

MICROSTRATEGY INC  
Form 10-Q  
May 10, 2007  
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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 March 31, 2007

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)

1861 International Drive, McLean, VA

(Address of Principal Executive Offices)

22102

(Zip Code)

51-0323571

(I.R.S. Employer

Identification Number)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 May 1, 2007 was 9,627,607 and 2,775,244, respectively.

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**MICROSTRATEGY INCORPORATED**

**FORM 10-Q**

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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)**

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
	(unaudited)	(audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 66,978	\$ 78,980
Restricted cash and investments	3,827	3,799
Short-term investments	15	16
Accounts receivable, net	34,138	54,468
Prepaid expenses and other current assets	8,890	8,633
Deferred tax assets, net	39,023	29,510
<b>Total current assets</b>	<b>152,871</b>	<b>175,406</b>
Property and equipment, net	11,115	11,102
Capitalized software development cost, net	3,866	1,903
Deposits and other assets	7,507	2,461
Deferred tax assets, net	39,553	57,944
<b>Total Assets</b>	<b>\$ 214,912</b>	<b>\$ 248,816</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 21,747	\$ 24,378
Accrued compensation and employee benefits	20,665	31,872
Deferred revenue and advance payments	73,189	56,578
<b>Total current liabilities</b>	<b>115,601</b>	<b>112,828</b>
Deferred revenue and advance payments	2,299	1,127
Other long-term liabilities	1,581	1,710
<b>Total Liabilities</b>	<b>119,481</b>	<b>115,665</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders Equity:</b>		
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; 14,037 shares issued and 9,626 shares outstanding, and 13,972 shares issued and 9,918 shares outstanding, respectively	14	14
Class B common stock, \$0.001 par value; 165,000 shares authorized; 2,775 issued and outstanding for both periods	3	3

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Additional paid-in capital	444,626	440,768
Treasury stock, at cost, 4,412 and 4,054 shares, respectively	(313,516)	(268,776)
Accumulated other comprehensive income	2,969	3,123
Accumulated deficit	(38,665)	(41,981)
<b>Total Stockholders' Equity</b>	<b>95,431</b>	<b>133,151</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 214,912</b>	<b>\$ 248,816</b>

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)

(unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>		
Product licenses	\$ 16,699	\$ 23,133
Product support and other services	55,729	46,365
<b>Total revenues</b>	<b>72,428</b>	<b>69,498</b>
<b>Cost of Revenues:</b>		
Product licenses	589	704
Product support and other services	11,730	8,830
<b>Total cost of revenues</b>	<b>12,319</b>	<b>9,534</b>
<b>Gross Profit</b>	<b>60,109</b>	<b>59,964</b>
<b>Operating Expenses:</b>		
Sales and marketing	24,797	19,969
Research and development	7,013	8,250
General and administrative	13,600	10,749
Amortization of intangible assets	18	18
<b>Total operating expenses</b>	<b>45,428</b>	<b>38,986</b>
<b>Income from Operations</b>	<b>14,681</b>	<b>20,978</b>
<b>Financing and Other Income:</b>		
Interest income, net	981	830
Other (expense) income, net	23	(151)
<b>Total financing and other income</b>	<b>1,004</b>	<b>679</b>
<b>Income before income taxes</b>	<b>15,685</b>	<b>21,657</b>
Provision for income taxes	5,840	6,664
<b>Net Income</b>	<b>\$ 9,845</b>	<b>\$ 14,993</b>
Basic earnings per share(1)	\$ 0.78	\$ 1.11
Weighted average shares outstanding used in computing basic earnings per share	12,567	13,568

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Diluted earnings per share(1)	\$ 0.75	\$ 1.05
Weighted average shares outstanding used in computing diluted earnings per share	13,159	14,304

