BLACKBAUD INC
Form 10-Q
May 03, 2019

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2019**

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.)

65 Fairchild Street
Charleston, South Carolina 29492
(Address of principal executive offices, including zip code)
(843) 216-6200
(Registrant's telephone number, including area code)

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 þ NO ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
YES þ 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	þ	Accelerated filer	¨
Non-accelerated filer	¨	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 þ

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on which Registered
Common Stock, $0.001 Par Value	**BLKB**	**The Nasdaq Stock Market LLC (Nasdaq Global Select Market)**

The number of shares of the registrant's Common Stock outstanding as ofApril 24, 2019 was 49,186,460.

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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,” “proje 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, in our Annual Report on Form 10-K for the year ended December 31, 2018 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.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Blackbaud, Inc.
Consolidated balance sheets
(Unaudited)

Assets		
Current assets:		
Cash and cash equivalents	$ 25,187	$ 30,866
Restricted cash due to customers	219,396	418,980
Accounts receivable, net of allowance of $5,128 and $4,722 at March 31, 2019 and December 31, 2018, respectively	90,727	86,595
Customer funds receivable	5,474	1,753
Prepaid expenses and other current assets	73,099	59,788
Total current assets	413,883	597,982
Property and equipment, net	38,757	40,031
Operating lease right-of-use assets	110,485	—
Software development costs, net	81,231	75,099
Goodwill	634,845	545,213
Intangible assets, net	355,751	291,617
Other assets	67,461	65,363
Total assets	$ 1,702,413	$ 1,615,305
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 32,640	$ 34,538
Accrued expenses and other current liabilities	54,983	46,893
Due to customers	224,870	420,733
Debt, current portion	7,500	7,500
Deferred revenue, current portion	281,082	295,991
Total current liabilities	601,075	805,655
Debt, net of current portion	576,068	379,624
Deferred tax liability	48,050	44,291
Deferred revenue, net of current portion	4,290	2,564
Operating lease liabilities, net of current portion	102,880	—
Other liabilities	4,302	9,388
Total liabilities	1,336,665	1,241,522
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, 60,182,678 and 59,327,633 shares issued at March 31, 2019 and December 31, 2018, respectively	60	59
Additional paid-in capital	412,937	399,241
Treasury stock, at cost; 10,999,885 and 10,760,574 shares at March 31, 2019 and December 31, 2018, respectively	(285,284)	(266,884)
Accumulated other comprehensive loss	(1,452)	(5,110)
Retained earnings	239,487	246,477
Total stockholders' equity	365,748	373,783
Total liabilities and stockholders' equity	$ 1,702,413	$ 1,615,305

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

Blackbaud, Inc.
Consolidated statements of comprehensive income
(Unaudited)

Revenue		
Recurring	$ 198,094	$ 180,846
One-time services and other	17,736	23,338
Total revenue	215,830	204,184
Cost of revenue		
Cost of recurring	84,711	69,079
Cost of one-time services and other	14,572	18,958
Total cost of revenue	99,283	88,037
Gross profit	116,547	116,147
Operating expenses		
Sales, marketing and customer success	55,455	45,477
Research and development	28,461	25,958
General and administrative	27,117	25,051
Amortization	1,376	1,269
Restructuring	1,953	811
Total operating expenses	114,362	98,566
Income from operations	2,185	17,581
Interest expense	(5,323)	(3,517)
Other income, net	182	160
(Loss) income before provision for income taxes	(2,956)	14,224
Income tax benefit	(1,834)	(3,527)
Net (loss) income	$ (1,122)	$ 17,751
(Loss) earnings per share		
Basic	$ (0.02)	$ 0.38
Diluted	$ (0.02)	$ 0.37
Common shares and equivalents outstanding		
Basic weighted average shares	47,516,912	47,019,603
Diluted weighted average shares	47,516,912	48,009,395
Other comprehensive income (loss)		
Foreign currency translation adjustment	4,590	6,437
Unrealized (loss) gain on derivative instruments, net of tax	(932)	1,079
Total other comprehensive income	3,658	7,516
Comprehensive income	$ 2,536	$ 25,267

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

Blackbaud, Inc.
Consolidated statements of cash flows
(Unaudited)

