7,623
Total liabilities	858,771	1,012,748
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, 57,496,559 and 56,873,817 shares issued at March 31, 2016 and December 31, 2015, respectively	57	57
Additional paid-in capital	285,376	276,340
Treasury stock, at cost; 10,007,715 and 9,903,071 shares at March 31, 2016 and December 31, 2015, respectively	(205,377)	(199,861)
Accumulated other comprehensive loss	(1,091)	(825)
Retained earnings	134,192	134,877
Total stockholders' equity	213,157	210,588
Total liabilities and stockholders' equity	\$ 1,071,928	\$ 1,223,336

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	
	March 31, 2016	2015
Revenue		
Subscriptions	\$96,851	\$ 72,513
Maintenance	37,160	38,896
Services	32,414	31,306
License fees and other	2,831	4,278
Total revenue	169,256	146,993
Cost of revenue		
Cost of subscriptions	49,672	36,178
Cost of maintenance	5,323	7,502
Cost of services	24,319	26,971
Cost of license fees and other	602	1,161
Total cost of revenue	79,916	71,812
Gross profit	89,340	75,181
Operating expenses		
Sales, marketing and customer success	35,614	28,562
Research and development	22,779	21,276
General and administrative	19,756	16,843
Amortization	752	488
Total operating expenses	78,901	67,169
Income from operations	10,439	8,012
Interest expense	(2,675)	(1,686)
Other expense, net	(105)	(287)
Income before provision for income taxes	7,659	6,039
Income tax provision	2,664	1,754
Net income	\$4,995	\$ 4,285
Earnings per share		
Basic	\$0.11	\$ 0.09
Diluted	\$0.11	\$ 0.09
Common shares and equivalents outstanding		
Basic weighted average shares	45,967,864	45,529,668
Diluted weighted average shares	46,757,454	46,168,096
Dividends per share	\$0.12	\$ 0.12
Other comprehensive (loss) income		
Foreign currency translation adjustment	403	(326)
Unrealized loss on derivative instruments, net of tax	(669)	(469)
Total other comprehensive loss	(266)	(795)
Comprehensive income	\$4,729	\$ 3,490

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

Blackbaud, Inc.

Consolidated statements of cash flows

(Unaudited)

	Three months ended March 31,	
(dollars in thousands)	2016	2015
Cash flows from operating activities		
Net income	\$4,995	\$4,285
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,609	13,678
Provision for doubtful accounts and sales returns	1,017	1,358
Stock-based compensation expense	7,916	5,102
Excess tax benefits from exercise and vesting of stock-based compensation	(1,137)	(584)
Deferred taxes	558	(886)
Amortization of deferred financing costs and discount	239	210
Other non-cash adjustments	(217)	524
Changes in operating assets and liabilities, net of acquisition and disposal of businesses:		
Accounts receivable	817	555
Prepaid expenses and other assets	1,846	3,633
Trade accounts payable	139	(111)
Accrued expenses and other liabilities	(24,795)	(18,768)
Restricted cash due to customers	141,055	82,140
Due to customers	(141,055)	(82,140)
Deferred revenue	(8,883)	(4,765)
Net cash provided by operating activities	104	4,231
Cash flows from investing activities		
Purchase of property and equipment	(7,837)	(2,521)
Capitalized software development costs	(5,798)	(3,129)
Net cash used in investing activities	(13,635)	(5,650)
Cash flows from financing activities		
Proceeds from issuance of debt	74,600	41,800
Payments on debt	(60,494)	(36,694)
Proceeds from exercise of stock options	3	11
Excess tax benefits from exercise and vesting of stock-based compensation	1,137	584
Dividend payments to stockholders	(5,700)	(5,626)
Net cash provided by financing activities	9,546	75
Effect of exchange rate on cash and cash equivalents	707	(105)
Net decrease in cash and cash equivalents	(3,278)	(1,449)
Cash and cash equivalents, beginning of period	15,362	14,735
Cash and cash equivalents, end of period	\$12,084	\$13,286

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

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Blackbaud, Inc.

Consolidated statements 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, 2014	56,048,135	\$ 56	\$ 245,674	\$(190,440)	\$ (1,032)	\$ 131,658	\$ 185,916
Net income	—	—	—	—	—	25,649	25,649
Payment of dividends	—	—	—	—	—	(22,508)	(22,508)
Exercise of stock options and stock appreciation rights and vesting of restricted stock units	202,078	—	32	—	—	—	32
Surrender of 163,017 shares upon vesting of restricted stock and restricted stock units and exercise of stock appreciation rights	—	—	—	(9,421)	—	—	(9,421)
Excess tax benefits from exercise and vesting of stock-based compensation	—	—	5,466	—	—	—	5,466
Stock-based compensation	—	—	25,168	—	—	78	25,246
Restricted stock grants	736,252	1	—	—	—	—	1
Restricted stock cancellations	(112,648)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	207	—	207
Balance at December 31, 2015	56,873,817	\$ 57	\$ 276,340	\$(199,861)	\$ (825)	\$ 134,877	\$ 210,588
Net income	—	—	—	—	—	4,995	4,995
Payment of dividends	—	—	—	—	—	(5,700)	(5,700)
Exercise of stock options and stock appreciation rights and vesting of restricted stock units	144,941	—	3	—	—	—	3
Surrender of 104,644 shares upon vesting of restricted stock and restricted stock units and exercise of stock appreciation rights	—	—	—	(5,516)	—	—	(5,516)
Excess tax benefits from exercise and vesting of stock-based compensation	—	—	1,137	—	—	—	1,137
Stock-based compensation	—	—	7,896	—	—	—	7,896