

MICROSTRATEGY INC  
Form 10-K  
February 26, 2016  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended December 31, 2015**

**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**                      **1850 Towers Crescent Plaza, Tysons Corner, VA 22182**                      **51-0323571**  
**(State of Incorporation)**      **(Address of Principal Executive Offices) (Zip Code)**                      **(I.R.S. Employer**  
**Identification No.)**  
**Registrant's Telephone Number, Including Area Code: (703) 848-8600**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Class A common stock, par value \$0.001 per share</b>	<b>The NASDAQ Global Select Market</b>

**Securities registered pursuant to Section 12(g) of the Act: Not applicable**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant (based on the last reported sale price of the registrant's class A common stock on June 30, 2015 on the NASDAQ Global Select Market) was approximately \$1,590.1 million.

The number of shares of the registrant's class A common stock and class B common stock outstanding on February 22, 2016 was 9,367,103 and 2,035,184, respectively.

Documents incorporated by reference: Portions of the definitive proxy statement for the 2016 Annual Meeting of Stockholders of the Registrant to be filed subsequently with the SEC are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent indicated herein.

---

**Table of Contents****MICROSTRATEGY INCORPORATED****TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I</u></b>	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	22
Item 1B. <u>Unresolved Staff Comments</u>	36
Item 2. <u>Properties</u>	37
Item 3. <u>Legal Proceedings</u>	38
Item 4. <u>Mine Safety Disclosures</u>	38
<b><u>PART II</u></b>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	39
Item 6. <u>Selected Financial Data</u>	41
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	42
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	65
Item 8. <u>Financial Statements and Supplementary Data</u>	65
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	66
Item 9A. <u>Controls and Procedures</u>	66
Item 9B. <u>Other Information</u>	67
<b><u>PART III</u></b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	68
Item 11. <u>Executive Compensation</u>	68
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	68
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	68
Item 14. <u>Principal Accountant Fees and Services</u>	68
<b><u>PART IV</u></b>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	69



**Table of Contents**

The trademarks and registered trademarks of MicroStrategy Incorporated and its subsidiaries referred to herein include, but are not limited to, MicroStrategy, MicroStrategy 10, MicroStrategy 10 Secure Enterprise, MicroStrategy Analytics, MicroStrategy Mobile, MicroStrategy Desktop, MicroStrategy Web, MicroStrategy Server, MicroStrategy Data Mining Services, Usher and Usher Professional. Third-party product and company names mentioned herein may be the trademarks of their respective owners.

**CERTAIN DEFINITIONS**

All references in this Annual Report on Form 10-K to MicroStrategy, the Company, we, us, and our refer to MicroStrategy Incorporated and its consolidated subsidiaries (unless the context otherwise indicates).

**FORWARD-LOOKING INFORMATION**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). For this purpose, any statements contained herein that are not statements of historical fact, including without limitation, certain statements under Item 1. Business, Item 1A. Risk Factors, and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and located elsewhere herein regarding industry prospects and our results of operations or financial position, may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects, and similar expressions are intended to identify forward-looking statements. The important factors discussed under Item 1A. Risk Factors, among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. Such forward-looking statements represent management's current expectations and are inherently uncertain. Investors are warned that actual results may differ from management's expectations.

**Table of Contents**

**PART I**

**Item 1. Business  
Overview**

MicroStrategy® is a leading worldwide provider of enterprise software platforms. The Company's mission is to provide enterprise analytics, mobility, and security platforms that are flexible, powerful, scalable, and user-friendly.

MicroStrategy 10 consolidates analytics, mobility, and security in a single integrated platform, available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud. MicroStrategy's enterprise platform combines traditional business intelligence functionality with data discovery, mobile analytics, and powerful enterprise security. MicroStrategy 10 builds on proven enterprise capabilities to make sophisticated, high-performance analytics more accessible, easier to use, and faster. MicroStrategy 10 consists of MicroStrategy Analytics, MicroStrategy Mobile, and Usher.

MicroStrategy Analytics empowers large organizations to analyze vast amounts of data and securely distribute actionable business insight throughout an enterprise, while also being able to cater to smaller workgroups and departmental use via MicroStrategy Desktop. MicroStrategy Analytics delivers reports and dashboards, and enables users to conduct ad hoc analysis and share insights anywhere, anytime, via mobile devices or the Web (via MicroStrategy Web). It also combines the agility and productivity of self-service visual data discovery with the security, scalability, and governance features of enterprise-grade business intelligence. MicroStrategy Analytics is available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud. MicroStrategy Desktop is a standalone, on-premise visual data discovery tool designed to enable business users to analyze and understand their data. With MicroStrategy Desktop, smaller departments or individual business users can create stunning data visualizations and dashboards that provide new insight and new understanding in just minutes.

MicroStrategy Mobile enables organizations to rapidly build custom business applications that deliver analytics combined with transactions, multimedia, mapping, and custom workflows to mobile devices. The powerful code-free platform approach is designed to reduce the costs of development and enable organizations to quickly deploy powerful mobile business apps. MicroStrategy Mobile is an easy, fast, and cost-effective vehicle for mobilizing an organization's information systems, including its data warehouses, business intelligence, ERP, CRM, and Web applications that are currently accessible only on the desktop. With MicroStrategy Mobile, businesses can transform their entire workforce into a connected and more productive mobile workforce using information-driven mobile apps that are significantly more robust and secure than their Web-only counterparts. With mobile access to critical corporate data and systems that drive the business, employees can have a virtual office in their hands at all times. MicroStrategy Mobile is available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud.

Usher, MicroStrategy's security solution, is a powerful mobile security platform designed to dematerialize traditional forms of identity verification (such as passwords, tokens, and physical badges) and replace them with a single mobile identity badge that is cryptographically linked to its owner's smartphone and dynamically linked to an enterprise's existing identity repositories. Usher works on standard smartphones running on iOS or the Android platform, and also boasts an Apple Watch® integration. By delivering strong, multi-factor authentication that can be extended to nearly every corporate system, Usher's enterprise mobile security solution addresses some of the biggest challenges facing corporations today - including authentication, identity and access management, and resource authorization - while applying industry leading business intelligence and analytics to an enterprise's security infrastructure. Through the use

of Bluetooth®, QR codes, biometrics, push notifications, time-limited PIN codes, and other authentication methods, Usher users can log into applications, VPNs, and workstations, unlock doors and other physical gateways, and validate each other's identities. Usher can also be used as a powerful workforce management resource because it is designed to enable managers to gain a new real-time window into the activity of their distributed workforces, while providing powerful interactive features to manage or direct them. With the addition of Usher Professional, administrators can track user activity on a real-time map and communicate with users from the Usher application. Usher is available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud.

MicroStrategy Secure Cloud is a platform for organizations that want to harness the power of data through MicroStrategy's enterprise solutions via the cloud. Compared to traditional on-premises approaches, MicroStrategy Secure Cloud is architected to deliver best-of-breed MicroStrategy software via the cloud, with pre-configured, ready to go servers, coupled with the required supporting infrastructure with metadata databases, relational databases, and big data storage. With MicroStrategy Secure Cloud, customers can launch enterprise analytics environments within minutes and use the full MicroStrategy 10 offering on a subscription basis.



## **Table of Contents**

MicroStrategy Analytics, MicroStrategy Mobile, and MicroStrategy Secure Cloud, together with related product and support services, continue to generate the vast majority of our revenue. During 2015, 2014, and 2013, we did not generate significant revenues from Usher.

We were incorporated as a Delaware corporation on November 17, 1989. Today, with operations in 27 countries worldwide, the company is one of the largest independent publicly-traded analytics vendors as measured by annual revenue.

## **MicroStrategy 10 Secure Enterprise**

MicroStrategy 10 Secure Enterprise enables users to query and analyze detailed, transaction-level databases, large Hadoop® distributions, data warehouse appliances, departmental databases, cloud data sources, and user-owned data in spreadsheets. It transforms data into business insights through highly visual, interactive reports and dashboards that can be securely distributed to hundreds of thousands of users throughout an enterprise.

Five key business needs have driven demand for powerful analytics solutions:

***Increased consumption of analytics.*** In the past, dissemination of information was limited to a few power-users or analysts. Now, a wide range of information users – from customer service representatives to the CEO within a company, and from customers to suppliers outside the organization – can benefit from the insight that analytics provides. The wide acceptance of the Internet as an information source also has fueled demand for enterprise data to be accessible over the Web to tens of thousands of users across an enterprise. In addition, demand for analytics on mobile devices is being driven by the growth of the mobile Internet and by the accelerating proliferation of mobile devices.

***Increased data scalability.*** Increasing information generation, and in particular, the ability to capture and store electronically every business transaction and interaction, have made terabyte-size data warehouses commonplace. Due to very large data volumes at some organizations, such as data volumes generated by social media, data warehouses can now reach sizes in excess of tens of petabytes (1,000 terabytes). While transaction- and interaction-level information is now routinely captured, organizations often struggle to make productive use of such massive data stores. Organizations need to view data within its operational context – making even the most detailed information meaningful to business users. As a result, users want the ability to easily discover trends hidden in these very large databases and to verify these trends by reviewing the underlying detail.

***Improved analytics system performance.*** The increase in user population sizes and data volumes puts a strain on analytics infrastructures. Business users expect to retrieve the information they are requesting within seconds of making the request. Mobile devices have set this expectation even higher by increasing demand for near instantaneous responses to requests. Analytics administrators need to systematically monitor and tune the analytics environment to provide the expected service levels.

***Improved data comprehension and visualization.*** As data volumes have increased, the growing work demands placed on business users have meant progressively less time available to users to monitor and improve their businesses and make informed decisions. As a result, business users need to view the data in a summarized, easy-to-grasp format and navigate to areas of concern for additional insight. Presenting the data in a highly visual, accessible, and interactive format to collate, view, and explore information with agility and ease of use improves the overall comprehension of the business and speeds up the decision-making process.

***Increased demand for personalized, one-to-one customer and/or supplier experience.*** Many companies have implemented strategies that establish personalized relationships with each customer and/or supplier based on individual needs and preferences. They earn loyalty by providing superior service, security, and convenience. In order to successfully acquire, retain, and upgrade customers, these organizations need to understand their customers' profiles, transaction histories, past responses to marketing campaigns, and interactions with customer service. This information is often stored in widely dispersed and complex data sources, and obtaining a holistic view of the customer can be challenging.

