MicroStrategy Announces Second Quarter 2020 Financial Results

July 28, 2020

TYSONS CORNER, Va.--(BUSINESS WIRE)--Jul. 28, 2020--MicroStrategy® (Nasdaq: MSTR), the largest independent publicly-traded business intelligence company, today announced financial results for the three-month period ended June 30, 2020 (the second quarter of its 2020 fiscal year).

“MicroStrategy’s second quarter results were solid in the context of the challenging global economic environment and highlighted by double-digit subscription services revenue growth and significant improvements in profitability. We are encouraged by the adoption of the MicroStrategy Cloud™ and HyperIntelligence® as customers look for the best way to make fast, data-driven decisions,” said Michael J. Saylor, CEO, MicroStrategy Incorporated.

“We continue to make significant progress streamlining our cost structure and improving our operating efficiency. We now believe we are in a position to drive consistent and meaningful profitability going forward while also continuing to invest in revenue growth. This has given us the confidence to more actively utilize our strong balance sheet, which together with our improved operational performance provides multiple opportunities to generate substantial long-term value for our shareholders,” continued Mr. Saylor.

Capital Allocation Strategy

MicroStrategy today announced a new capital allocation strategy. With more than $500 million in cash and cash equivalents and short-term investments and an operating plan that anticipates generating material free cash flow going forward, MicroStrategy intends to return up to $250 million to its shareholders over the next 12 months. In addition, under this capital allocation strategy, MicroStrategy will seek to invest up to another $250 million over the next 12 months in one or more alternative investments or assets, which may include stocks, bonds, commodities such as gold, digital assets such as bitcoin, or other asset types. Both of these strategies will depend on market conditions.

Phong Le, President & CFO, MicroStrategy Incorporated, said, “MicroStrategy is announcing a capital allocation strategy that reflects a new direction in its commitment to capital stewardship. We believe the business will be able to generate material excess cash going forward and are confident that we can manage our day-to-day business and achieve reasonable growth objectives with approximately $50 million of operating cash. Accordingly, we believe it is appropriate to return a portion of this excess cash to our shareholders and invest a portion in assets with potentially higher returns than holding cash.”

Second Quarter 2020 Financial Highlights

- **Revenues:** Total revenues for the second quarter of 2020 were $110.6 million, a 6.1% decrease, or a 4.3% decrease on a non-GAAP constant currency basis, compared to the second quarter of 2019. Product licenses and subscription services revenues for the second quarter of 2020 were $22.8 million, a 16.1% decrease, or a 13.5% decrease on a non-GAAP constant currency basis, compared to the second quarter of 2019. Product support revenues for the second quarter of 2020 were $70.0 million, a 4.0% decrease, or a 2.4% decrease on a non-GAAP constant currency basis, compared to the second quarter of 2019. Other services revenues for the second quarter of 2020 were $17.7 million, a 1.0% increase, or a 2.4% increase on a non-GAAP constant currency basis, compared to the second quarter of 2019.
- **Gross Profit:** Gross profit for the second quarter of 2020 was $86.6 million, representing a 78.3% gross margin, compared to a gross margin of 78.5% in the second quarter of 2019.
- **Operating Expenses:** Operating expenses for the second quarter of 2020 were $80.3 million, a 17.4% decrease compared to the second quarter of 2019.
- **Income from Operations:** Income from operations for the second quarter of 2020 was $6.3 million versus loss from operations of $4.8 million for the second quarter of 2019. Non-GAAP income from operations, which excludes share-based compensation expense, was $8.6 million for the second quarter of 2020 versus non-GAAP loss from operations of $1.8 million for the second quarter of 2019.
- **Net Income:** Net income for the second quarter of 2020 was $3.4 million, or $0.35 per share on a diluted basis, as compared to net income of $20.4 million, or $1.98 per share on a diluted basis, for the second quarter of 2019. In the second quarter of 2019, MicroStrategy completed the sale of its **Voice.com** domain name for a gain of $21.8 million, net of tax (the “Domain Name Sale”). Excluding the impact of the Domain Name Sale, non-GAAP net loss for the second quarter of 2019 was $1.4 million, or $0.14 per share on a diluted basis.
- **Cash and Short-term Investments:** As of June 30, 2020, MicroStrategy had cash and cash equivalents and short-term investments of $530.9 million, as compared to $565.6 million as of December 31, 2019, a decrease of $34.8 million. During the second quarter of 2020, MicroStrategy repurchased 90,136 shares of its class A common stock for an aggregate purchase price of approximately $11.1 million. As of June 30, 2020, MicroStrategy had 7.7 million shares of class A common stock and 2.0 million shares of class B common stock outstanding.

