

MICROSTRATEGY INC
Form 10-Q
May 05, 2011
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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, 2011

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, Vienna, VA

(Address of Principal Executive Offices)

22182

(Zip Code)

(703) 848-8600

(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 (§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. (Check one):

Large accelerated filer Accelerated filer

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

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 26, 2011 was 8,013,907 and 2,694,362, respectively.

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Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****MICROSTRATEGY INCORPORATED****CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)**

	March 31, 2011	December 31, 2010
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 203,143	\$ 174,097
Restricted cash and short-term investments	313	284
Accounts receivable, net	64,094	82,056
Prepaid expenses and other current assets	22,971	26,751
Deferred tax assets, net	19,231	13,670
Total current assets	309,752	296,858
Property and equipment, net	64,516	65,033
Capitalized software development costs, net	11,170	9,059
Deposits and other assets	5,138	5,587
Deferred tax assets, net	2,964	5,029
Total assets	\$ 393,540	\$ 381,566
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 35,746	\$ 36,683
Accrued compensation and employee benefits	43,547	60,201
Deferred revenue and advance payments	110,971	89,331
Deferred tax liabilities	190	355
Total current liabilities	190,454	186,570
Deferred revenue and advance payments	8,823	7,878
Other long-term liabilities	40,594	37,946
Total liabilities	239,871	232,394
Commitments and Contingencies		
Stockholders Equity		
Preferred stock undesignated, \$0.001 par value; 5,000 shares authorized; no shares issued or outstanding		
Class A common stock, \$0.001 par value; 330,000 shares authorized; 14,418 shares issued and 8,013 shares outstanding, and 14,351 shares issued and 7,947 shares outstanding, respectively	14	14
Class B common stock, \$0.001 par value; 165,000 shares authorized; 2,694 shares issued and outstanding	3	3
Additional paid-in capital	458,715	455,374
Treasury stock, at cost; 6,405 shares	(475,184)	(475,184)
Accumulated other comprehensive loss	(1,433)	(1,455)

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Retained earnings	171,554	170,420
Total Stockholders Equity	153,669	149,172
Total Liabilities and Stockholders Equity	\$ 393,540	\$ 381,566

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

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MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Three Months Ended March 31,	
	2011 (unaudited)	2010 (unaudited)
Revenues:		
Product licenses	\$ 27,380	\$ 17,954
Product support and other services	94,649	75,436
Total revenues	122,029	93,390
Cost of revenues:		
Product licenses	1,908	1,915
Product support and other services	31,253	19,709
Total cost of revenues	33,161	21,624
Gross profit	88,868	71,766
Operating expenses:		
Sales and marketing	51,511	33,387
Research and development	12,998	12,331
General and administrative	23,281	18,460
Total operating expenses	87,790	64,178
Income from operations before financing and other income and income taxes	1,078	7,588
Financing and other (expense) income:		
Interest income, net	82	102
Other (expense) income, net	(631)	2,849
Total financing and other (expense) income	(549)	2,951
Income from operations before income taxes	529	10,539
(Benefit) provision for income taxes	(605)	3,638
Net Income	\$ 1,134	\$ 6,901
Basic earnings per share (1)	\$ 0.11	\$ 0.58
Weighted average shares outstanding used in computing basic earnings per share	10,671	11,890

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Diluted earnings per share (1)	\$ 0.10	\$ 0.56
Weighted average shares outstanding used in computing diluted earnings per share	11,045	12,303

- (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.

Table of Contents**MICROSTRATEGY INCORPORATED****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2011	2010
Operating activities:		
Net income	\$ 1,134	\$ 6,901
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,618	3,182
Bad debt expense	816	691
Deferred taxes	(1,723)	1,162
Excess tax benefits from stock-based payment arrangements	(1,852)	(12)
Changes in operating assets and liabilities:		
Accounts receivable	18,802	11,185
Prepaid expenses and other current assets	3,273	(2,473)
Deposits and other assets	542	781
Accounts payable and accrued expenses	(1,637)	(4,435)
Accrued compensation and employee benefits	(17,707)	(15,276)
Deferred revenue and advance payments	20,298	20,293
Other long-term liabilities	2,644	2,878
Net cash provided by operating activities	28,208	24,877
Investing activities:		
Purchases of property and equipment	(4,326)	(1,411)
Capitalized software development costs	(3,776)	
Insurance proceeds	3,620	
(Increase) decrease in restricted cash and investments	(18)	275
Net cash used in investing activities	(4,500)	(1,136)
Financing activities:		
Proceeds from sale of class A common stock under exercise of employee stock options	1,490	60
Excess tax benefits from stock-based payment arrangements	1,852	12
Purchases of treasury stock		(14,553)
Net cash provided by (used in) financing activities	3,342	(14,481)
Effect of foreign exchange rate changes on cash and cash equivalents	1,996	(2,167)
Net increase in cash and cash equivalents	29,046	7,093
Cash and cash equivalents, beginning of period	174,097	224,769
Cash and cash equivalents, end of period	\$ 203,143	\$ 231,862

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

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(unaudited)

(1) Basis of Presentation

Except for the consolidated balance sheet of MicroStrategy Incorporated (MicroStrategy or the Company) as of December 31, 2010, which was audited, the accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments necessary for a fair statement of such financial position and results of operations have been included. All such adjustments are of a normal recurring nature unless otherwise disclosed. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements and notes are presented as required by the Securities and Exchange Commission (SEC) and do not contain certain information included in the Company s annual financial statements and notes. These financial statements should be read in conjunction with the Company s audited financial statements and the notes thereto filed with the SEC in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company is not aware of any subsequent event which would require recognition.

(2) Fair Value of Financial Instruments

The Company estimates the fair value of financial instruments, which consist of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses, and accrued compensation and employee benefits. The Company considers the carrying value of these instruments in the financial statements to approximate fair value due to their short maturities.

(3) Accounts Receivable

Accounts receivable (in thousands) consisted of the following, as of:

	March 31, 2011	December 31, 2010
Billed and billable	\$ 129,165	\$ 163,939
Less: unpaid deferred revenue	(60,125)	(77,063)