

MICROSTRATEGY Inc
Form 10-Q
April 30, 2019
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 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 000-24435

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 every Interactive Data File required to be submitted 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 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 | 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 April 15, 2019 was 8,204,395 and 2,035,184, respectively.

MICROSTRATEGY INCORPORATED

FORM 10-Q

TABLE OF CONTENTS

| | Page |
|--|------|
| PART I. <u>FINANCIAL INFORMATION</u> | |
| Item 1. <u>Financial Statements (unaudited)</u> | 1 |
| <u>Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018</u> | 1 |
| <u>Consolidated Statements of Operations for the Three Months Ended March 31, 2019 and 2018</u> | 2 |
| <u>Consolidated Statements of Comprehensive (Loss) Income for the Three Months Ended March 31, 2019 and 2018</u> | 3 |
| <u>Consolidated Statements of Stockholders' Equity as of March 31, 2019</u> | 4 |
| <u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2019 and 2018</u> | 5 |
| <u>Notes to Consolidated Financial Statements</u> | 6 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 17 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 29 |
| Item 4. <u>Controls and Procedures</u> | 30 |
| PART II. <u>OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | 31 |
| Item 1A. <u>Risk Factors</u> | 31 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 44 |
| Item 5. <u>Other Information</u> | 44 |
| Item 6. <u>Exhibits</u> | 44 |

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MICROSTRATEGY INCORPORATED

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

| | March 31, 2019 (unaudited) | December 31, 2018 |
|--|----------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 258,743 | \$ 109,924 |
| Restricted cash | 922 | 862 |
| Short-term investments | 292,314 | 466,186 |
| Accounts receivable, net | 133,922 | 171,359 |
| Prepaid expenses and other current assets | 32,511 | 30,068 |
| Total current assets | 718,412 | 778,399 |
| Property and equipment, net | 54,832 | 51,919 |
| Right-of-use assets | 87,743 | 0 |
| Deposits and other assets | 8,374 | 8,134 |
| Deferred tax assets, net | 18,983 | 17,316 |
| Total assets | \$ 888,344 | \$ 855,768 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable, accrued expenses, and operating lease liabilities | \$ 37,227 | \$ 33,684 |
| Accrued compensation and employee benefits | 36,713 | 48,045 |
| Deferred revenue and advance payments | 190,070 | 176,540 |
| Total current liabilities | 264,010 | 258,269 |
| Deferred revenue and advance payments | 4,539 | 6,469 |
| Operating lease liabilities | 106,661 | 0 |
| Other long-term liabilities | 34,793 | 61,262 |
| Deferred tax liabilities | 35 | 37 |
| Total liabilities | 410,038 | 326,037 |
| 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; 15,850 shares issued and 8,202 shares outstanding, and 15,837 shares issued and 8,552 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 | 581,429 | 576,957 |
| Treasury stock, at cost; 7,648 shares and 7,285 shares, respectively | (634,405) | (586,161) |
| Accumulated other comprehensive loss | (9,964) | (10,217) |

| | | |
|--|------------|------------|
| Retained earnings | 541,228 | 549,134 |
| Total stockholders' equity | 478,306 | 529,731 |
| Total liabilities and stockholders' equity | \$ 888,344 | \$ 855,768 |