Cash flows from operating activities		
Net (loss) income	$(1,122)	$17,751
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	21,724	19,820
Provision for doubtful accounts and sales returns	2,032	1,774
Stock-based compensation expense	13,726	11,092
Deferred taxes	(1,155)	902
Amortization of deferred financing costs and discount	188	188
Other non-cash adjustments	1,820	(197)
Changes in operating assets and liabilities, net of acquisition and disposal of businesses:		
Accounts receivable	(1,797)	5,088
Prepaid expenses and other assets	(12,107)	(10,052)
Trade accounts payable	(3,624)	(1,655)
Accrued expenses and other liabilities	(11,690)	(14,092)
Deferred revenue	(18,006)	(18,866)
Net cash (used in) provided by operating activities	(10,011)	11,753
Cash flows from investing activities		
Purchase of property and equipment	(1,152)	(5,771)
Capitalized software development costs	(11,319)	(7,103)
Purchase of net assets of acquired companies, net of cash and restricted cash acquired	(109,386)	(5,036)
Net cash used in investing activities	(121,857)	(17,910)
Cash flows from financing activities		
Proceeds from issuance of debt	271,500	81,700
Payments on debt	(75,175)	(52,875)
Employee taxes paid for withheld shares upon equity award settlement	(18,400)	(22,511)
Proceeds from exercise of stock options	3	9
Change in due to customers	(242,885)	(434,640)
Change in customer funds receivable	(3,573)	(4,783)
Dividend payments to stockholders	(5,901)	(5,825)
Net cash used in financing activities	(74,431)	(438,925)
Effect of exchange rate on cash, cash equivalents, and restricted cash	1,036	713
Net decrease in cash, cash equivalents, and restricted cash	(205,263)	(444,369)
Cash, cash equivalents, and restricted cash, beginning of period	449,846	640,174
Cash, cash equivalents, and restricted cash, end of period	$244,583	$195,805

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown above in the consolidated statements of cash flows:

Cash and cash equivalents	$25,187	$ 30,866
Restricted cash due to customers	219,396	418,980
Total cash, cash equivalents and restricted cash in the statement of cash flows	$244,583	$ 449,846

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

Blackbaud, Inc.
Consolidated statements of stockholders' equity
(Unaudited)

Balance at December 31, 2018	59,327,633	$ 59	$ 399,241	$ (266,884)	$ (5,110)	$ 246,477	$ 373,783
Net loss	—	—	—	—	—	(1,122)	(1,122)
Payment of dividends ($0.12 per share)	—	—	—	—	—	(5,901)	(5,901)
Exercise of stock options and stock appreciation rights and vesting of restricted stock units	234,453	—	3	—	—	—	3
Employee taxes paid for 239,311 withheld shares upon equity award settlement	—	—	—	(18,400)	—	—	(18,400)
Stock-based compensation	—	—	13,693	—	—	33	13,726
Restricted stock grants	663,906	1	—	—	—	—	1
Restricted stock cancellations	(43,314)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	3,658	—	3,658
Balance at March 31, 2019	60,182,678	$ 60	$ 412,937	$ (285,284)	$ (1,452)	$ 239,487	$ 365,748

Balance at December 31, 2017	58,551,761	$ 59	$ 351,042	$ (239,199)	$ (642)	$ 225,029	$ 336,289
Net income	—	—	—	—	—	17,751	17,751
Payment of dividends ($0.12 per share)	—	—	—	—	—	(5,825)	(5,825)
Exercise of stock options and stock appreciation rights and vesting of restricted stock units	279,422	—	9	—	—	—	9
Employee taxes paid for 234,454 withheld shares upon equity award settlement	—	—	—	(22,511)	—	—	(22,511)
Stock-based compensation	—	—	11,062	—	—	30	11,092
Restricted stock grants	437,878	—	—	—	—	—	—
Restricted stock cancellations	(35,218)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	7,516	—	7,516
Reclassification upon early adoption of ASU 2018-02					167	(167)	—
Balance at March 31, 2018	59,233,843	$ 59	$ 362,113	$ (261,710)	$ 7,041	$ 236,818	$ 344,321

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

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Blackbaud, Inc.
Notes to consolidated financial statements
(Unaudited)

1. Organization

We are the world's leading cloud software company powering social good. Serving the entire social good community—nonprofits, foundations, companies, education institutions, healthcare organizations and individual change agents—we connect and empower organizations to increase their impact through cloud software, services, expertise and data intelligence. 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, Costa Rica and the United Kingdom.

2. Basis of Presentation

Unaudited interim consolidated financial statements

The accompanying interim consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim financial reporting. These consolidated statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to state fairly the consolidated balance sheets, consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statement of stockholders' equity, for the periods presented in accordance with accounting principles generally accepted in the United States ("U.S.") ("GAAP"). The consolidated balance sheet at December 31, 2018, has been derived from the audited consolidated financial statements at that date. Operating results and cash flows for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2019, or any other future period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations for interim reporting of the SEC. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018, and other forms filed with the SEC from time to time.

Basis of consolidation

The consolidated financial statements include the accounts of Blackbaud, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Reportable segment

We report our operating results and financial information in one operating and reportable segment. Our chief operating decision maker 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").