## **Table of Contents**

The volume of data available to enterprises is growing at a very high rate, being driven by greater transaction detail, more sensors, more external data, and more data from mobile and social media platforms. MicroStrategy 10 Secure Enterprise helps organizations worldwide take advantage of this explosive growth in enterprise data by equipping managers and employees with timely, actionable information to make data-driven business decisions.

Solutions built on MicroStrategy 10 Secure Enterprise can give analysts, managers, and executives the critical insight they need to reduce costs, better allocate resources, improve efficiencies, and optimize operations. MicroStrategy 10 Secure Enterprise can also be used to build stronger relationships with business partners and suppliers by providing insights for managing inventory levels, analyzing supply chains, and tracking vendor performance. MicroStrategy 10 Secure Enterprise also includes predictive capabilities that enable organizations to leverage their historical data to project future business outcomes.

MicroStrategy 10 Secure Enterprise provides IT professionals with a powerful, highly automated mechanism for delivering insightful reports, visualizations, and dashboards to employees throughout an organization. In addition, MicroStrategy 10 Secure Enterprise includes a self-service feature, MicroStrategy Visual Insight, which enables business users to upload, prepare, and explore enterprise data on their own, without any coding or IT expertise. With this feature, business users can spot trends and outliers in a completely visual and interactive way, thereby eliminating much of the need for IT to create reports and dashboards for them.

MicroStrategy 10 Secure Enterprise is available in two distinct end-user platforms: MicroStrategy Analytics and MicroStrategy Desktop. MicroStrategy Analytics is designed for enterprise-scale business intelligence, supporting high performance analytics on gigabytes, terabytes, or petabytes of data. Organizations can deploy MicroStrategy Analytics on-premises or access the same functionality within the MicroStrategy Secure Cloud offering. MicroStrategy Desktop puts the power of MicroStrategy 10 Secure Enterprise into the hands of individual users for self-service visual analytics and data discovery. The two products share a common user experience making it easy to start small with self-service analytics and grow into the production-grade features of MicroStrategy Analytics.

### **MicroStrategy Analytics**

MicroStrategy Analytics is our flagship analytics software. It is a comprehensive, enterprise-grade solution featuring sophisticated analytics, scalable performance, multi-level security, and rigorous data governance. It also combines the agility and productivity of self-service data visualization (also known as visual data discovery), which bridges the gap between fast, elegant, interactive visual analytics and powerful, large-scale enterprise business intelligence.

Key benefits of MicroStrategy Analytics include:

***Flexibility to report, analyze, and monitor.*** MicroStrategy Analytics unifies reporting, analysis, and real-time business monitoring into one seamless experience for the business user, one efficient and scalable architecture for the IT professional, and one economical and extensible utility for the CIO.

***Single platform for enterprise data discovery and analytics.*** MicroStrategy Analytics supports both business user and traditional IT user needs by offering all styles of BI bundled into a single comprehensive analytics platform. Business users have access to the data discovery toolset via MicroStrategy Web, MicroStrategy Desktop and MicroStrategy Mobile, and these user interfaces also allow them to consume all other styles of analytics that their IT organizations have deployed, including pixel perfect dashboards,

enterprise reports and statements, scorecards, and more. Organizations do not need to resort to other point data discovery tools to gain access to agile data discovery capabilities, as they are available as an integrated part of MicroStrategy Analytics.

***Industrial-strength analytics.*** MicroStrategy Analytics enables industrial-strength analytics with enterprise-caliber technology and high user- and data-scalability. It enables centralized administration, operations, and maintenance in a unified interface and from within a unified hardware environment. Users can connect through their mobile devices, a zero-footprint Web offering, a Desktop-based client for offline analysis and also by directly injecting analytics into Microsoft® Office products – expanding the reach of business intelligence across the enterprise.

**Table of Contents**

***Data discovery at scale.*** MicroStrategy Analytics offers data discovery capabilities and is available to the end user across all standard user interfaces. With its HTML5 interface, users are able to connect to most data sources, ranging from personal spreadsheets to enterprise warehouses and cloud hosted sources, and can blend and prepare the data on their own without any IT support. This fully self-service work flow also allows the extension of the software to integrate with other third party capabilities. For instance, although MicroStrategy Analytics includes a variety of out-of-the-box visualizations, it also provides the ability to include other third-party visualizations like D3 and high charts, as well as the ability to include native and third-party advanced analytics into native workflows. The dashboards that include all of these components can also be personalized and shared with thousands of users across the organization using MicroStrategy's powerful Distribution Services.

***Data to insight in minutes without IT involvement.*** MicroStrategy Analytics gives business users a simple, powerful, and fast way to analyze data with minimal set-up requirements. It is designed to allow business users to answer business questions on their own, avoiding the lengthy process of report specification and design. By using a variety of graphical visualizations to represent the entire analysis, users can easily and rapidly spot trends and outliers in large data sets, creating a user experience that seems to unfold in real time. In addition to this, MicroStrategy Analytics also supports traditional centralized BI through its metadata based architecture, from which MicroStrategy Analytics gains its ability to design highly reusable objects that deliver both high performance and scale. The combination of enterprise scalability along with data discovery features brings the power of enterprise analytics to the personal level, making it easy to extend the power of the entire MicroStrategy Analytics platform to everyone in the organization.

***Actionable insight.*** MicroStrategy Analytics helps organizations accelerate the speed and productivity of their businesses by building mobile apps and Web dashboards that connect to back-end transactional systems and databases to include data entry and action-taking features, including: submitting orders, one-click approvals and denials, notes for tracking and directing business activity, and write-back to data sources.

***Governed data discovery.*** MicroStrategy Analytics enables organizations to achieve data consistency and governance across every report, dashboard, visualization, and user within the system through a trusted and centralized metadata store. By leveraging our reusable metadata to define, manage, and maintain common definitions for metrics, attributes, data sets, and other objects through governed data discovery, organizations can lower the overall cost of developing new analytical outputs (such as reports or dashboards), while helping to ensure that the information delivered in those outputs is accurate, governed, and timely. MicroStrategy Analytics not only provides governance via centralized IT deployments where the dashboards and applications are based around a centralized metadata store, but also offers the ability to promote Desktop-based dashboards created by business users to the MicroStrategy Server, and to map external data assets to certified data systems.

***Heterogeneous access, joining and preparation of data from across the enterprise.*** MicroStrategy Analytics enables organizations to create integrated views of data across heterogeneous data stores. By mapping conforming dimensions from multiple sources within the MicroStrategy object model, the platform automatically joins data from multiple sources in the same table, chart, or visualization. Additionally, MicroStrategy Analytics also offers self-service data connect options to business users, who do not need to rely on data modeling or architecting to access any data source. Data can come from any source including

most relational and columnar data warehouses, data marts, Apache Hadoop®, SAP® Business Information Warehouse (SAP BW), Microsoft® SQL Server® Analysis Services, IBM® Cognos® TM1®, Oracle® Essbase, Salesforce®, social media sources such as Twitter and Facebook, and many other operational system databases. In addition to allowing users to connect to these data sources, MicroStrategy Analytics offers data preparation and wrangling capabilities that allow business users to transform their data for improved analysis.

***Integration of advanced analytics into mainstream reporting and analyses.*** MicroStrategy Analytics analytic engine includes predictive capabilities in MicroStrategy reports and analyses. The analytic engine can train and calculate many of the primary data mining functions, including time-series, association rules, clustering, regression, and decision-tree algorithms. Hand-in-hand with this calculation capability, MicroStrategy Analytics also includes the ability to import data mining models directly from data mining products from vendors like IBM® SPSS®, Teradata®, and SAS® using the predictive modeling mark-up language (PMML) standard, and by embedding R statistical packages in the platform. With this capability, data mining models, such as neural network algorithms, rule set algorithms, and support vector machines, as well as ensembles of models, can be imported through a single click and automatically converted into a standard MicroStrategy metric. After that, the MicroStrategy Data Mining Services™ extension enables these metrics to be used freely and calculated quickly in reports, analyses, and alerts. A key capability of MicroStrategy Analytics is that business users can now readily tap into over 350 advanced analytics and statistical functions for data discovery purposes, and these functions are included within an easily accessible library.

**Table of Contents**

***Support for large data volumes and all major relational database/hardware combinations.*** MicroStrategy Analytics supports systems with very large data volumes and is specifically optimized to support all major relational database platforms, Hadoop distributions, and data appliances commonly used for business intelligence systems, as well as multi-dimensional databases, such as SAP BW. Important features of our solution in this area include:

Native connectors to HDFS, in addition to the hive options to connect to Cloudera®, Hortonworks®, and MapR®, among other big data sources;

Available with MicroStrategy 10 Secure Enterprise, and included as an integrated part of the MicroStrategy Server product are highly scalable, in-memory cubes that can now be partitioned and support parallel processing. This new advancement in in-memory architecture allows organizations to store a greater volume of data in memory and offers faster processing;

Dynamically generated SQL, multidimensional expressions (MDX), and Hadoop queries that optimize the performance of each major database;

Very Large Database (VLDB) parameters that allow individual reports to be tuned for performance;

Support for hand-written SQL, Hadoop, and XQuery queries;

Ability to support very large user populations; and

Highly reliable up-time, even in high volume applications.

***Powerful distribution engine for information delivery.*** Our technology offers a high performance, personalized distribution engine for delivering periodic and alert-based information to users via e-mail, Web, and mobile devices. The distribution engine is able to deliver dashboard applications in a highly automated and personalized manner to all major device types used in both domestic and international markets, enabling the delivery of information to users when and where it is needed.

***Customizable applications and Embedded BI.*** MicroStrategy Analytics applications can be customized extensively using proprietary SDK capabilities. This allows organizations to brand web and mobile-based applications, and also embed these applications directly into other corporate applications. White labeling for portal integration, single sign-on, and direct integration into other software increase the deployment options of MicroStrategy Analytics and allow IT groups to roll out analytics to the entire organization in a customizable manner, while still being able to leverage investments made in other technologies.