The tables at the end of this press release include a reconciliation of GAAP to non-GAAP financial measures for the three and six months ended June 30, 2020 and 2019. An explanation of non-GAAP financial measures is also included under the heading “Non-GAAP Financial Measures” below.
Additional non-GAAP financial measures are included in our “2Q 2020 Financial Results” presentation, which will be available under the “Events” section on MicroStrategy’s investor relations website at https://ir.microstrategy.com/events-presentations.

MicroStrategy uses its Intelligent Enterprise™ platform across the enterprise and has created an interactive dossier with quarterly financial performance data. Anyone can access the MSTR Financials dossier via a web browser, or by downloading the MicroStrategy Library™ app on an iOS or Android device. To download the native apps, visit MicroStrategy Library for iPad, MicroStrategy Library for iPhone, or MicroStrategy Library for Android tablet and smartphone.

Recent Business Highlights

The following are some key business highlights from the second quarter of 2020:

- Numerous leading organizations, such as the Industrial and Commercial Bank of China, SEVEN-ELEVEN JAPAN CO., LTD., and Dubai Health Authority, purchased HyperIntelligence.
- MicroStrategy 2020™ Update 1 provided modern, consumer-grade experiences to every role across the enterprise, improving usability of multiple workflows such as dossier authoring, exporting, mobile linking, and more.
- MicroStrategy 2020 Update 2 delivered new capabilities for business users, analysts, and architects via a new MicroStrategy application, enhancements to Dossier® and HyperIntelligence, and improvements to data connectors and Workstation.
- MicroStrategy introduced Expert.Now, a new service for its customers and partners to connect immediately and face-to-face with MicroStrategy’s best and brightest experts. Subscribers in need of instant help or advice can connect with MicroStrategy’s team of analysts, architects, developers, and data scientists to build reports or dossiers, design HyperIntelligence cards or mobile apps, integrate new data sources, upgrade their platform, migrate to the cloud, or receive general support.

Conference Call

MicroStrategy will be discussing its second quarter 2020 financial results on a conference call today beginning at approximately 5:00 p.m. EDT. To access the conference call, dial (844) 824-7425 (domestically) or (716) 220-9429 (internationally) and use conference ID 7154964. A live and archived webcast and accompanying presentation materials will be available under the “Events” section on MicroStrategy’s investor relations website at https://ir.microstrategy.com/events-presentations. A replay of the conference call will be available beginning approximately two hours after the call concludes until August 4, 2020 at (855) 859-2056 (domestically) or (404) 537-3406 (internationally) using the passcode 7154964.

Non-GAAP Financial Measures

MicroStrategy is providing supplemental financial measures for (i) non-GAAP income (loss) from operations that excludes the impact of share-based compensation arrangements, (ii) non-GAAP net income (loss) and non-GAAP diluted earnings (loss) per share that exclude the impact from the Domain Name Sale in the second quarter of 2019, and (iii) non-GAAP constant currency revenues that exclude foreign currency exchange rate fluctuations. These supplemental financial measures are not measurements of financial performance under generally accepted accounting principles in the United States (“GAAP”) and, as a result, these supplemental financial measures may not be comparable to similarly titled measures of other companies. Management uses these non-GAAP financial measures internally to help understand, manage, and evaluate business performance and to help make operating decisions.