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(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)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating activities:</b>		
Net income	\$ 9,845	\$ 14,993
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,833	2,070
Bad debt expense	70	617
Deferred taxes	4,273	6,317
Share-based compensation	185	404
Excess tax benefits from share-based payment arrangements	(1,887)	(1,882)
Other, net	52	
Changes in operating assets and liabilities:		
Accounts receivable	20,433	5,145
Prepaid expenses and other current assets	(199)	(556)
Deposits and other assets	(5,049)	339
Accounts payable and accrued expenses, compensation and employee benefits	(14,248)	(11,133)
Deferred revenue and advance payments	17,372	13,663
Other long-term liabilities	(31)	(151)
<b>Net cash provided by operating activities</b>	<b>32,649</b>	<b>29,826</b>
<b>Investing activities:</b>		
Proceeds from maturities of short-term investments		65,650
Purchases of short-term investments		(39,924)
Purchases of property and equipment, net	(1,392)	(766)
Capitalized software development costs	(2,419)	
Increase in restricted cash and investments	(14)	(45)
<b>Net cash (used in) provided by investing activities</b>	<b>(3,825)</b>	<b>24,915</b>
<b>Financing activities:</b>		
Proceeds from sale of class A common stock under exercise of employee stock options	1,636	2,384
Excess tax benefits from share-based payment arrangements	1,887	1,882
Purchases of treasury stock	(44,740)	(58,796)
<b>Net cash used in financing activities</b>	<b>(41,217)</b>	<b>(54,530)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	391	215
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(12,002)</b>	<b>426</b>
Cash and cash equivalents, beginning of period	78,980	42,318
<b>Cash and cash equivalents, end of period</b>	<b>\$ 66,978</b>	<b>\$ 42,744</b>



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

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**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**(1) Basis of Presentation**

Except for the consolidated balance sheet of MicroStrategy Incorporated ( MicroStrategy or the Company ) as of December 31, 2006, which is derived from audited financial statements, 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. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements and notes are presented as required by Form 10-Q 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 Securities and Exchange Commission ( SEC ) in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the current year presentation.

**(2) Recent Accounting Standards**

In February 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The Company is currently evaluating the potential impact of SFAS No. 159 on its consolidated results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . SFAS No. 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of SFAS No. 157 on its consolidated results of operations and financial position.

**(3) Restricted Cash and Investments**

On March 15, 2005, the Company entered into a security agreement with a bank under which the Company posted cash to secure existing letters of credit. These letters of credit are used as security deposits for office leases, including the office lease for the Company's corporate headquarters. The Company may invest the cash collateral under the security agreement in certain permitted investments. As of both March 31, 2007 and December 31, 2006, the Company had \$2.9 million in cash collateral posted under the security agreement, all invested in money market funds that are included in restricted cash and investments in the accompanying balance sheets.

**(4) Accounts Receivable**

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

**Table of Contents****MICROSTRATEGY INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Billed and billable	\$ 71,201	\$ 112,080
Less: billed and unpaid deferred revenue	(35,193)	(55,722)
	36,008	56,358
Less: allowance for doubtful accounts	(1,870)	(1,890)
	\$ 34,138	\$ 54,468

The Company offsets its accounts receivable and deferred revenue for any billed and unpaid items included in deferred revenue and advance payments.

**(5) Deferred Revenue and Advance Payments**

Deferred revenue and advance payments from customers consisted of the following, as of (in thousands):

	<b>March 31, 2007</b>	<b>December 31, 2006</b>					
<b>Current:</b>							
Deferred product licenses revenue	\$ 3,249	\$ 3,451					
Deferred product support revenue	88,054	91,516					
Deferred other services revenue	16,765	14,984					
	108,068	109,951					
Less: billed and unpaid deferred revenue	(34,879)	(53,373)					
	\$ 73,189	\$ 56,578					
<b>Non-current:</b>							
Deferred product licenses revenue	\$ 346	\$ 509					
Deferred product support revenue	2,217	2,921					
Deferred other services revenue	50	0	49,696,250				
Carlyle Holdings I GP Inc.	49,696,250	27.1%	0	49,696,250	0	49,696,250	
Carlyle Holdings I GP Sub L.L.C.	49,696,250	27.1%	0	49,696,250	0	49,696,250	
Carlyle Holdings I L.P.	49,696,250	27.1%	0	49,696,250	0	49,696,250	
TC Group, L.L.C.	49,696,250	27.1%	0	49,696,250	0	49,696,250	