***MicroStrategy s Metadata Architecture***

The core differentiator of MicroStrategy's products stems from their metadata-based centralized architecture, which has been built and refined over many years and provides access to all enterprise data using familiar business terms, rules, and logic. The portable, flexible, reusable, object-oriented and dynamic nature of the metadata provides an efficient BI application and mobile app development platform while maximizing maintainability and enforcing enterprise-wide consistency. The dynamic behavior of metadata in MicroStrategy products helps ensure consistency across business definitions, and minimizes the number of objects created, stored, and managed. Other BI technologies are limited in their reuse capabilities, forcing developers to create the same components over and over again for use in each individual report.

***MicroStrategy Server***

MicroStrategy Server is the architectural foundation of MicroStrategy 10 Secure Enterprise. It provides the core analytical processing and job management for all reporting, analysis, and monitoring applications. It provides a powerful, comprehensive set of features necessary for a scalable, fault-tolerant, enterprise-wide business intelligence system.



## **Table of Contents**

As the central contact point to metadata, MicroStrategy Server dynamically assembles the metadata objects to create optimized, multi-pass SQL queries for every major relational database, HiveQL queries for Hadoop distributions, and MDX queries for multidimensional data sources. MicroStrategy Server retrieves the data, performs any additional analytical calculations not available in the databases, formats the report, and delivers the reports to business users via the MicroStrategy Web, Mobile, Office, or Desktop interfaces.

MicroStrategy Server is a highly scalable, parallel-processing, self-tuning analytic server. It manages high performance interactions involving terabytes of data accessed by tens of thousands of users using in-memory intelligent cubes, caching, load balancing, resource prioritization, and connection pooling. It accesses and joins data from multiple data sources, such as data warehouses, operational databases, multidimensional (cube) databases, and even Web services and flat files. MicroStrategy Server also manages users, system security, data security, and user functionality access. A clustering option is available with MicroStrategy Server that increases scalability, and provides fault tolerance with automatic failover.

### ***MicroStrategy Web***

MicroStrategy Web is great for business users or consumers looking to interact with data, or to even simply view a static overview report. At the same time, MicroStrategy Web is where savvy analysts put all of the pieces together to design highly formatted and customized dashboards.

MicroStrategy Web is the primary reporting interface for analysts, offering interactive reporting, dashboarding, and analysis through a Web browser. It provides enterprise analytical functionality with access to extensive report and document creation, manipulation, and formatting capabilities in an easy-to-use Web interface.

MicroStrategy Web architecture provides a single, consistent interface to all users whether the BI application is departmental and internal, or an extranet application deployed to hundreds of thousands of users. MicroStrategy Web allows business users of any skill level to move fluidly between all styles of BI to satisfy their reporting, analysis, and monitoring needs.

### ***MicroStrategy Desktop***

MicroStrategy Desktop is a single user tool for fast, powerful, and easy-to-use self-service data discovery. It enables business users to gain valuable insight into their organizations' data by creating stunning, useful visualizations in just minutes, without assistance from the IT department. MicroStrategy Desktop can be readily downloaded and installed on a PC or Mac, making the power of MicroStrategy 10 Secure Enterprise easily available to everyone. MicroStrategy Desktop can be used while offline and while not connected to MicroStrategy Server, and can connect to the MicroStrategy Server when needed. This user interface can help introduce MicroStrategy 10 Secure Enterprise to smaller departments that are looking for quick and easy deployment options. It offers easy migration options to the Enterprise edition of MicroStrategy Analytics, and all analytical content developed with MicroStrategy Desktop may be promoted to the MicroStrategy Server and can be consumed by the other user interfaces offered with MicroStrategy, such as MicroStrategy Web and MicroStrategy Mobile.

### ***MicroStrategy Analytics Strategy***

Our technology strategy is focused on delivering comprehensive platform-based solutions to enable any organization to create immediate value from analytics and then quickly grow its analytics effort to encompass more advanced capabilities as well as larger user and data scale. This strategy includes: expanding support for large information stores, improving performance and administration, enhancing our analysis capabilities, and enhancing report delivery

via the Web and mobile devices. We continue to enhance our products for use with a broad range of operating systems and databases to enable our customers to leverage their existing technology investments to achieve faster query times with fewer required resources. We continue to enhance usability and visual data exploration to increase ease of use and functionality, and thus further decrease the need for IT intervention. We are working to further differentiate our products by increasing:

***Visual analysis and user self-service.*** Ease of use and visual exploration and analysis capabilities on small to extremely large data sets, in conjunction with the enterprise capabilities also offered by our platforms;

**Table of Contents**

***Data capacity.*** The volume of information that can be efficiently analyzed and utilized;

***User concurrency.*** The number of users that can be supported simultaneously;

***Analytic sophistication.*** The range of analytical methods available to the application designer;

***Performance.*** The throughput and response time of the system, measured in seconds;

***Database flexibility.*** The range of data sources, data warehouses, and online transaction processing databases that the software is capable of efficiently querying without modification;

***Robustness.*** The reliability and availability of the software in mission-critical environments;

***Deployability.*** The ease with which applications can be securely deployed, modified, upgraded, and tuned;

***Personalization.*** The quality and sophistication of a one-to-one user experience;

***Content flexibility.*** The range of content, both structured and unstructured, that can be efficiently utilized;

***Media channel and interface flexibility.*** The range of media channels (including mobile devices), interface options, and display features supported; and

***Transaction capabilities.*** The ability to efficiently initiate actions and transactions from mobile devices and Web-based dashboards.

**MicroStrategy Mobile**

MicroStrategy's consistently highly-rated mobile offering extends beyond basic mobile analytics to deliver an innovative mobile app platform that makes building a variety of mobile business apps easier and faster.

MicroStrategy Mobile enables organizations to rapidly build information-rich applications that deliver analytics combined with transactions, multimedia, mapping, and custom workflows to mobile devices. The code-free platform approach is designed to reduce the costs of development and enable organizations to quickly deploy powerful mobile business apps. MicroStrategy Mobile is an easy, fast, and cost-effective vehicle for mobilizing an organization's information systems, including its data warehouses, business intelligence, ERP, CRM, and Web applications that are currently accessible only on the desktop. With MicroStrategy Mobile, businesses can transform their entire workforce into a connected and more productive mobile workforce using information-driven mobile apps that are significantly more robust and secure than their Web-only counterparts. With mobile access to critical corporate data and systems that drive the business, employees can have a virtual office in their hands at all times.

During 2015, independent analyst firm Dresner Advisory Services rated MicroStrategy Mobile the number two overall offering out of twenty-four vendors for Mobile Computing / Mobile Business Intelligence. This is the fifth year in a row that MicroStrategy has placed first or second in the list of vendors included in Dresner's Wisdom of Crowds® Mobile Computing / Mobile BI Market Study.

MicroStrategy Mobile is available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud.

Key benefits of MicroStrategy Mobile include:

***Increased employee productivity by gaining new efficiencies and cutting decision times.*** MicroStrategy Mobile computing can dramatically improve personal productivity, replacing how people write, carry, touch, and decide today. MicroStrategy Mobile puts materials, information, and system access on devices that are always on, always connected, and always in reach.

***Extending information throughout an organization.*** MicroStrategy Mobile can help run a business more effectively by extending the reach of critical enterprise systems to all constituents in all locations. It can provide real-time access to the latest information and data-driven visualizations that fuel spontaneous conversations and more effective decision making.

***Conducting business in newer and faster ways.*** MicroStrategy Mobile context-aware apps that leverage native mobile device functionality (e.g., GPS, camera, etc.) allow users to complete tasks significantly faster or in more efficient ways than Web or desktop-bound apps.

## **Table of Contents**

***Fast app development.*** MicroStrategy Mobile is one of the fastest ways to create new mobile apps and mobile front-ends to existing analytics applications. Its click-to-configure features allow the development of mobile apps in a code free environment without requiring an organization's IT resources. It also allows for the deployment of native apps across multiple operating systems with a single design and lets a user make an app multi-lingual with a few configuration clicks.

***High Performance Mobilization.*** MicroStrategy Mobile provides compelling and high-performance MicroStrategy Mobile powered apps that can maximize impact, durability, and adoption.

### **MicroStrategy Mobile Releases in 2015**

MicroStrategy Mobile currently includes the following significant functional enhancements made during 2015:

***Enhanced user interface and experience.*** We understand that user interface and experience greatly impact user adoption, so we continually introduce new and enhanced features and capabilities in this area. Introductions and enhancements during 2015 include a completely re-designed drilling interface, recent search display, new link-drilling in graphs, multimedia widget sorting, enhanced grid controls, support for Attribute Object selectors, ability to create and manage subscriptions to reports/documents, and more.

***Improved offline prompting capabilities.*** Full prompting functionality is now supported in offline mode. Users can re-prompt a report or document in offline mode with the list of all the valid caches that exist for that report or document, not just the last instance of the report.

***Option to disable offline transactions.*** This new feature allows the app designer to set at the transaction action selector level whether the transaction should be available in offline mode or not. If disabled, end users will not be able to queue transactions on their devices.

***Increased parity with Web-based data discovery dashboards (Visual Insight).*** All formatting on data discovery dashboards designed on MicroStrategy Web ports over to mobile devices and offers a consistent user experience. Mobile dashboards inherit all the design components including color themes, font size, font alignment, and font color.

***Custom visualization support.*** MicroStrategy Mobile offers support for open source visualizations like D3, where users can intuitively interact with D3 visualizations using native gestures such as tap-and-hold, swipe and pinch-to-zoom. Users can add any opened-sourced visualization from D3 or other providers and have complete interactivity support on MicroStrategy Mobile.

***Enhanced mapping.*** Dynamic geospatial analysis drawn on top of ESRI maps in MicroStrategy Web is instantly converted and optimized for Apple maps in MicroStrategy Mobile. Users can visualize areas or regions on a map, and color each area based on a category or metric value with thresholds.

***Enhanced calendaring.*** The calendar widget now offers hour-level granularity and allows app designers to set a desired default view (hour, day, month, etc.).

***Enhanced Mobile SDK.*** MicroStrategy Mobile SDK developers can now write their own code with customized logic for link drilling. This enables app designers to have more flexibility within the app workflow. Some useful scenarios that can be addressed with this new capability include: deleting the client cache for a document before executing it; limiting the location range to run a document for security reasons; and exposing the native share controls that are not provided out-of-box, like Share to Facebook, Twitter, etc.

***Enterprise Mobility Management (EMM) integration updates.*** The MicroStrategy Mobile SDK and integration points of MicroStrategy Mobile with AirWatch® and MobileIron® are now compatible with and certified for iOS9.