MicroStrategy believes that these non-GAAP financial measures are also useful to investors and analysts in comparing its performance across reporting periods on a consistent basis. The first supplemental financial measure excludes a significant non-cash expense that MicroStrategy believes is not reflective of its general business performance, and for which the accounting requires management judgment and the resulting share-based compensation expense could vary significantly in comparison to other companies. The second set of supplemental financial measures excludes the impact from the Domain Name Sale, which is outside of our normal business operations. The third set of supplemental financial measures excludes changes resulting from fluctuations in foreign currency exchange rates so that results may be compared to the same period in the prior year on a non-GAAP constant currency basis. MicroStrategy believes the use of these non-GAAP financial measures can also facilitate comparison of MicroStrategy’s operating results to those of its competitors.

About MicroStrategy Incorporated

MicroStrategy (Nasdaq: MSTR) is the largest independent publicly-traded business intelligence company, with the leading enterprise analytics platform. Our vision is to enable Intelligence Everywhere™. MicroStrategy provides modern analytics on an open, comprehensive enterprise platform used by many of the world’s most admired brands in the Fortune Global 500. Optimized for cloud and on-premises deployments, the platform features HyperIntelligence, a breakthrough technology that overlays actionable enterprise data on popular business applications to help users make smarter, faster decisions. For more information about MicroStrategy, visit www.microstrategy.com.

MicroStrategy, MicroStrategy Cloud, HyperIntelligence, Intelligent Enterprise, MicroStrategy Library, MicroStrategy 2020, Dossier, and Intelligence Everywhere are either trademarks or registered trademarks of MicroStrategy Incorporated in the United States and certain other countries. Other product and company names mentioned herein may be the trademarks of their respective owners.

This press release may include statements that may constitute “forward-looking statements,” including estimates of future business prospects or financial results and statements containing the words “believe,” “estimate,” “project,” “expect” or similar expressions. Forward-looking statements inherently involve risks and uncertainties that could cause actual results of MicroStrategy Incorporated and its subsidiaries (collectively, the “Company”) to differ materially from the forward-looking statements. Factors that could contribute to such differences include: the extent and timing of market acceptance of MicroStrategy’s new offerings, including MicroStrategy 2020; impacts of the COVID-19 pandemic; the Company’s ability to recognize revenue or deferred revenue through delivery of products or satisfactory performance of services; continued acceptance of the Company’s other products in the marketplace; fluctuations in tax benefits or provisions; the timing of significant orders; delays in or the inability of the Company to
develop or ship new products; customers shifting from a product license model to a cloud subscription model; competitive factors; general economic conditions; currency fluctuations; and other risks detailed in the Company’s registration statements and periodic reports filed with the Securities and Exchange Commission. The Company undertakes no obligation to update these forward-looking statements for revisions or changes after the date of this release.

MSTR-F

MICROSTRATEGY INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 2020</td>
<td>June 30, 2019</td>
</tr>
<tr>
<td></td>
<td>2020</td>
<td>2019</td>
</tr>
<tr>
<td>Revenues</td>
<td>(unaudited)</td>
<td>(unaudited)</td>
</tr>
<tr>
<td>Product licenses</td>
<td>$14,816</td>
<td>$20,121</td>
</tr>
<tr>
<td>Subscription services</td>
<td>8,021</td>
<td>7,104</td>
</tr>
<tr>
<td>Total product licenses and subscription services</td>
<td>22,837</td>
<td>27,225</td>
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<tr>
<td>Product support</td>
<td>70,038</td>
<td>72,978</td>
</tr>
<tr>
<td>Other services</td>
<td>17,709</td>
<td>17,534</td>
</tr>
<tr>
<td>Total revenues</td>
<td>110,584</td>
<td>117,737</td>
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</table>