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 March 31, | |
|---|---------------------------------|-------------|
| | 2019 | 2018 |
| | (unaudited) | (unaudited) |
| Revenues: | | |
| Product licenses | \$ 18,291 | \$ 17,301 |
| Subscription services | 7,144 | 7,662 |
| Total product licenses and subscription services | 25,435 | 24,963 |
| Product support | 71,450 | 74,415 |
| Other services | 18,481 | 23,589 |
| Total revenues | 115,366 | 122,967 |
| Cost of revenues: | | |
| Product licenses | 519 | 2,211 |
| Subscription services | 3,598 | 3,249 |
| Total product licenses and subscription services | 4,117 | 5,460 |
| Product support | 7,067 | 4,796 |
| Other services | 14,989 | 14,929 |
| Total cost of revenues | 26,173 | 25,185 |
| Gross profit | 89,193 | 97,782 |
| Operating expenses: | | |
| Sales and marketing | 48,760 | 51,335 |
| Research and development | 28,215 | 23,560 |
| General and administrative | 22,604 | 22,172 |
| Total operating expenses | 99,579 | 97,067 |
| (Loss) income from operations | (10,386) | 715 |
| Interest income, net | 2,566 | 2,034 |
| Other expense, net | (596) | (1,594) |
| (Loss) income before income taxes | (8,416) | 1,155 |
| Benefit from income taxes | (510) | (518) |
| Net (loss) income | (7,906) | 1,673 |
| Basic (loss) earnings per share (1) | \$(0.77) | \$ 0.15 |
| Weighted average shares outstanding used in computing basic (loss) earnings per share | 10,328 | 11,447 |
| Diluted (loss) earnings per share (1) | \$(0.77) | \$ 0.15 |
| Weighted average shares outstanding used in computing diluted (loss) earnings per share | 10,328 | 11,488 |

(1) Basic and fully diluted (loss) 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 COMPREHENSIVE (LOSS) INCOME

(in thousands)

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2019 | 2018 |
| | (unaudited) | (unaudited) |
| Net (loss) income | \$(7,906) | \$ 1,673 |
| Other comprehensive (loss) income, net of applicable taxes: | | |
| Foreign currency translation adjustment | (162) | 1,440 |
| Unrealized gain on short-term investments | 415 | 0 |
| Total other comprehensive income | 253 | 1,440 |
| Comprehensive (loss) income | \$(7,653) | \$ 3,113 |

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

MICROSTRATEGY INCORPORATED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, unaudited)

| | Total | Class A Common Stock Shares | Amount | Class B Convertible Common Stock Shares | Amount | Additional Paid-in Capital | Treasury Stock Shares | Amount | Accumulated Other Comprehensive Income (Loss) | Retained Earnings |
|--|-----------|--------------------------------------|--------|---|--------|----------------------------------|--------------------------|-------------|---|----------------------|
| Balance at January 1, 2018 | \$605,726 | 15,817 | \$ 16 | 2,035 | \$ 2 | \$559,918 | (6,405) | \$(475,184) | \$(5,659) | \$526,633 |
| Net income | 1,673 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,673 |
| Other comprehensive income | 1,440 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,440 | 0 |
| Share-based compensation expense | 4,743 | 0 | 0 | 0 | 0 | 4,743 | 0 | 0 | 0 | 0 |
| Balance at March 31, 2018 | \$613,582 | 15,817 | \$ 16 | 2,035 | \$ 2 | \$564,661 | (6,405) | \$(475,184) | \$(4,219) | \$528,306 |
| Net income | 4,828 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,828 |
| Other comprehensive loss | (3,892) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (3,892) | 0 |
| Issuance of class A common stock under stock option plans | 2,471 | 20 | 0 | 0 | 0 | 2,471 | 0 | 0 | 0 | 0 |
| Share-based compensation expense | 3,370 | 0 | 0 | 0 | 0 | 3,370 | 0 | 0 | 0 | 0 |
| Balance at June 30, 2018 | \$620,359 | 15,837 | \$ 16 | 2,035 | \$ 2 | \$570,502 | (6,405) | \$(475,184) | \$(8,111) | \$533,134 |
| Net income | 12,699 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 12,699 |
| Other comprehensive loss | (607) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (607) | 0 |
| Share-based compensation expense | 2,972 | 0 | 0 | 0 | 0 | 2,972 | 0 | 0 | 0 | 0 |
| Balance at September 30, 2018 | \$635,423 | 15,837 | \$ 16 | 2,035 | \$ 2 | \$573,474 | (6,405) | \$(475,184) | \$(8,718) | \$545,833 |
| Net income | 3,301 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,301 |
| Other comprehensive | (1,499) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (1,499) | 0 |

loss

| | | | |
|-----------------------------|-----------|---|---|
| Purchases of treasury stock | (110,977) | 0 | 0 |
|-----------------------------|-----------|---|---|