## Table of Contents

### **MicroStrategy Mobile Technology Strategy**

We continue to invest in enhancing MicroStrategy Mobile to empower our customers with the ability to build apps that drive their businesses forward and deliver revolutionary applications to their employees, partners, prospects, and customers. We continue to invest in enhancing MicroStrategy Mobile's overall performance and security as well as its three core capability areas: analytics, transactions, and multimedia. We remain focused on delivering the most compelling native end user experience on devices that are adopted by enterprises. New features specific to supported operating systems will take advantage of the native APIs and incorporate new OS capabilities into apps built by MicroStrategy customers.

We also continue to invest in bringing to life mobile apps in an easy, fast, and flexible way. We will continue to enhance our MicroStrategy Mobile technology to deliver an experience that is philosophically "user first" by combining a powerful user experience on top of a dynamic and accessible development infrastructure.

### **Usher**

Usher, MicroStrategy's security solution, is a powerful mobile security platform designed to dematerialize traditional forms of identity verification (such as passwords, tokens, and physical badges) and replace them with a single mobile identity badge that is cryptographically linked to its owner's smartphone and dynamically linked to an enterprise's existing identity repositories. Usher works on standard smartphones running on iOS or the Android platform, and also boasts an Apple Watch integration. By delivering strong, multi-factor authentication that can be extended to nearly every corporate system, Usher's enterprise mobile security solution addresses some of the biggest challenges facing corporations today - including authentication, identity and access management, and resource authorization - while applying industry leading business intelligence and analytics to an enterprise's security infrastructure. Through the use of Bluetooth, QR codes, biometrics, push notifications, time-limited PIN codes, and other authentication methods, Usher users can log into applications, VPNs, and workstations, unlock doors and other physical gateways, and validate each other's identities. Usher can also be used as a powerful workforce management resource because it is designed to enable managers to gain a new real-time window into the activity of their distributed workforces, while providing powerful interactive features to manage or direct them. With the addition of Usher Professional, administrators can track user activity on a real-time map and communicate with users from the Usher application. Usher is available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud.

Usher can appeal to businesses, universities, associations, governments, and other organizations because it adds a layer of security to their systems, physical spaces, and transactions that would otherwise be technically difficult or cost-prohibitive. Usher is designed to secure an enterprise by offering an alternative to existing forms of identification and authentication. Usher is designed to provide a more secure alternative to passwords which can be stolen or cracked. Usher is also designed to help reduce identity-related fraud by replacing physical ID cards that can be counterfeited and stolen.

Key benefits of Usher include:

***Identity protection.*** Usher mobile identities are designed to be more secure than traditional physical forms of identity, which can be stolen and counterfeited.

**Authentication.** Usher is designed to provide a more secure alternative to passwords which can be the weak link exploited by cybercrime attacks with secure mobile identities.

**Physical access control.** Usher users can unlock doors by tapping on a digital key or by scanning a QR code. If a device is Bluetooth-enabled, a user can unlock a door simply by approaching it.

**Workforce management.** Usher can collect data about the locations of users Usher activity, enabling managers to remotely monitor and direct distributed workforces.

**Activity analysis.** Usher uses MicroStrategy 10 Secure Enterprise to monitor and analyze Usher user activity.

**Convenience and cost-effectiveness.** Usher allows users to carry their business credentials in digital form on their smartphones. Enterprises can reduce costs associated with the distribution and management of physical badges, cards, and keys, as well as the costs associated with identity-related fraud and cybercrime.



## Table of Contents

### **Usher Technology Strategy**

Our technology strategy for Usher is focused on taking advantage of developments in mobile and cloud technology to provide more flexible and powerful user identity-based security and analytics solutions. This involves continued development in the following areas:

***Logical access.*** We continue to explore new techniques with which Usher can provide identity to applications and systems and provide alternatives to passwords, keys, and fobs. Our focus is on seamless, zero-click access based on proximity. Additionally, we continue to monitor the market and test new biometric measurement systems that can be integrated into Usher, such as Apple's Touch ID, voice authentication, and facial recognition.

***Physical access.*** We continue to expand on the integration of Usher with physical access control systems and hardware, so that users with adequate credentials and digital keys can unlock secure doorways.

***Action-oriented intelligence.*** We are focusing on enhancing Usher's ability to determine Usher member location and activities so that trends and anomalies can be used to provide better security or better workforce management.

### **MicroStrategy Secure Cloud**

MicroStrategy Secure Cloud offers an integrated and optimized cloud business analytics platform that combines infrastructure, technology, people, and processes to offer analytics as a service to our customers. MicroStrategy Secure Cloud builds on MicroStrategy 10 Secure Enterprise, and adds class-leading ETL and database technology to provide an agile, high performance, elastic, and cost-effective analytics platform.

MicroStrategy Secure Cloud provides our customers MicroStrategy 10 Secure Enterprise offerings through a Platform-as-a-Service (PaaS) solution hosted in the cloud. In addition to MicroStrategy Analytics and MicroStrategy Mobile, MicroStrategy Secure Cloud also offers data integration ETL and data hosting services. The MicroStrategy Secure Cloud PaaS provides customers with infrastructure (data center space, rack space, power, cooling, and servers), technology platforms (analytics, mobile data integration, and data hosting), operations, support, and expert analytics practitioners for a subscription fee with no upfront capital investment. MicroStrategy Secure Cloud can offer improved time to market, higher performance, and lower overall total cost of ownership compared to traditional on-premises deployments.

MicroStrategy analytics are offered on the AWS Marketplace® as a self-service customer managed solution where customers can launch their own MicroStrategy environments within minutes and start using our full MicroStrategy Analytics offering at a subscription or yearly fee.

Key benefits of MicroStrategy Secure Cloud include:

***Agile rapid application development and secure deployment.*** MicroStrategy Secure Cloud provides the infrastructure, technology, processes, and experts that a customer needs to develop and securely deploy

applications quickly. The entire service has been pre-packaged and optimized, and is supported by expert analytics practitioners. This solution allows our customers to get to market much more quickly than traditional approaches and react to business changes as they happen.

***High performance analytics applications.*** MicroStrategy Secure Cloud combines the high performance characteristics of MicroStrategy Analytics and MicroStrategy Mobile with high performance servers and network infrastructure. This integration allows our customers to deploy analytics and mobile applications on demand, allowing them to serve their customers more quickly and efficiently.

## **Table of Contents**

***Elastic capacity with no capital investment.*** MicroStrategy Secure Cloud allows customers to get started with no upfront capital investment in infrastructure. Customers can start small and increase their capacity on demand.

***Low overall total cost of ownership.*** IT application costs are driven by capital investments and the personnel cost associated with hiring a staff of experts to build, maintain, and tune a large-scale environment. MicroStrategy Secure Cloud delivers this high performance, tuned, and monitored environment as a service, lowering overall total cost of ownership.

***Global Availability.*** Leveraging AWS, MicroStrategy Analytics is now available in all AWS data centers spanning 11 regions on 5 continents.

### **MicroStrategy Secure Cloud Technology Strategy**

MicroStrategy Secure Cloud offers organizations an alternate purchase and deployment model for business analytics, compared to traditional on-premises deployments. Instead of making large upfront capital investments and building large support teams, MicroStrategy Secure Cloud allows organizations to purchase analytics as a service with no upfront capital investments. Instead, it offers a payment structure that scales with the business requirements.

Our MicroStrategy Secure Cloud technology strategy is focused on continuing to enhance the reliability, self-service, performance, and scalability of our offering. We also seek to differentiate our offering by investing in enhancing the security process and infrastructure around our service, monitoring existing security and compliance certifications, and obtaining new certifications.

### **Product Support and Other Services**

MicroStrategy Services is comprised of the following services lines:

#### **MicroStrategy Technology Services**

The Technology Services department provides technical product support to customers and partners specific to MicroStrategy software products. Additionally, Technology Services is responsible for negotiating and maintaining all support contracts with MicroStrategy customers and partners alike, including support services for MicroStrategy Secure Cloud customers. The department is comprised of the following groups:

***Customer Support Group (CSG).*** CSG is a team of Technical Support Engineers responsible for providing first level technical support to all customers, partners, and prospects.

***Advanced Product Support (APS).*** APS is a team of product specialists responsible for providing second level technical support to our worldwide call centers, customers, partners, and prospects.

***Premium Support.*** Premium support is a team of Premium Support Engineers that provides dedicated technical support to our elite customers and partners.

***Customer Success Management (CSM).*** The customer success group manages our support renewal business and our process for renewing software maintenance contracts with customers worldwide. It also helps answer questions from customers while working with those customers on renewing their maintenance contracts. The team also works with

customers quarterly to ascertain the customer's current level of satisfaction.

**MicroStrategy Professional Services**

MicroStrategy Professional Services provides our customers with access to the most experienced group of certified MicroStrategy development resources in the industry. Through MicroStrategy Professional Services, we provide our customers with consulting and advisory services to help drive critical analytics and mobile solutions across key industries, such as financial services, healthcare, retail, and banking. We work directly with our customers and guide them in defining, developing, and delivering core business analytics solutions for their enterprises. These solutions provide our customers with greater access to critical business information, KPIs, and metrics, which enables them to make better business decisions faster.

## **Table of Contents**

MicroStrategy Professional Services is a worldwide organization with operations in North America, South America, Europe, and Asia Pacific.

MicroStrategy's Global Delivery Center (GDC) is key to our Global Delivery Model. Located in Warsaw, Poland, the GDC is a hub of several hundred consultants who support analytics projects directly at customer sites around the world or remotely. With functional and business management practices, the appropriate experts can transition on and off projects as needed. The GDC can quickly scale up or down to meet unique technical and industry requirements. Integrating the GDC with on-site project resources is a flexible and cost-efficient way to receive highly specialized services.

## **MicroStrategy Education Services**

MicroStrategy Education Services offers education solutions and skill set development for customers and partners. With a course catalog of nearly 100 courses (instructor-led and on-demand courses), MicroStrategy training consultants develop an ongoing education program to meet our customers' specific business needs. Our training consultants deliver quality, cost-effective instruction and skill development for analysts, developers, administrators, and end users. MicroStrategy offers programs to educate individuals through online instructor-led courses, private on-site engagements, and self-paced on-demand courses.