<table>
<thead>
<tr>
<th>Cost of revenues</th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 2020</td>
<td>June 30, 2019</td>
</tr>
<tr>
<td></td>
<td>2020</td>
<td>2019</td>
</tr>
<tr>
<td>Product licenses</td>
<td>514</td>
<td>552</td>
</tr>
<tr>
<td>Subscription services</td>
<td>3,792</td>
<td>3,489</td>
</tr>
<tr>
<td>Total product licenses and subscription services</td>
<td>4,306</td>
<td>4,041</td>
</tr>
<tr>
<td>Product support</td>
<td>6,837</td>
<td>7,721</td>
</tr>
<tr>
<td>Other services</td>
<td>12,846</td>
<td>13,588</td>
</tr>
<tr>
<td>Total cost of revenues</td>
<td>23,989</td>
<td>25,350</td>
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</table>
Gross profit

<table>
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<tr>
<th></th>
<th>$86,595</th>
<th>$92,387</th>
<th>$173,474</th>
<th>$181,580</th>
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</table>

Operating expenses

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<tr>
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</thead>
<tbody>
<tr>
<td>Sales and marketing</td>
<td>34,951</td>
<td>48,273</td>
<td>74,469</td>
<td>97,033</td>
</tr>
<tr>
<td>Research and development</td>
<td>25,867</td>
<td>27,764</td>
<td>51,968</td>
<td>55,979</td>
</tr>
<tr>
<td>General and administrative</td>
<td>19,449</td>
<td>21,180</td>
<td>40,781</td>
<td>43,784</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>80,267</td>
<td>97,217</td>
<td>167,218</td>
<td>196,796</td>
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Income (loss) from operations

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<tbody>
<tr>
<td></td>
<td>6,328</td>
<td>(4,830)</td>
<td>6,256</td>
<td>(15,216)</td>
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Interest income, net

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</tr>
</thead>
<tbody>
<tr>
<td>Interest income, net</td>
<td>563</td>
<td>3,013</td>
<td>2,418</td>
<td>5,579</td>
</tr>
</tbody>
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Other (expense) income, net

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</thead>
<tbody>
<tr>
<td>Other (expense) income, net</td>
<td>(1,995)</td>
<td>29,431</td>
<td>(1,561)</td>
<td>28,835</td>
</tr>
</tbody>
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Income before income taxes

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</thead>
<tbody>
<tr>
<td>Income before income taxes</td>
<td>4,896</td>
<td>27,614</td>
<td>7,113</td>
<td>19,198</td>
</tr>
</tbody>
</table>

Provision for income taxes

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</thead>
<tbody>
<tr>
<td>Provision for income taxes</td>
<td>1,509</td>
<td>7,220</td>
<td>3,069</td>
<td>6,710</td>
</tr>
</tbody>
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Net income

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<tbody>
<tr>
<td>Net income</td>
<td>$3,387</td>
<td>$20,394</td>
<td>$4,044</td>
<td>$12,488</td>
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Basic earnings per share (1):

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<tbody>
<tr>
<td>Basic earnings per share (1):</td>
<td>$0.35</td>
<td>$1.99</td>
<td>$0.41</td>
<td>$1.21</td>
</tr>
</tbody>
</table>

Weighted average shares outstanding used in computing basic earnings per share

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</thead>
<tbody>
<tr>
<td>Weighted average shares outstanding used in computing basic earnings per share</td>
<td>9,739</td>
<td>10,240</td>
<td>9,858</td>
<td>10,283</td>
</tr>
</tbody>
</table>

Diluted earnings per share (1):

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</thead>
<tbody>
<tr>
<td>Diluted earnings per share (1):</td>
<td>$0.35</td>
<td>$1.98</td>
<td>$0.41</td>
<td>$1.21</td>
</tr>
</tbody>
</table>

Weighted average shares outstanding used in computing diluted earnings per share

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</tr>
</thead>
<tbody>
<tr>
<td>Weighted average shares outstanding used in computing diluted earnings per share</td>
<td>9,741</td>
<td>10,310</td>
<td>9,886</td>
<td>10,350</td>
</tr>
</tbody>
</table>

(1) Basic and fully diluted earnings per share for class A and class B common stock are the same.