Recently adopted accounting pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting

Standards Update ("ASU") 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 requires lessees to record most leases on their balance sheet but recognize expenses in the income statement in a manner similar to previous guidance. The way in which entities classify leases determines how to recognize lease-related revenue and expense.

We adopted ASU 2016-02 as of January 1, 2019 using the transition method that allowed us to initially apply the guidance at the adoption date of January 1, 2019 without adjusting comparative periods presented. We elected to use the package of practical expedients that allowed us to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any existing leases. We did not elect

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Blackbaud, Inc.
Notes to consolidated financial statements (continued)
(Unaudited)

to use the hindsight practical expedient, which permits entities to use hindsight in determining the lease term and assessing impairment. Additionally, we elected not to apply the recognition requirements of the new lease accounting standard to short-term leases. Adopting ASU 2016-02 had a material impact on our consolidated balance sheet as of January 1, 2019, as we recognized $121.6 million of lease liabilities and $113.4 million of right-of-use ("ROU") assets for those leases classified as operating leases.

Summary of significant accounting policies

Except for the accounting policy added for leases below as a result of adopting ASU 2016-02, there have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 20, 2019, that have had a material impact on our consolidated financial statement.

Leases

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets, accrued expense and other current liabilities, and operating lease liabilities, net of current portion in our consolidated balance sheet as of March 31, 2019. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. The operating lease ROU asset also includes any initial direct costs and lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments related to our operating leases is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components, which are generally accounted for separately. We do not recognize short-term leases (those that, at the commencement date, have a lease term of 12 months or less) on our consolidated balance sheets.

3. Business Combinations

YourCause acquisition

On January 2, 2019, we acquired all of the outstanding equity securities, including all voting equity interests, of YourCause Holdings, LLC, a Delaware limited liability company ("YourCause"), pursuant to a purchase agreement and plan of merger. The acquisition expands our footprint in corporate social responsibility and employee engagement and enhances our position as a leader in providing solutions to both nonprofit organizations and for-profit companies committed to addressing social issues. We acquired the equity securities for an aggregate purchase price of $157.7 million in cash, subject to certain adjustments set forth in the agreement and plan of merger. The purchase price and related expenses were funded primarily through borrowings under the 2017 Credit Facility (as defined below). As a result of the acquisition, YourCause has become a wholly-owned subsidiary of ours. The operating results of YourCause have been included in our consolidated financial statements from the date of acquisition. During the three months ended March 31, 2019, we incurred insignificant acquisition-related expenses associated with the acquisition, which were recorded in general and administrative expense.

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The fair values assigned to the assets acquired and liabilities assumed in the table below are based on our best estimates and assumptions as of the reporting date and are considered preliminary pending finalization. The estimates and assumptions are subject to change as we obtain additional information during the measurement period, which may be up to one year from the acquisition date. The assets and liabilities, pending finalization, include the valuation of intangible assets as well as the assumed deferred revenue and deferred income tax balances.

Net working capital, excluding deferred revenue	$3,332
Other long-term assets	2,574
Identifiable intangible assets	74,690
Deferred tax liability	(4,615)
Deferred revenue	(4,300)
Other long-term liabilities	(1,650)
Goodwill	87,717
Total purchase price	$157,748

The estimated fair value of accounts receivable acquired approximates the contractual value of $4.1 million and $54.7 million of the goodwill arising in the acquisition is deductible for income tax purposes. The estimated goodwill recognized is attributable primarily to the opportunities for expected synergies from combining the operations and assembled workforce of YourCause.
The YourCause acquisition resulted in the identification of the following identifiable intangible assets:

Acquired technology	$ 47,800	12
Customer relationships	25,900	15
Marketing assets	830	2
Non-compete agreements	160	0
Total intangible assets	$ 74,690	13

The estimated fair values of the intangible assets were based on variations of the income approach, which estimates fair value based upon the present value of cash flows that the assets are expected to generate, and which included the relief-from-royalty method, incremental cash flow method, including the comparative (with and without) method and multi-period excess earnings method, depending on the intangible asset being valued. The method of amortization of identifiable finite-lived intangible assets is based on the expected pattern in which the estimated economic benefits of the respective assets are consumed or otherwise used up. Customer relationships and acquired technology assets are being amortized on an accelerated basis. Marketing assets are being amortized on a straight-line basis. The non-compete agreements were fully amortized as of March 31, 2019, based on the insignificance of the acquired assets.

We determined that the impact of this acquisition was not material to our consolidated financial statements; therefore, separate presentation of revenue and earnings since the acquisition date and pro forma information are not required nor included herein.