## **Marketing and Sales and Services Strategy**

Our business objective is to become the leading enterprise software platform provider for analytics, mobile, and security to the largest enterprises, governments, and the largest databases and data providers in the world. The key elements of our strategy to achieve these objectives are as follows:

### **Marketing Strategy**

Our marketing programs target the following principal constituencies:

Our historical base of corporate technology buyers and departmental technology buyers across FORTUNE Global 2000 enterprises. We also target senior executives and other leaders in these companies for MicroStrategy Mobile and Usher;

Corporate and departmental technology buyers in mid-sized enterprises;

Government technology buyers and the vendors to the government community;

Independent software vendors that want to embed our technology tools in their solutions; and

System integrators that have technology relationships with the largest enterprises, governments, and information-intensive businesses.

We continually seek to increase our brand awareness by focusing our messaging on the possibilities for value creation and the benefits of using our platforms, and competitive differentiators. The channels we use to communicate with these constituencies include:

Advertising;

Direct e-mail;

Free and evaluation software;

Industry awards;

Industry events;

Media coverage;

Mobile application downloads;

Our Website;

Social media;

Channel partners;

User conferences; and

Word of mouth and peer references.

## Table of Contents

### **Sales and Services Strategy**

We primarily sell through our dedicated sales force, as well as through channel partners in order to increase market coverage in both domestic and international markets. We provide financial incentives for our channel partners to market and distribute our products and services. We also offer a comprehensive set of educational programs that enhance our potential customers' and channel partners' understanding of our software. Furthermore, we offer a wide range of services that provide support in the discovery, planning, development, and deployment stages of a MicroStrategy product or service.

**Dedicated Sales Force.** We market our software and services chiefly through our direct sales force. We have sales offices in locations throughout the world. We use distributors in several countries where we do not have sales offices.

**Channel Partners.** We have established strategic alliances with third party vendors to help ensure the success of our customers' business intelligence initiatives. Our vendors include companies that are system integrators and consulting firms, resellers, value-added resellers, original equipment manufacturers (OEMs), and technology partners. These firms utilize MicroStrategy platforms for a variety of commercial purposes and our agreements with them generally provide non-exclusive rights to market our products and services and allow access to our marketing materials, product training, and direct sales force for field-level assistance.

We make significant commitments to our channel partners, including investments in joint development including technical training and certifications, pre-sales and sales enablement, and marketing programs. Through our joint efforts, we believe customers are able to minimize their risk and maximize the return on their business intelligence projects. We believe that our channel partners allow us to leverage sales and service resources, as well as marketing and industry-specific expertise, to expand our user base and increase our market coverage.

### **Customers**

MicroStrategy customers include leading companies from a range of industries, as well as the public sector. Below is a representative list of organizations that currently use our products and services.

**Retail:** adidas; Coach; Deichmann SE; Giant Tiger Stores Limited; GUESS?, Inc.; La Perla; Lowe's Companies, Inc.; New York & Company, Inc.; Pacific Sunwear of California, Inc.; Spar Austria; Staples, Inc.; The Container Store, Inc.

**Financial Services and Insurance:** Banco Bilbao Vizcaya Argentaria, S.A. (BBVA); Bankia; Caisse d'Épargne Cote d'Azur; Deutsche Bank; Government Employees Insurance Company (GEICO); Länsförsäkringar AB; RE/MAX, LLC; Société Générale S.A.; Wintrust Financial Corporation; Zurich Insurance Group

**Pharmaceutical and Healthcare:** CareSource Management Group Co.; Cincinnati Children's Medical Center; HealthTrust; Johnson & Johnson; NHS Scotland's Golden Jubilee National Hospital; Novation

**Manufacturing:** Cardinal Glass Industries; Husqvarna Group; Kinross Gold Corporation; Michelin; Republic National Distributing Company, LLC; Rite-Hite Holding Corporation; Sennheiser electronic; The Sherwin-Williams Company; Watsco; Weiler Corporation; Wilton Industries, Inc.

**Technology, Media, and Telecommunications:** Adobe; AutoTrader.com; eBay Inc.; eHarmony; Eyefreight; Facebook; Houghton Mifflin Harcourt; Iridium Communications Inc.; Keysight Technologies; LinkedIn Corporation; Netflix, Inc.; Nielsen Holdings N.V.; Sonic Automotive; Thomson Reuters; Yahoo! Inc.

**Consumer Goods:** Alsea; Chiquita Brands International, Inc.; Danone; Dr Pepper Snapple Group, Inc.; Electronic Partner Benelux; McCain Foods

**Government and Public Services:** Brussels Airport; Centers for Medicare & Medicaid Services; City of Austin (TX); International Post Corporation; Texas Department of Transportation; Transportation Security Administration (US); U.S. Postal Service



## **Table of Contents**

**Restaurants:** Chipotle Mexican Grill, Inc.; Domino's Pizza, Inc.; Logan's Roadhouse, Inc.; Starbucks Coffee Company

**Hospitality and Leisure:** 24 Hour Fitness; Accor S.A.; GolfNow; Hilton Worldwide; Orbitz Worldwide; Royal Caribbean International; Starwood Hotels & Resorts Worldwide, Inc.; Tsogo Sun

## **Notable Customers from 2015**

### **Blackbox BI Consultancy Sdn Bhd**

With deep domain knowledge in the retail sector, Blackbox BI Consultancy was established in Malaysia to help retailers across the South East Asia region harness business analytics solutions to increase business performance and gain competitive advantage. Blackbox BI Consultancy relies on MicroStrategy Analytics to offer cloud-based retail analytics solutions to its wide spectrum of clients that span across the fashion, home furnishing, consumer durable, groceries, convenience stores, food and beverage, and healthcare industries. In addition, Blackbox BI Consultancy selected Usher to secure its enterprise cyber assets and facilities with its customers. Blackbox BI Consultancy will introduce Usher to a segment of its customer base to create a new customer experience. It will replace traditional forms of enterprise identity with mobile identity badges securely delivered on smartphones, and will ultimately deploy Usher as its enterprise identity management solution integrated into its MicroStrategy Mobile application to a wider audience of SenHeng customers to create an exceptional customer experience.

### **Concentra Health Services**

Concentra Health Services is a national health care company delivering a wide range of medical services to employers and patients, including urgent care, occupational medicine, physical therapy, primary care, and wellness programs. Based in Addison, Texas and operating in more than 500 medical centers in 40 states, Concentra Health Services has selected MicroStrategy Analytics to enhance its operations. With MicroStrategy, physicians and clinicians will have the ability to easily analyze and drill into operational data, perform self-service analytics, and quickly create ad-hoc reports on diagnostic testing, preventive screenings, physical exams, vaccinations, and medication dispensing patterns data in a secure environment. The insight obtained will help Concentra improve its patient services. Concentra chose MicroStrategy for its platform's ease of use and interactivity, self-service analytics, drill anywhere capabilities, high performance, and scalability.

### **Eagle Investment Systems**

Eagle Investment Systems, a subsidiary of BNY Mellon with headquarters in Wellesley, MA, and MicroStrategy extended their strategic OEM partnership in March 2015. Eagle selected MicroStrategy for its comprehensive analytics platform, mobile leadership, scalability, ease of use, and low total cost of ownership. Eagle clients are able to leverage MicroStrategy for self-service reporting and business intelligence across their suite of data management, investment accounting, and performance measurement applications.

### **Flex**

Our customer Flex purchased additional licenses of MicroStrategy Analytics and MicroStrategy Mobile to support its global purchasing organization and factory operations with enterprise analytics reporting.

### **Nedbank (Pty) Ltd**

Nedbank Group (JSE: NED), based in Johannesburg, South Africa, is one of the largest banking groups in South Africa by assets and deposits, with Nedbank Limited being one of its principal banking subsidiaries. Nedbank Ltd selected MicroStrategy Analytics as its preferred enterprise-wide analytics platform to deliver business intelligence, self-service data discovery, and mobile apps to its staff and clients so that they can better monitor and react to data management, investment accounting, and performance activity on their mobile devices. Nedbank selected MicroStrategy for its comprehensive analytics platform, mobile leadership, scalability, ease of use, and low total cost of ownership.

## **Table of Contents**

### **North Texas Tollway Authority**

The North Texas Tollway Authority (NTTA), a political subdivision of the state of Texas, is authorized to acquire, construct, maintain, repair and operate turnpike projects in the north Texas region. A new MicroStrategy customer, NTTA selected MicroStrategy Analytics and MicroStrategy Mobile to provide employees with interactive dashboards, reports, ad hoc analyses, and map views of data points on Texas roadways. By moving toward a proactive, self-service reporting/analytics model, NTTA's user community will be able to perform analytics on customer behavior, report on compliance, and recover lost revenue. NTTA will also be able to report on real-time operational data coming from sensors on roadways (that detect weather and traffic conditions), electronic tolling data (toll tag transactions and license plate images for cashless OCR tolling), invoicing data, and customer demographics (driving habits). Through a competitive bid and evaluation of visual data discovery and business intelligence vendors in the market, NTTA selected MicroStrategy because its feature set best fits NTTA's business requirements. Also cited were MicroStrategy's ease of use, high performance, scalability, lower total cost of ownership, and its mobile capabilities in support of iOS and Android devices.

### **Rack Room Shoes**

Rack Room Shoes, headquartered in Charlotte, NC, is a family footwear retailer offering a wide selection of nationally recognized and private brands of great shoes for men, women, and children in comfort, dress, casual, and athletic categories. A new MicroStrategy customer, Rack Room Shoes selected MicroStrategy Analytics to replace past legacy systems for merchandising, store operations, and executive-based reporting. With MicroStrategy, Rack Room Shoes and sister company, Off Broadway Shoe Warehouse, will provide employees at their headquarters and U.S. store locations with business-centric applications to explore data across their supply chain, finance, merchandising, and marketing departments. The upgrade is an efficient solution for shared insights regarding operational performance for key executives of Rack Room Shoes and Off Broadway Shoe Warehouse. Rack Room Shoes selected MicroStrategy for its ease of use, fast time to market, lower total cost of ownership, and proven retail leadership.

