

MICROSTRATEGY INC
Form 10-Q
July 26, 2018
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2018

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 000-24435

MICROSTRATEGY INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

51-0323571

(I.R.S. Employer

Identification Number)

1850 Towers Crescent Plaza, Tysons Corner, VA

(Address of Principal Executive Offices)

22182

(Zip Code)

(703) 848-8600

(Registrant's telephone number, including area code)

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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 (§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, 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. (Check one):

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 the 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 class A common stock and class B common stock outstanding on July 16, 2018 was 9,432,210 and 2,035,184, respectively.

MICROSTRATEGY INCORPORATED

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MICROSTRATEGY INCORPORATED

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

| | June 30, 2018 (unaudited) | December 31, 2017 (as adjusted, unaudited) |
|--|---------------------------------|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 90,427 | \$ 420,244 |
| Restricted cash | 964 | 938 |
| Short-term investments | 609,167 | 254,927 |
| Accounts receivable, net | 125,115 | 165,364 |
| Prepaid expenses and other current assets | 27,863 | 19,180 |
| Total current assets | 853,536 | 860,653 |
| Property and equipment, net | 51,918 | 53,359 |
| Capitalized software development costs, net | 0 | 2,499 |
| Deposits and other assets | 7,112 | 7,411 |
| Deferred tax assets, net | 14,761 | 9,297 |
| Total assets | \$ 927,327 | \$ 933,219 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 22,670 | \$ 30,711 |
| Accrued compensation and employee benefits | 38,617 | 41,498 |
| Deferred revenue and advance payments | 175,358 | 198,734 |
| Total current liabilities | 236,645 | 270,943 |
| Deferred revenue and advance payments | 5,816 | 6,400 |
| Other long-term liabilities | 64,503 | 50,146 |
| Deferred tax liabilities | 4 | 4 |
| Total liabilities | 306,968 | 327,493 |
| Commitments and Contingencies | | |
| Stockholders' Equity | | |
| Preferred stock undesignated, \$0.001 par value; 5,000 shares authorized; no shares issued or outstanding | 0 | 0 |
| Class A common stock, \$0.001 par value; 330,000 shares authorized; 15,837 shares issued and 9,432 shares outstanding, and 15,817 shares issued and 9,412 shares outstanding, respectively | 16 | 16 |
| Class B convertible common stock, \$0.001 par value; 165,000 shares authorized; 2,035 shares issued and outstanding, and 2,035 shares issued and outstanding, respectively | 2 | 2 |
| Additional paid-in capital | 570,502 | 559,918 |
| Treasury stock, at cost; 6,405 shares | (475,184) | (475,184) |
| Accumulated other comprehensive loss | (8,111) | (5,659) |

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| | | |
|--|------------|------------|
| Retained earnings | 533,134 | 526,633 |
| Total stockholders' equity | 620,359 | 605,726 |
| Total liabilities and stockholders' equity | \$ 927,327 | \$ 933,219 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

MICROSTRATEGY INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

| | Three Months Ended June 30, | |
|--|--------------------------------|---|
| | 2018 | 2017 (as adjusted, (unaudited)unaudited) |
| Revenues: | | |
| Product licenses | \$ 19,292 | \$ 17,728 |
| Subscription services | 7,584 | 8,346 |
| Total product licenses and subscription services | 26,876 | 26,074 |
| Product support | 73,676 | 70,766 |
| Other services | 20,050 | 22,380 |
| Total revenues | 120,602 | 119,220 |
| Cost of revenues: | | |
| Product licenses | 1,667 | 1,747 |
| Subscription services | 3,445 | 3,400 |
| Total product licenses and subscription services | 5,112 | 5,147 |
| Product support | 4,810 | 4,542 |
| Other services | 15,118 | 14,686 |
| Total cost of revenues | 25,040 | 24,375 |
| Gross profit | 95,562 | 94,845 |
| Operating expenses: | | |
| Sales and marketing | 50,978 | 41,626 |
| Research and development | 25,082 | 19,561 |
| General and administrative | 21,299 | 19,582 |
| Total operating expenses | 97,359 | 80,769 |
| (Loss) income from operations | (1,797) | 14,076 |
| Interest income, net | 3,223 | 1,163 |
| Other income (expense), net | 4,461 | (2,618) |
| Income before income taxes | 5,887 | 12,621 |
| Provision for income taxes | 1,059 | 2,668 |
| Net income | 4,828 | 9,953 |
| Basic earnings per share (1) | \$0.42 | \$ 0.87 |
| Weighted average shares outstanding used in computing basic earnings per share | 11,459 | 11,444 |
| Diluted earnings per share (1) | \$0.42 | \$ 0.86 |
| Weighted average shares outstanding used in computing diluted earnings per share | 11,493 | 11,592 |

(1) Basic and fully diluted earnings per share for class A and class B common stock are the same. The accompanying notes are an integral part of these Consolidated Financial Statements.

MICROSTRATEGY INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

| | Six Months Ended June 30, 2018 | 2017 (as adjusted, (unaudited)unaudited) |
|--|--------------------------------------|---|
| Revenues: | | |
| Product licenses | \$36,593 | \$ 40,374 |
| Subscription services | 15,246 | 16,118 |
| Total product licenses and subscription services | 51,839 | 56,492 |
| Product support | 148,091 | 141,278 |
| Other services | 43,639 | 43,682 |
| Total revenues | 243,569 | 241,452 |
| Cost of revenues: | | |
| Product licenses | 3,878 | 3,419 |
| Subscription services | 6,694 | 6,439 |
| Total product licenses and subscription services | 10,572 | 9,858 |
| Product support | 9,606 | 8,876 |
| Other services | 30,047 | 28,773 |
| Total cost of revenues | 50,225 | 47,507 |
| Gross profit | 193,344 | 193,945 |
| Operating expenses: | | |
| Sales and marketing | 102,313 | 81,208 |
| Research and development | 48,642 | 37,987 |
| General and administrative | 43,471 | 39,839 |
| Total operating expenses | 194,426 | 159,034 |
| (Loss) income from operations | (1,082) | 34,911 |
| Interest income, net | 5,257 | 2,000 |
| Other income (expense), net | 2,867 | |