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4. Goodwill and Other Intangible Assets

The change in goodwill during the three months ended March 31, 2019, consisted of the following:

Balance at December 31, 2018	$545,213
Additions related to current year business combinations	87,717
Effect of foreign currency translation	1,915
Balance at March 31, 2019	$634,845

5. (Loss) Earnings Per Share

We compute basic earnings (loss) per share by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income available to common stockholders by the weighted average number of common shares and dilutive potential common shares outstanding during the period. Diluted earnings (loss) per share reflect the assumed exercise, settlement and vesting of all dilutive securities using the "treasury stock method" except when the effect is anti-dilutive. Potentially dilutive securities consist of shares issuable upon the exercise of stock options, settlement of stock appreciation rights and vesting of restricted stock awards and units. Diluted loss per share for the three months ended March 31, 2019 is the same as basic loss per share as there is a net loss in the period and inclusion of potentially dilutive securities is anti-dilutive.

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	Three months ended March 31,	
Numerator:		
Net (loss) income	$(1,122)	$ 17,751
Denominator:		
Weighted average common shares	47,516,912	47,019,603
Add effect of dilutive securities:		
Stock-based awards	—	989,792
Weighted average common shares assuming dilution	47,516,912	48,009,395
(Loss) earnings per share:		
Basic	$(0.02)	$ 0.38
Diluted	$(0.02)	$ 0.37
Anti-dilutive shares excluded from calculations of diluted (loss) earnings per share	740,119	24

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6. Fair Value Measurements

We use a three-tier fair value hierarchy to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 - Quoted prices for identical assets or liabilities in active markets;
- Level 2 - Quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

Recurring fair value measurements

Assets and liabilities that are measured at fair value on a recurring basis consisted of the following, as of the dates indicated below:

Fair value as of March 31, 2019				
Financial assets:				
Derivative instruments	$—	$1,239	$ —	$1,239
Total financial assets	$—	$1,239	$ —	$1,239
Fair value as of March 31, 2019				
Financial liabilities:				
Derivative instruments	$—	$433	$ —	$433
Total financial liabilities	$—	$433	$ —	$433
Fair value as of December 31, 2018				
Financial assets:				
Derivative instruments	$—	$2,260	$ —	$2,260
Total financial assets	$—	$2,260	$ —	$2,260
Fair value as of December 31, 2018				
Financial liabilities:				
Derivative instruments	$—	$186	$ —	$186
Total financial liabilities	$—	$186	$ —	$186

Our derivative instruments within the scope of Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging*, are required to be recorded at fair value. Our derivative instruments that are recorded at fair value include interest rate swaps.

The fair value of our interest rate swaps was based on model-driven valuations using LIBOR rates, which are observable at commonly quoted intervals. Accordingly, our interest rate swaps are classified within Level 2 of the fair value hierarchy.

We believe the carrying amounts of our cash and cash equivalents, restricted cash due to customers, accounts receivable, trade accounts payable, accrued expenses and other current liabilities and due to customers approximate their fair values at March 31, 2019 and December 31, 2018, due to the immediate or short-term maturity of these instruments.

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We believe the carrying amount of our debt approximates its fair value at March 31, 2019 and December 31, 2018, as the debt bears interest rates that approximate market value. As LIBOR rates are observable at commonly quoted intervals, our debt is classified within Level 2 of the fair value hierarchy.

We did not transfer any assets or liabilities among the levels within the fair value hierarchy during the three months ended March 31, 2019. Additionally, we did not hold any Level 3 assets or liabilities during the three months ended March 31, 2019.

Non-recurring fair value measurements

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets, goodwill and operating lease ROU assets, which are recognized at fair value during the period in which an acquisition is completed or at lease commencement, from updated estimates and assumptions during the measurement period, or when they are considered to be impaired. These non-recurring fair value measurements, primarily for intangible assets acquired and operating lease ROU assets, are based on Level 3 unobservable inputs. In the event of an impairment, we determine the fair value of the intangible assets other than goodwill using a discounted cash flow approach, which contains significant unobservable inputs and, therefore, is considered a Level 3 fair value measurement. The unobservable inputs in the analysis generally include future cash flow projections and a discount rate. For goodwill impairment testing, we estimate fair value using market-based methods including the use of market capitalization and consideration of a control premium.

During the three months ended March 31, 2019, we recorded $1.3 million in impairments of operating lease ROU assets associated with certain leased office spaces we ceased using as part of our facilities optimization restructuring. These impairments were recorded as restructuring expense on our consolidated statements of comprehensive income. See Note 15 to these consolidated financial statements for additional details regarding our facilities optimization restructuring.

There were no non-recurring fair value adjustments to intangible assets and goodwill during the three months ended March 31, 2019.

7. Consolidated Financial Statement Details

Prepaid expenses and other assets