### **Randstad Groep Nederland**

Based in Diemen, Netherlands, Randstad Groep Nederland is a subsidiary of Randstad Holding, founded in 1960 and active in 39 countries with approximately 28,000 employees. Randstad specializes in solutions in the field of flexible work and HR services. A new customer, Randstad Groep Nederland selected MicroStrategy Analytics and MicroStrategy Mobile to enhance its operations. With MicroStrategy, agents in the field and their management will have the ability to easily analyze and drill into operational data, perform self-service analytics and quickly create ad-hoc reports. Randstad Groep Nederland chose MicroStrategy as its corporate business intelligence solution, citing the platform's ease of use and interactivity, self-service analytics, drill anywhere capabilities, high performance and scalability. Randstad has the option to expand its MicroStrategy implementation to support its global operations.

### **TrueCar, Inc.**

Based in Santa Monica, CA, TrueCar, Inc. is an automotive pricing and information website for new and used car buyers and dealers. A MicroStrategy customer since 2007, TrueCar will expand its MicroStrategy footprint by leveraging MicroStrategy Analytics and MicroStrategy Mobile to prototype and develop a new enterprise analytics application. The MicroStrategy-based solution will enable automobile OEMs and dealerships to easily access market data on the web and mobile devices in order to make better inventory and pricing decisions that drive more sales. MicroStrategy was chosen for its solution's user-friendly capabilities, superior performance and scalability, system availability, and its ability to support trusted governed data discovery within a comprehensive enterprise analytics

platform.

## **Table of Contents**

### **Wirecard**

Wirecard AG is one of the world's leading independent providers of outsourcing and white label solutions for electronic payment transactions. The Wirecard Group supports companies in accepting electronic payments from all sales channels. A global multi-channel platform bundles international payment acceptances and methods, supplemented by fraud prevention solutions. When companies choose to issue their own payment instruments in the form of cards or mobile payment solutions, Wirecard provides them with an end-to-end infrastructure, including the requisite licenses for card and account products. Wirecard AG is listed on the Frankfurt Securities Exchange (TecDAX, ISIN DE0007472060, WDI). A new MicroStrategy customer, Wirecard will entrust the MicroStrategy platform to set up management reports, dashboards, and sophisticated analyses of payment transactions for its employees, visible via web and mobile solutions. Wirecard customers will benefit from MicroStrategy through integration within the corporate portals, providing secure visual insights into their own data with improved performance. Wirecard chose MicroStrategy for its ease-of-use and its capabilities to identify efficiencies, improve customer service, and help grow the business.

### **XING**

XING, with headquarters in Hamburg, Germany, is the leading social network for business professionals in German-speaking countries with more than 8 million members in the DACH region. Its paid memberships (subscriptions) make up its core business to date, and allow XING to tap into new markets while retaining high levels of profitability. MicroStrategy Analytics is used as XING's enterprise analytics standard across the organization, providing decision makers with critical executive reports, business dashboards, and easy-to-understand statistical and data mining insight. With the recent purchase of additional MicroStrategy licenses, XING will be able to support its fast growing business units in the field of E-Recruiting and Events and seize upcoming business opportunities. MicroStrategy was chosen for its platform's ease-of-use, superior data visualization capabilities, and ability to help grow the business.

## **Competition**

### **MicroStrategy 10 Secure Enterprise and MicroStrategy Secure Cloud Competitors**

The analytics market is highly competitive and subject to rapidly changing technology paradigms. Within the analytics space, we compete with many different vendors, including (1) large software vendors (megavendors), such as IBM (Cognos), SAP (BO), Microsoft (Power BI), and Oracle (OBIEE), that provide one or more products that directly compete with our products; (2) open source analytics vendors such as Open Text (Actuate) and Hitachi (Pentaho®); (3) various other analytics software providers, such as Qlik, Tableau Software, TIBCO, Information Builders, and the SAS Institute; (4) pure-play mobile analytics vendors, such as MeLLmo (Roambi®), that do not offer an analytics platform, but offer a mobile user interface that can be used as an extension to existing analytics platforms; and (5) other vendors offering cloud-based offerings, such as GoodData and Birst. Our future success depends on the effectiveness with which we can differentiate and compete with these vendors and other potential competitors across different sizes of analytics implementation projects. Failure to maintain adequate technology differentiation from these competitors could materially adversely affect our recurring software maintenance revenue and new license and subscription revenues from both existing and prospective customers.

### **MicroStrategy Mobile Competitors**

The market for mobile analytics is rapidly evolving. New mobile devices are being introduced in the market at a rapid pace, and enhancements to mobile operating systems are being made at an even faster rate. The rapidly changing

technology landscape creates opportunities for both existing competitors and new vendors to introduce innovative new products. Within the mobile analytics space, we predominantly compete with the same set of analytics vendors that we compete with in the analytics market. Our competitiveness in this market will depend on how quickly we can adapt to the changing technology landscape and how effectively we sell, market, and differentiate our offering.

### **Usher Competitors**

Usher competes with technologies categorized as user authentication products, which are dominated by a few companies such as the RSA division of EMC, CA, SafeNet, Vasco, and Gemalto. These competitors focus primarily on traditional forms of identity verification such as smart cards, tokens, and password managers. These companies have significant name recognition and offer solutions with security architectures that are familiar to IT buyers. Usher also competes with companies with newer solutions, often involving mobile technology, including Telesign, Authentify, SecurEnvoy, Daon, Entrust, and Duo Security.

**Table of Contents****Restructuring and Executive Management Reorganization**

In the third quarter of 2014, we committed to a restructuring plan (the 2014 Restructuring Plan ) to streamline our workforce and spending to better align our cost structure with our business strategy, including reducing our workforce by 777 employees. As of December 31, 2014, we had implemented substantially all of the 2014 Restructuring Plan. We do not expect future costs associated with implementing the remainder of the 2014 Restructuring Plan, consisting primarily of the liquidation of certain foreign subsidiaries, to be material. The 2014 Restructuring Plan resulted in pre-tax restructuring charges of \$0.3 million and \$14.7 million for the years ended 2015 and 2014, respectively. See Note 8, Restructuring, to the Consolidated Financial Statements in Part IV. Item 15. Exhibits, Financial Statement Schedules of this Annual Report on Form 10-K for further detail on the 2014 Restructuring Plan. In addition to the 2014 Restructuring Plan, we have implemented other internal cost-savings initiatives.

In January 2016, the Board of Directors implemented a reorganization of our executive management team to further streamline our business. The reorganization enabled us to eliminate a layer of management by eliminating a separate Office of the President and was designed to better position our business for profitable growth. This streamlining resulted in the departures of our former President, Paul N. Zolfaghari, and our former President and Chief Legal Officer, Jonathan F. Klein. See Note 19, Subsequent Events, to the Consolidated Financial Statements in Part IV. Item 15. Exhibits, Financial Statement Schedules of this Annual Report on Form 10-K for further detail on the Executive Management Reorganization.

**Employees**

As of December 31, 2015, we had a total of 1,947 employees, of whom 938 were based in the United States and 1,009 were based internationally. Of our 1,947 employees, 513 were engaged in sales and marketing, 461 in research and development, 663 in subscription, product support, consulting, and education services, and 310 in finance, administration, and corporate operations. None of our employees in the United States is represented by a labor union; however, in certain foreign subsidiaries some employees are members of trade or local unions. In France, our employees are represented by a works council as required by local law. We have not experienced any work stoppages and consider our relations with our employees to be good.

The following table summarizes employee headcount, as of the dates indicated and reflects changes resulting from the 2014 Restructuring Plan as well as new hires and terminations outside the 2014 Restructuring Plan:

	December 31, 2013	December 31, 2014	December 31, 2015
Subscription services	39	57	37
Product support	164	138	131
Consulting	669	600	467
Education	36	24	28
Sales and marketing	825	662	513
Research and development	953	645	461
General and administrative	472	344	310
Total headcount	3,158	2,470	1,947

**Research and Product Development**

We maintain a dedicated performance engineering team and conduct research and development focused on providing our customers with the highest levels of performance for analytics applications of all sizes and security solutions. The description of research and development expenses in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations includes a breakdown of such expenses. We believe that our future performance will depend in large part on our ability to maintain and enhance our current product line, develop new products that achieve market acceptance, maintain technological competitiveness, and meet an expanding range of customer requirements. As of December 31, 2015, our research and product development staff consisted of 461 employees.



**Table of Contents**

**Available Information**

MicroStrategy's Website is located at [www.microstrategy.com](http://www.microstrategy.com). MicroStrategy makes available free of charge, on or through the Investor Relations section of our Website (<http://ir.microstrategy.com>), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the Securities and Exchange Commission (SEC). Information found on our Website is not part of this report or any other report filed with the SEC. The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

**Table of Contents**

**Item 1A. Risk Factors**

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones facing MicroStrategy. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

If any of the following risks actually occur, our business, financial condition, or results of operations could be materially adversely affected. In such case, the market price of our class A common stock could decline and you may lose all or part of your investment.

**Our quarterly operating results, revenues, and expenses may fluctuate significantly, which could have an adverse effect on the market price of our stock**

For a number of reasons, including those described below, our operating results, revenues, and expenses have in the past varied and may in the future vary significantly from quarter to quarter. These fluctuations could have an adverse effect on the market price of our class A common stock.

*Fluctuations in Quarterly Operating Results.* Our quarterly operating results may fluctuate, in part, as a result of:

the size, timing, volume, and execution of significant orders and shipments;

the mix of products and services ordered by customers, including product licenses and subscription offerings, which can affect the extent to which revenue is recognized immediately or over future quarterly periods;

the timing of the release or delivery of new or enhanced offerings, which may affect the period in which we are able to recognize revenue;

the timing of announcements of new offerings by us or our competitors;

changes in our pricing policies or those of our competitors;

market acceptance of new and enhanced versions of our products and services;

the length of our sales cycles;

seasonal or other buying patterns of our customers;

changes in our operating expenses, including as a result of various cost-saving initiatives that we are implementing;

planned major maintenance activities related to our owned corporate aircraft;

the timing of research and development projects and the capitalization of software development costs;

personnel changes, including as a result of our recent executive management reorganization;

our use of channel partners;

utilization of our consulting and education services, which can be affected by delays or deferrals of customer implementation of our software products;

changes in foreign currency exchange rates;

our profitability and expectations for future profitability and its effect on our deferred tax assets and net income for the period in which any adjustment to our net deferred tax asset valuation allowance may be made;

increases or decreases in our liability for unrecognized tax benefits; and

changes in customer decision making processes or customer budgets.

