

MICROSTRATEGY INC
Form 10-Q
August 05, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2008

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 of incorporation)

51-0323571

(I.R.S. Employer Identification Number)

1861 International Drive, McLean, VA

(Address of Principal Executive Offices)

22102

(Zip Code)

Registrant's telephone number, including area code: (703) 848-8600

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

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

Accelerated filer

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 July 25, 2008 was 9,115,321 and 2,770,244, 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)**

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 119,603	\$ 85,194
Restricted cash and investments	2,293	2,982
Accounts receivable, net	40,405	49,392
Prepaid expenses and other current assets	13,618	12,106
Deferred tax assets, net	24,829	29,652
Assets held-for-sale	8,846	4,272
Total current assets	209,594	183,598
Property and equipment, net	8,954	9,473
Capitalized software development costs, net	4,604	2,340
Deposits and other assets	11,907	11,433
Deferred tax assets, net	31,805	35,347
Total Assets	\$ 266,864	\$ 242,191
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 23,612	\$ 22,083
Accrued compensation and employee benefits	33,034	38,604
Deferred revenue and advance payments	75,825	64,234
Liabilities held-for-sale	8,571	3,436
Total current liabilities	141,042	128,357
Deferred revenue and advance payments	1,127	1,368
Other long-term liabilities	10,279	9,137
Total Liabilities	152,448	138,862
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; 14,161 shares issued and 9,114 shares outstanding, and 14,113 shares issued and 9,184 shares outstanding, respectively	14	14
Class B common stock, \$0.001 par value; 165,000 shares authorized; 2,770 issued and outstanding	3	3
Additional paid-in capital	450,464	448,229
Treasury stock, at cost, 5,047 and 4,929 shares, respectively	(366,191)	(357,804)

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Accumulated other comprehensive income	3,744	2,929
Retained earnings	26,382	9,958
Total Stockholders' Equity	114,416	103,329
Total Liabilities and Stockholders' Equity	\$ 266,864	\$ 242,191

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 June 30,	
	2008 (unaudited)	2007 (unaudited)
Revenues		
Product licenses	\$ 21,052	\$ 21,699
Product support and other services	67,804	56,353
Total revenues	88,856	78,052
Cost of Revenues		
Product licenses	461	854
Product support and other services	15,648	11,771
Total cost of revenues	16,109	12,625
Gross profit	72,747	65,427
Operating Expenses		
Sales and marketing	34,484	26,096
Research and development	8,203	9,207
General and administrative	15,001	11,887
Total operating expenses	57,688	47,190
Income from continuing operations before financing and other income and income taxes	15,059	18,237
Financing and Other Income		
Interest income, net	660	875
Other expense, net	(102)	(11)
Total financing and other income	558	864
Income from continuing operations before income taxes	15,617	19,101
Provision for income taxes	7,719	7,565
Income from continuing operations	7,898	11,536
Income from discontinued operations, net of tax provision (\$197 and \$54, respectively)	228	77
Net Income	\$ 8,126	\$ 11,613
Basic earnings per share (1):		
From continuing operations	\$ 0.66	\$ 0.93
From discontinued operations	\$ 0.02	\$ 0.01
Basic earnings per share	\$ 0.68	\$ 0.94

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Weighted average shares outstanding used in computing basic earnings per share	11,870	12,404
Diluted earnings per share (1):		
From continuing operations	\$ 0.64	\$ 0.89
From discontinued operations	\$ 0.02	\$ 0.01
Diluted earnings per share	\$ 0.66	\$ 0.90
Weighted average shares outstanding used in computing diluted earnings per share	12,324	12,940

- (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.

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MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Six Months Ended June 30,	
	2008 (unaudited)	2007 (unaudited)
Revenues		
Product licenses	\$ 43,179	\$ 38,398
Product support and other services	131,581	110,517
Total revenues	174,760	148,915
Cost of Revenues		
Product licenses	1,020	1,443
Product support and other services	29,594	23,141
Total cost of revenues	30,614	24,584
Gross profit	144,146	124,331
Operating Expenses		
Sales and marketing	64,172	50,679
Research and development	18,527	15,847
General and administrative	32,311	25,006
Total operating expenses	115,010	91,532
Income from continuing operations before financing and other income and income taxes	29,136	32,799
Financing and Other Income		
Interest income, net	1,458	1,855
Other (expense) income, net	(963)	37
Total financing and other income	495	1,892
Income from continuing operations before income taxes	29,631	34,691
Provision for income taxes	12,772	13,358
Income from continuing operations	16,859	21,333
Income (loss) from discontinued operations, net of tax provision (\$123 and \$100, respectively)	(435)	125
Net Income	\$ 16,424	\$ 21,458
Basic earnings (loss) per share (1):		
From continuing operations	\$ 1.42	\$ 1.71
From discontinued operations	\$ (0.04)	\$ 0.01

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Basic earnings per share	\$ 1.38	\$ 1.72
Weighted average shares outstanding used in computing basic earnings per share	11,897	12,484
Diluted earnings (loss) per share (1):		
From continuing operations	\$ 1.36	\$ 1.63
From discontinued operations	\$ (0.03)	\$ 0.01
Diluted earnings per share	\$ 1.33	\$ 1.64
Weighted average shares outstanding used in computing diluted earnings per share	12,351	13,048

- (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.

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MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2008	2007
Operating activities:		
Net income	\$ 16,424	\$ 21,458
Plus: Loss (income) from discontinued operations, net	435	\$ (125)
Income from continuing operations	16,859	\$ 21,333
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,102	3,837
Bad debt expense	561	626
Deferred taxes	8,539	10,647
Stock-based compensation	45	296
Excess tax benefits from stock-based payment arrangements		