MICROSTRATEGY INCORPORATED

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)
### Assets

**Current assets**

<table>
<thead>
<tr>
<th>Description</th>
<th>$ 2020</th>
<th>$ 2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$420,899</td>
<td>$456,727</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>1,221</td>
<td>1,089</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>109,972</td>
<td>108,919</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>123,794</td>
<td>163,516</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>16,887</td>
<td>23,195</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>672,773</td>
<td>753,446</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>$ 2020</th>
<th>$ 2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and equipment, net</td>
<td>45,300</td>
<td>50,154</td>
</tr>
<tr>
<td>Right-of-use assets</td>
<td>81,543</td>
<td>85,538</td>
</tr>
<tr>
<td>Deposits and other assets</td>
<td>14,596</td>
<td>8,024</td>
</tr>
<tr>
<td>Deferred tax assets, net</td>
<td>18,834</td>
<td>19,409</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$833,046</strong></td>
<td><strong>$916,571</strong></td>
</tr>
</tbody>
</table>

### Liabilities and Stockholders’ Equity

**Current liabilities**

<table>
<thead>
<tr>
<th>Description</th>
<th>$ 2020</th>
<th>$ 2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable, accrued expenses, and operating lease liabilities</td>
<td>$31,468</td>
<td>$33,919</td>
</tr>
<tr>
<td>Accrued compensation and employee benefits</td>
<td>40,806</td>
<td>48,792</td>
</tr>
<tr>
<td>Deferred revenue and advance payments</td>
<td>167,643</td>
<td>187,107</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>239,917</td>
<td>269,818</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>$ 2020</th>
<th>$ 2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred revenue and advance payments</td>
<td>5,910</td>
<td>4,344</td>
</tr>
<tr>
<td>Operating lease liabilities</td>
<td>98,283</td>
<td>103,424</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>30,452</td>
<td>30,400</td>
</tr>
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</table>
Deferred tax liabilities 24 26

Total Liabilities 374,586 408,012

**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; 15,903 shares issued and 7,651 shares outstanding, and 15,888 shares issued and 8,081 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 600,851 593,583

Treasury stock, at cost; 8,252 shares and 7,807 shares, respectively (720,755 ) (658,880 )

Accumulated other comprehensive loss (9,187 ) (9,651 )

Retained earnings 587,533 583,489

Total Stockholders' Equity 458,460 508,559

Total Liabilities and Stockholders' Equity $ 833,046 $ 916,571

* Derived from audited financial statements.

**MICROSTRATEGY INCORPORATED**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ 4,044</td>
<td>$ 12,488</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>5,828</td>
<td>3,623</td>
</tr>
<tr>
<td>Reduction in carrying amount of right-of-use assets</td>
<td>4,085</td>
<td>4,064</td>
</tr>
</tbody>
</table>
Credit losses and sales allowances & 990 & 796 \\
Net realized loss on short-term investments & 0 & 41 \\
Deferred taxes & 273 & (3,219 ) \\
Share-based compensation expense & 5,337 & 6,053 \\

Changes in operating assets and liabilities:

<table>
<thead>
<tr>
<th>Description</th>
<th>21,022</th>
<th>5,985</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>(493 )</td>
<td>7,089</td>
</tr>
<tr>
<td>Deposits and other assets</td>
<td>195</td>
<td>96</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>(1,823 )</td>
<td>(8,396 )</td>
</tr>
<tr>
<td>Accrued compensation and employee benefits</td>
<td>(8,708 )</td>
<td>(8,082 )</td>
</tr>
<tr>
<td>Deferred revenue and advance payments</td>
<td>347</td>
<td>33,489</td>
</tr>
<tr>
<td>Operating lease liabilities</td>
<td>(4,662 )</td>
<td>(4,316 )</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>86</td>
<td>(509 )</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>26,521</td>
<td>49,202</td>
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**Investing activities:**