TC Group IV Managing GP, L.L.C.	49,696,250	27.1%	0	49,696,250	0	49,696,250
Carlyle Partners IV AT Holdings, L.P.	49,696,250	27.1%	0	49,696,250	0	49,696,250

Carlyle Partners IV AT Holdings, L.P. is the record holder of 49,696,250 shares of the Issuer's Common Stock. Carlyle Group Management L.L.C. is the general partner of The Carlyle Group L.P., which is a publicly traded entity listed on NASDAQ. The Carlyle Group L.P. is the sole shareholder of Carlyle Holdings I GP Inc., which is the managing member of Carlyle Holdings I GP Sub L.L.C., which is the general partner of Carlyle Holdings I L.P., which is the managing member of TC Group, L.L.C., which is the managing member of TC Group IV Managing GP, L.L.C., which is the general partner of Carlyle Partners IV AT Holdings, L.P. Accordingly, each of the forgoing entities may be deemed to share beneficial ownership of the shares of Common Stock owned of record by Carlyle Partners IV AT Holdings, L.P.

**ITEM 5. Ownership of Five Percent or Less of a Class**

Not applicable.

**ITEM 6. Ownership of More than Five Percent on Behalf of Another Person**

Not applicable.

**ITEM 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company**

Not applicable.

CUSIP No. 01973R101

Schedule 13G

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**ITEM 8. Identification and Classification of Members of the Group**

Not applicable.

**ITEM 9. Notice of Dissolution of Group**

Not applicable.

**ITEM 10. Certification**

Not applicable.

**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

**Date:** February 14, 2014

**CARLYLE GROUP MANAGEMENT  
L.L.C.**

By: /s/ Jeremy W. Anderson,  
attorney-in-fact  
Name: Daniel D Aniello  
Title: Chairman

**THE CARLYLE GROUP L.P.**

By: Carlyle Group Management L.L.C., its general partner

By: /s/ Jeremy W. Anderson,  
attorney-in-fact  
Name: Daniel D Aniello  
Title: Chairman

**CARLYLE HOLDINGS I GP INC.**

By: /s/ Jeremy W. Anderson,  
attorney-in-fact  
Name: Daniel D Aniello  
Title: Chairman

**CARLYLE HOLDINGS I GP SUB L.L.C.**

By: Carlyle Holdings I GP Inc., its managing member

By: /s/ Jeremy W. Anderson,  
attorney-in-fact  
Name: Daniel D Aniello  
Title: Chairman

**CARLYLE HOLDINGS I L.P.**

By: Carlyle Holdings I GP Sub L.L.C., its general partner  
By: Carlyle Holdings I GP Inc., its managing member

By: /s/ Jeremy W. Anderson,  
attorney-in-fact  
Name: Daniel D Aniello  
Title: Chairman

**TC GROUP, L.L.C.**

By: Carlyle Holdings I L.P., its managing member

By: /s/ Jeremy W. Anderson,  
attorney-in-fact

Name: Daniel D Aniello

Title: Chairman

**TC GROUP IV MANAGING GP, L.L.C.**

By: /s/ Jeremy W. Anderson

Name: Jeremy W. Anderson

Title: Authorized Person

**CARLYLE PARTNERS IV AT  
HOLDINGS, L.P.**

By: TC Group IV Managing GP, L.L.C., its general partner

By: /s/ Jeremy W. Anderson

Name: Jeremy W. Anderson

Title: Authorized Person



**LIST OF EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
24	Power of Attorney (incorporated by reference to Exhibit 24 to the Schedule 13G filed by the Reporting Persons on February 14, 2013).
99	Joint Filing Agreement (incorporated by reference to Exhibit 99 to the Schedule 13G filed by the Reporting Persons on February 14, 2013).