**Table of Contents**

*Limited Ability to Adjust Expenses.* We base our operating expense budgets on expected revenue trends and strategic objectives. Many of our expenses, such as office leases and certain personnel costs, are relatively fixed. We may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall. Accordingly, any shortfall in revenue may cause significant variation in operating results in any quarter. For example, although we have reduced our operating expenses in certain recent periods, if our revenues in the future are not sufficient to offset our operating expenses, or we are unable to adjust our operating expenses in a timely manner in response to any shortfall in anticipated revenue, we may incur operating losses.

Based on the above factors, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. It is possible that in one or more future quarters, our operating results may be below the expectations of public market analysts and investors. In that event, the market price of our class A common stock may fall.

**The market price of our class A common stock has been and may continue to be volatile**

The market price of our class A common stock historically has been volatile and may continue to be volatile. The market price of our class A common stock may fluctuate widely in response to various factors, some of which are beyond our control. These factors include, but are not limited to:

quarterly variations in our results of operations or those of our competitors;

announcements about our earnings that are not in line with analyst expectations, the likelihood of which may be enhanced because it is our policy not to give guidance relating to our anticipated financial performance in future periods;

announcements by us or our competitors of acquisitions, dispositions, new offerings, significant contracts, commercial relationships, or capital commitments;

the emergence of new sales channels in which we are unable to compete effectively;

our ability to develop, market, and deliver new and enhanced offerings on a timely basis;

commencement of, or our involvement in, litigation;

any major change in our board, management, or governing documents;

changes in governmental regulations or in the status of our regulatory approvals;

recommendations by securities analysts or changes in earnings estimates;

announcements by our competitors of their earnings that are not in line with analyst expectations;

the volume of shares of our class A common stock available for public sale;

sales or purchases of stock by us or by our stockholders, and issuances of awards under our stock incentive plan;

short sales, hedging, and other derivative transactions involving shares of our class A common stock; and

general economic conditions and slow or negative growth of related markets.

## **Table of Contents**

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of technology companies. These broad market and industry factors may seriously harm the market price of our class A common stock, regardless of our actual operating performance.

### **We may not be able to sustain or increase profitability in the future**

We generated income from continuing operations, net of tax, for each of the fiscal years ended December 31, 2015, 2014, and 2013; however, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future. If our revenues are not sufficient to offset our operating expenses, or we are unable to adjust our operating expenses in a timely manner in response to any shortfall in anticipated revenue, our profitability may decrease, we may cease to be profitable, or we may incur operating losses. As a result, our business, results of operations, and financial condition may be materially adversely affected.

As of December 31, 2015, we had \$8.0 million of deferred tax assets, net of a \$2.0 million valuation allowance, and if we are unable to sustain profitability in the future, we may be required to increase the valuation allowance against these deferred tax assets, which could result in a charge that would materially adversely affect net income in the period in which the charge is incurred.

### **We face risks arising from our restructuring activities and other cost-saving initiatives**

In September 2014, we committed to a restructuring plan to streamline our workforce and spending to better align our cost structure with our business strategy. We implemented substantially all of the plan in 2014, including a workforce reduction of 777 employees worldwide. See Note 8, Restructuring, to the Consolidated Financial Statements in Part IV. Item 15. Exhibits, Financial Statement Schedules of this Annual Report on Form 10-K for further information relating to the restructuring plan. The restructuring, including the organizational, operational, and strategic changes that have taken place during and following the implementation of the restructuring plan, as well as an executive management reorganization that we recently implemented and other cost-savings initiatives that we have implemented or are implementing, present significant potential risks that may impair our ability to achieve anticipated cost reductions or otherwise harm our business, including:

a decrease in employee morale, which could lead to voluntary departures of key employees;

failure to meet operational targets or customer requirements due to the termination or attrition of employees, or a decrease in employee morale;

failure to maintain adequate controls and procedures while consolidating operational and administrative infrastructure;

diversion of management attention from ongoing business activities; and

employment by our competitors of employees whose positions were eliminated.

**Economic uncertainty, particularly in the retail industry, could materially adversely affect our business and results of operations**

In recent years, the United States and other significant markets have experienced cyclical downturns and worldwide economic conditions remain uncertain. Economic uncertainty and associated macroeconomic conditions make it extremely difficult for our customers and us to accurately forecast and plan future business activities, and could cause our customers to slow spending on our products and services, which could delay and lengthen sales cycles. Furthermore, during uncertain economic times our customers may face issues gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for doubtful accounts and our results would be negatively impacted.

Furthermore, we have a significant number of customers in the retail industry. A significant downturn in this industry may cause organizations to react by reducing their capital expenditures in general or by specifically reducing their spending on information technology. In addition, customers in this industry may delay or cancel information technology projects or seek to lower their costs by renegotiating vendor contracts. Customers with excess information technology resources may choose to develop in-house software solutions rather than obtain those solutions from us. Moreover, competitors may respond to challenging market conditions by lowering prices and attempting to lure away our customers.

## **Table of Contents**

We cannot predict the timing, strength, or duration of any economic slowdown or any subsequent recovery generally, or in the retail industry in particular. If the conditions in the general economy and the markets in which we operate worsen from present levels, our business, financial condition, and results of operations could be materially adversely affected.

### **We may have exposure to greater than anticipated tax liabilities**

We are subject to income taxes and non-income taxes in a variety of domestic and foreign jurisdictions. Our future income taxes could be materially adversely affected by earnings that are lower than anticipated in jurisdictions where we have lower statutory rates and earnings that are higher than anticipated in jurisdictions where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, changes in the amount of unrecognized tax benefits, or by changes in tax laws, regulations, accounting principles, or interpretations thereof.

Further changes in the tax laws of foreign jurisdictions could arise, including as a result of the base erosion and profit shifting (BEPS) project undertaken by the Organisation for Economic Co-operation and Development (OECD). The OECD, which represents a coalition of member countries, has issued recommendations that, in some cases, would make substantial changes to numerous long-standing tax positions and principles. These contemplated changes, to the extent adopted by OECD members and/or other countries, could increase tax uncertainty and may adversely affect our provision for income taxes. In addition, in the United States, proposals for broad reform of the existing U.S. corporate tax system are under evaluation by various legislative and administrative bodies, but it is not possible to accurately determine the overall impact of such proposals on our effective tax rate at this time.

Our determination of our tax liability is subject to review by applicable domestic and foreign tax authorities. For example, we are currently under tax examination in the U.S. Any adverse outcome of such reviews could have an adverse effect on our operating results and financial condition. The determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment and, in the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Moreover, as a multinational business, we have subsidiaries that engage in many intercompany transactions in a variety of tax jurisdictions where the ultimate tax determination is uncertain.

We also have contingent tax liabilities that, in management's judgment, are not probable of assertion. If such unasserted contingent liabilities were to be asserted, or become probable of assertion, we may be required to record significant expenses and liabilities in the period in which these liabilities are asserted or become probable of assertion.

As a result of these and other factors, the ultimate amount of tax obligations owed may differ from the amounts recorded in our financial statements and any such difference may materially affect our financial results in future periods in which we change our estimates of our tax obligations or in which the ultimate tax outcome is determined.

### **If the market for analytics products fails to grow as we expect, or if businesses fail to adopt our offerings, our business, operating results, and financial condition could be materially adversely affected**

Nearly all of our revenues to date have come from sales of analytics products and related technical support, consulting, and education services. We expect these sales to account for a large portion of our revenues for the foreseeable future. Although demand for analytics products has grown in recent years, the market for analytics offerings continues to evolve. Resistance from consumer and privacy groups to increased commercial collection and use of data on spending patterns and other personal behavior and governmental restrictions on the collection, use, and transfer of personal data may impair the further growth of this market, as may other developments. We cannot be sure that this market will continue to grow or, even if it does grow, that businesses will adopt our solutions.



We have spent, and intend to keep spending, considerable resources to educate potential customers about analytics offerings in general and our offerings in particular. However, we cannot be sure that these expenditures will help any of our offerings achieve any additional market acceptance. If the market fails to grow or grows more slowly than we currently expect or businesses fail to adopt our offerings, our business, operating results, and financial condition could be materially adversely affected.

---

**Table of Contents**

**Our products face intense competition, which may lead to lower prices for our products and services, reduced gross margins, loss of market share, and reduced revenue**

The analytics market is highly competitive and subject to rapidly changing technology paradigms. Within the analytics space, we compete with many different vendors, including (1) large software vendors (megavendors), such as IBM (Cognos), SAP (BO), Microsoft (Power BI), and Oracle (OBIEE), that provide one or more products that directly compete with our products; (2) open source analytics vendors such as Open Text (Actuate) and Hitachi (Pentaho); (3) various other analytics software providers, such as Qlik, Tableau Software, TIBCO, Information Builders, and the SAS Institute; (4) pure-play mobile analytics vendors, such as MeLLmo (Roambi), that do not offer an analytics platform but offer a mobile user interface that can be used as an extension to existing analytics platforms; and (5) other vendors offering cloud-based offerings, such as GoodData and Birst. Our future success depends on the effectiveness with which we can differentiate and compete with these vendors and other potential competitors across different sizes of analytics implementation projects. Failure to maintain adequate technology differentiation from these competitors could materially adversely affect our recurring software maintenance revenue and new license and subscription revenues from both existing and prospective customers.

Some of our competitors have longer operating histories and significantly greater financial, technical, and marketing resources than we do. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion, sale, and marketing of their offerings than we can, such as offering certain analytics products free of charge when bundled with other software offerings. In addition, many of our competitors have strong relationships with current and potential customers, extensive industry and specialized business knowledge, as well as corresponding proprietary technologies that they can leverage, such as multidimensional databases and ERP repositories. As a result, they may be able to prevent us from penetrating new accounts or expanding within existing accounts.

Increased competition may lead to price cuts, reduced gross margins, and loss of market share. We may not be able to compete successfully against current and future competitors and the failure to meet the competitive pressures we face may have a material adverse effect on our business, operating results, and financial condition.