<table>
<thead>
<tr>
<th>Description</th>
<th>10,000</th>
<th>369,603</th>
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</thead>
<tbody>
<tr>
<td>Proceeds from redemption of short-term investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(1,162 )</td>
<td>(8,432 )</td>
</tr>
<tr>
<td>Purchases of short-term investments</td>
<td>(9,928 )</td>
<td>(212,248 )</td>
</tr>
<tr>
<td>Net cash (used in) provided by investing activities</td>
<td>(1,090 )</td>
<td>148,923</td>
</tr>
</tbody>
</table>

**Financing activities:**

<table>
<thead>
<tr>
<th>Description</th>
<th>1,902</th>
<th>1,836</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale of class A common stock under exercise of employee stock options</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of treasury stock</td>
<td>(61,875 )</td>
<td>(48,244 )</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(59,973 )</td>
<td>(46,408 )</td>
</tr>
</tbody>
</table>

Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash & (1,154 ) | 33 |
### MICROSTRATEGY INCORPORATED

#### REVENUE AND COST OF REVENUE DETAIL

(in thousands)

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 2020</td>
<td>June 30, 2019</td>
</tr>
<tr>
<td>Revenues</td>
<td></td>
<td>2020</td>
</tr>
<tr>
<td></td>
<td>(unaudited)</td>
<td>(unaudited)</td>
</tr>
<tr>
<td>Product licenses and subscription services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product licenses</td>
<td>$ 14,816</td>
<td>$ 20,121</td>
</tr>
<tr>
<td>Subscription services</td>
<td>8,021</td>
<td>7,104</td>
</tr>
<tr>
<td>Total product licenses and subscription services</td>
<td>22,837</td>
<td>27,225</td>
</tr>
<tr>
<td>Product support</td>
<td>70,038</td>
<td>72,978</td>
</tr>
<tr>
<td>Total other services</td>
<td>17,709</td>
<td>17,534</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$ 110,584</td>
<td>$ 117,737</td>
</tr>
<tr>
<td>Cost of revenues</td>
<td></td>
<td>222,008</td>
</tr>
<tr>
<td></td>
<td></td>
<td>233,103</td>
</tr>
</tbody>
</table>

#### Cost of revenues

<table>
<thead>
<tr>
<th>Product licenses and subscription services:</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product licenses</td>
<td>514</td>
<td>552</td>
</tr>
<tr>
<td>Subscription services</td>
<td>3,792</td>
<td>3,489</td>
</tr>
<tr>
<td>Total</td>
<td>4,306</td>
<td>5,031</td>
</tr>
</tbody>
</table>

Net (decrease) increase in cash, cash equivalents, and restricted cash: (35,696) 151,750

Cash, cash equivalents, and restricted cash, beginning of period: 457,816 110,786

Cash, cash equivalents, and restricted cash, end of period: $ 422,120 $ 262,536
Total product licenses and subscription services | 4,306 | 4,041 | 9,040 | 8,158
---|---|---|---|---
Product support | 6,837 | 7,721 | 13,555 | 14,788
Other services:
Consulting | 10,168 | 11,909 | 21,596 | 24,894
Education | 2,678 | 1,679 | 4,343 | 3,683
Total other services | 12,846 | 13,588 | 25,939 | 28,577
Total cost of revenues | 23,989 | 25,350 | 48,534 | 51,523

Gross profit | $ 86,595 | $ 92,387 | $ 173,474 | $ 181,580

MICROSTRATEGY INCORPORATED

DEFERRED REVENUE DETAIL

(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2020</th>
<th>December 31, 2019*</th>
<th>June 30, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred product licenses revenue</td>
<td>$ 100</td>
<td>$ 481</td>
<td>$ 633</td>
</tr>
<tr>
<td>Deferred subscription services revenue</td>
<td>17,934</td>
<td>16,561</td>
<td>15,393</td>
</tr>
<tr>
<td>Deferred product support revenue</td>
<td>142,543</td>
<td>161,670</td>
<td>152,866</td>
</tr>
<tr>
<td>Deferred other services revenue</td>
<td>7,066</td>
<td>8,395</td>
<td>7,894</td>
</tr>
<tr>
<td>Total current deferred revenue and advance payments</td>
<td>$ 167,643</td>
<td>$ 187,107</td>
<td>$ 176,786</td>
</tr>
</tbody>
</table>

|                     |               |                    |               |
| **Non-current:**    |               |                    |               |
| Deferred product licenses revenue | $ 168         | $ 293              | $ 405         |
| Deferred subscription services revenue | 90            | 97                 | 116           |
| Deferred product support revenue | 5,152         | 3,417              | 3,083         |
| Deferred other services revenue | 500           | 537                | 571           |
Total non-current deferred revenue and advance payments $ 5,910 $ 4,344 $ 4,175

Total current and non-current:

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>Three Months Ended June 30</th>
<th>Six Months Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred product licenses revenue</td>
<td>$ 268</td>
<td>$ 774</td>
</tr>
<tr>
<td>Deferred subscription services revenue</td>
<td>18,024</td>
<td>16,658</td>
</tr>
<tr>
<td>Deferred product support revenue</td>
<td>147,695</td>
<td>165,087</td>
</tr>
<tr>
<td>Deferred other services revenue</td>
<td>7,566</td>
<td>8,932</td>
</tr>
<tr>
<td>Total current and non-current deferred revenue and advance payments</td>
<td>$ 173,553</td>
<td>$ 191,451</td>
</tr>
</tbody>
</table>

* Derived from audited financial statements.

MICROSTRATEGY INCORPORATED

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

EXCLUSION OF SHARE-BASED COMPENSATION EXPENSE

(in thousands)

<table>
<thead>
<tr>
<th>Reconciliation of non-GAAP income (loss) from operations:</th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (loss) from operations</td>
<td>$ 6,328</td>
<td>$ (4,830)</td>
</tr>
<tr>
<td>Share-based compensation expense</td>
<td>2,226</td>
<td>3,036</td>
</tr>
<tr>
<td>Non-GAAP income (loss) from operations</td>
<td>$ 8,554</td>
<td>$ (1,794)</td>
</tr>
</tbody>
</table>

MICROSTRATEGY INCORPORATED

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

EXCLUSION OF DOMAIN NAME SALE

(in thousands, except per share data)
Reconciliation of non-GAAP net income (loss):

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 2020</td>
<td>June 30, 2019</td>
</tr>
<tr>
<td>Net income</td>
<td>$3,387</td>
<td>$20,394</td>
</tr>
<tr>
<td>Gain from Domain Name Sale, net of tax</td>
<td>0</td>
<td>(21,778)</td>
</tr>
<tr>
<td>Non-GAAP net income (loss)</td>
<td>$3,387</td>
<td>$1,384</td>
</tr>
</tbody>
</table>

Reconciliation of non-GAAP diluted earnings (loss) per share:

<table>
<thead>
<tr>
<th></th>
<th>Diluted earnings per share</th>
<th>Gain from Domain Name Sale, net of tax (per diluted share)</th>
<th>Non-GAAP diluted earnings (loss) per share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$0.35</td>
<td>0.00</td>
<td>$0.35</td>
</tr>
<tr>
<td>Gain from Domain Name Sale, net of tax (per diluted share)</td>
<td>(1.98)</td>
<td>(2.12)</td>
<td>(0.14)</td>
</tr>
<tr>
<td>Non-GAAP diluted earnings (loss) per share</td>
<td>$0.41</td>
<td>$0.41</td>
<td>$0.41</td>
</tr>
</tbody>
</table>

MICROSTRATEGY INCORPORATED

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

CONSTANT CURRENCY

(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>GAAP</th>
<th>Foreign Currency Exchange Rate Impact (1)</th>
<th>Non-GAAP Constant Currency (2)</th>
<th>GAAP % Change</th>
<th>Non-GAAP Constant Currency % Change (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020</td>
<td>2020</td>
<td>2020</td>
<td>2019</td>
<td>2020</td>
</tr>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product licenses</td>
<td>$14,816</td>
<td>$ (655)</td>
<td>$15,471</td>
<td>$20,121</td>
<td>-26.4 %</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-23.1 %</td>
</tr>
<tr>
<td>Subscription services</td>
<td>8,021</td>
<td>(46)</td>
<td>8,067</td>
<td>7,104</td>
<td>12.9 %</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>13.6 %</td>
</tr>
<tr>
<td>Total product licenses and subscription services</td>
<td>22,837</td>
<td>(701)</td>
<td>23,538</td>
<td>27,225</td>
<td>-16.1 %</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-13.5 %</td>
</tr>
</tbody>
</table>
Six Months Ended

June 30,

( unaudited )

<table>
<thead>
<tr>
<th>GAAP</th>
<th>Foreign Currency Exchange Rate Impact (1)</th>
<th>Non-GAAP Constant Currency (2)</th>
<th>GAAP</th>
<th>GAAP % Change</th>
<th>Non-GAAP Constant Currency % Change (3)</th>
</tr>
</thead>
</table>

**Revenues**

| Product licenses | $27,400 | $ (1,196) | $ 28,596 | $ 38,412 | -28.7 % | -25.6 % |
| Subscription services | 15,989 | (82) | 16,071 | 14,248 | 12.2 % | 12.8 % |
| Total product licenses and subscription services | 43,389 | (1,278) | 44,667 | 52,660 | -17.6 % | -15.2 % |
| Product support | 141,196 | (2,341) | 143,537 | 144,428 | -2.2 % | -0.6 % |
| Other services | 37,423 | (498) | 37,921 | 36,015 | 3.9 % | 5.3 % |
| Total revenues | 222,008 | (4,117) | 226,125 | 233,103 | -4.8 % | -3.0 % |

The “Foreign Currency Exchange Rate Impact” reflects the estimated impact from fluctuations in foreign currency exchange rates on international revenues. It shows the increase (decrease) in international revenues from the same period in the prior year, based on comparisons to the prior year quarterly average foreign currency exchange rates. The term “international” refers to operations outside of the United States and Canada.

(2) The “Non-GAAP Constant Currency” reflects the current period GAAP amount, less the Foreign Currency Exchange Rate Impact.

(3) The “Non-GAAP Constant Currency % Change” reflects the percentage change between the current period Non-GAAP Constant Currency amount and the GAAP amount for the same period in the prior year.

**MICROSTRATEGY INCORPORATED**

**WORLDWIDE EMPLOYEE HEADCOUNT**

<table>
<thead>
<tr>
<th>June 30, March 31, December 31, September 30, June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
</tr>
<tr>
<td>Service</td>
</tr>
<tr>
<td>-------------------------------</td>
</tr>
<tr>
<td>Subscription services</td>
</tr>
<tr>
<td>Product support</td>
</tr>
<tr>
<td>Consulting</td>
</tr>
<tr>
<td>Education</td>
</tr>
<tr>
<td>Sales and marketing</td>
</tr>
<tr>
<td>Research and development</td>
</tr>
<tr>
<td>General and administrative</td>
</tr>
<tr>
<td>Total headcount</td>
</tr>
</tbody>
</table>

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