Current and future competitors may also make strategic acquisitions or establish cooperative relationships among themselves or with others. By doing so, these competitors may increase their ability to meet the needs of our potential customers by virtue of their expanded offerings. Our current or prospective channel partners may establish cooperative relationships with our current or future competitors. These relationships may limit our ability to sell our analytics offerings through specific distribution channels. Accordingly, new competitors or alliances among current and future competitors may emerge and rapidly gain significant market share. These developments could limit our ability to obtain revenues from new customers and to sustain software maintenance revenues from our installed customer base. In addition, basic office productivity software suites, such as Microsoft Office, could evolve to offer advanced analysis and reporting capabilities that may reduce the demand for our analytics offerings.

Usher competes with technologies categorized as user authentication products, which are dominated by a few companies such as the RSA division of EMC, CA, SafeNet, Vasco, and Gemalto. These competitors focus primarily on traditional forms of identity verification such as smart cards, tokens, and password managers. These companies have significant name recognition and offer solutions with security architectures that are familiar to IT buyers. Usher also competes with companies with newer solutions, often involving mobile technology, including Telesign, Authentify, SecurEnvoy, Daon, Entrust, and Duo Security. To date, we have expended significant resources in the development and marketing of Usher, which has not generated significant revenues. Failure to adequately differentiate and market our technology from these competitors could materially adversely affect our ability to generate significant revenues from Usher.

**We depend on revenue from a single suite of products and related services**

Our MicroStrategy Analytics software and related products and services account for a substantial portion of our revenue. Because of this revenue concentration, our business could be harmed by a decline in demand for, or in the adoption or prices of, our MicroStrategy Analytics software as a result of, among other factors, any change in our pricing model, increased competition, maturation in the markets for these products, or other risks described in this document.

**Table of Contents**

**If we are unable to develop and release product enhancements and new offerings to respond to rapid technological change in a timely and cost-effective manner, our business, operating results, and financial condition could be materially adversely affected**

The market for our offerings is characterized by rapid technological change, frequent new product introductions and enhancements, changing customer demands, and evolving industry standards. The introduction of offerings embodying new technologies can quickly make existing offerings obsolete and unmarketable. We believe that our future success depends largely on three factors:

our ability to continue to support a number of popular operating systems and databases;

our ability to maintain and improve our current offerings; and

our ability to rapidly develop new offerings and product enhancements that achieve market acceptance, maintain technological competitiveness, and meet an expanding range of customer requirements.

Analytics applications are inherently complex, and it can take a long time and require significant research and development expenditures to develop and test new offerings and product enhancements. In addition, customers may delay their purchasing decisions because they anticipate that new or enhanced versions of our offerings will soon become available. We cannot be sure that we will succeed in developing, marketing, and delivering on a timely and cost-effective basis new or enhanced offerings that respond to technological change or new customer requirements, nor can we be sure that any new or enhanced offerings, such as MicroStrategy 10 Secure Enterprise, which was made generally available in June 2015, will achieve market acceptance. Moreover, even if we introduce a new offering, we may experience a decline in revenues of our existing offerings that is not fully matched by the new offering's revenue. For example, customers may delay making purchases of a new offering to permit them to make a more thorough evaluation of the offering, or until industry and marketplace reviews become widely available. Some customers may hesitate migrating to a new offering due to concerns regarding the complexity of migration and product infancy issues on performance. In addition, we may lose existing customers who choose a competitor's offering rather than migrate to our new offering. This could result in a temporary or permanent revenue shortfall and materially adversely affect our business.

**A substantial customer shift from the deployment of MicroStrategy Analytics based on a perpetual software license to our cloud services offerings could affect the timing of revenue recognition and materially adversely affect our operating results**

We offer our analytics platform in the form of a perpetual software license and a cloud-based Platform-as-a-Service subscription. The payment streams and revenue recognition timing for our perpetual software licenses are different from those for our subscription services. For perpetual software licenses, customers typically pay us a lump sum soon after entering into a software license agreement and revenue is typically recognized upon delivery of the software to the customer. For subscription services, customers typically make periodic payments over the subscription period and revenue is typically recognized ratably over the subscription period. As a result, if a substantial number of current or new customers shift to subscribing to our cloud services offerings instead of purchasing perpetual software licenses for MicroStrategy Analytics, the resulting change in payment terms and revenue recognition may materially adversely affect our operating results and cash flows for the reporting periods during which such a shift occurs.

**Our investment in new business strategies and initiatives could disrupt the operations of our ongoing business and present risks that we have not adequately anticipated**

We have invested, and in the future may invest, in new business strategies and initiatives. For example, in recent years we have introduced a number of innovative technologies designed to enable companies to capitalize on Big Data, mobile applications, cloud-based services, and security trends in the marketplace. These endeavors may involve significant risks and uncertainties, including distraction of management from other business operations, the dedication of significant research and development, sales and marketing, and other resources to these new initiatives at the expense of our other business operations, generation of insufficient revenue to offset expenses associated with new initiatives, incompatibility of our new technologies with third-party platforms, inadequate return of capital, and other risks that we may not have adequately anticipated. For example, we have expended significant resources in the development and marketing of Usher, which has not generated significant revenues to date. Because new strategies and initiatives are inherently risky, these strategies and initiatives may not be successful and could materially adversely affect our financial condition and operating results.

---

**Table of Contents**

**Business disruptions, including interruptions, delays, or failures in service from our third-party data center hosting facilities and other third-party services, could materially adversely affect our operating results or result in a material weakness in our internal controls that could adversely affect the market price of our stock**

A significant portion of our research and development activities or certain other critical business operations are concentrated in facilities in Northern Virginia, China, and Poland. In addition, we serve our customers, and manage certain critical internal processes, using third-party data center hosting facilities located in the United States and England and other third-party services, including Amazon Web Services and other cloud services. We are a highly automated business, and a disruption or failure of our systems, or the third-party hosting facilities or other services that we use, could cause delays in completing sales and providing services. Such disruptions or failures could include a major earthquake, fire, cyber-attack, act of terrorism or other catastrophic event, or a decision by one of our third-party service providers to close facilities that we use without adequate notice or other unanticipated problems with the third-party services that we use, including a failure to meet service standards.

Any such disruptions or failures could (i) result in the destruction or disruption of any of our critical business operations, controls, or procedures or information technology systems, (ii) severely affect our ability to conduct normal business operations, (iii) result in a material weakness in our internal control over financial reporting, (iv) cause our customers to terminate their subscriptions, (v) result in our issuing credits or paying penalties or fines, (vi) harm our reputation, (vii) adversely affect our attrition rates or our ability to attract new customers, or (viii) cause our offerings to be perceived as not being secure, any of which could materially adversely affect our future operating results.

**We use channel partners and if we are unable to maintain successful relationships with them, our business, operating results, and financial condition could be materially adversely affected**

In addition to our direct sales force, we use channel partners such as resellers, value-added resellers, system integrators and consulting firms, original equipment manufacturers, and technology partners to license and support our products. For the year ended December 31, 2015, transactions by channel partners for which we recognized revenues accounted for 19.0% of our total product licenses revenues. Our channel partners may offer customers the products and services of several different companies, including offerings that compete with ours. Because our channel partners generally do not have an exclusive relationship with us, we cannot be certain that they will prioritize or provide adequate resources to selling our products. Moreover, divergence in strategy or contract defaults by any of these channel partners may materially adversely affect our ability to develop, market, sell, or support our offerings.

Although we believe that direct sales will continue to account for a majority of product licenses revenues, we seek to maintain a significant level of sales activities through our channel partners. There can be no assurance that our channel partners will continue to cooperate with us. In addition, actions taken or omitted to be taken by such parties may materially adversely affect us. Our ability to achieve revenue growth in the future will depend in part on our ability to maintain successful relationships with our channel partners. If we are unable to maintain our relationships with these channel partners, our business, results of operations, and financial condition could be materially adversely affected.

In addition, we rely on our channel partners to operate in accordance with the terms of their contractual agreements with us. For example, some of our agreements with our channel partners prescribe the terms and conditions pursuant to which they are authorized to resell or distribute our software and offer technical support and related services. We also typically require our channel partners to represent to us the details of product licenses transactions sold through to end user customers. If our channel partners do not comply with their contractual obligations to us, our business, results of operations, and financial condition may be materially adversely affected.



**Table of Contents**

**Our recognition of deferred revenue and advance payments and future customer purchase commitments is subject to future performance obligations and may not be representative of revenues for succeeding periods**

Our gross current and non-current deferred revenue and advance payments totaled \$213.1 million as of December 31, 2015. We offset our accounts receivable and deferred revenue for any unpaid items, which totaled \$103.4 million, resulting in net current and non-current deferred revenue and advance payments of \$109.7 million as of December 31, 2015. The timing and ultimate recognition of our deferred revenue and advance payments depend on various factors, including our performance of various service obligations.

We have entered into certain additional agreements that include future minimum commitments by our customers to purchase product licenses, subscription services, product support, or other services through 2020 totaling approximately \$127.5 million. These future commitments are not included in our deferred revenue balances. Because of the possibility of customer changes or delays in customer development or implementation schedules or budgets, and the need for us to satisfactorily perform product support and other services, deferred revenue and advance payments at any particular date may not be representative of actual revenue for any succeeding period.

**Our international operations are complex and expose us to risks that could have a material adverse effect on our business, operating results, and financial condition**

We receive a significant portion of our total revenues from international sales, and conduct our business activities in various foreign countries, including some emerging markets where we have limited experience, where the challenges of conducting our business can be significantly different from those we have faced in more developed markets, and where business practices may create internal control risks. International revenues accounted for 38.3%, 41.1%, and 40.4% of our total revenues for the years ended December 31, 2015, 2014, and 2013, respectively. Our international operations require significant management attention and financial resources.

There are certain risks inherent in our international business activities including:

fluctuations in foreign currency exchange rates;

new, or changes in, regulatory requirements;

tariffs, export and import restrictions, restrictions on foreign investments, sanctions, and other trade barriers or protection measures;

costs of localizing offerings;

lack of acceptance of localized offerings;

difficulties in and costs of staffing, managing, and operating our international operations;



tax issues, including restrictions on repatriating earnings;

weaker intellectual property protection;

economic weakness or currency related crises;

the burden of complying with a wide variety of laws, including those relating to labor matters, consumer and data protection, privacy, network security, and encryption;

generally longer payment cycles and greater difficulty in collecting accounts receivable;

our ability to adapt to sales practices and customer requirements in different cultures;

corporate espionage; and

political instability and security risks in the countries where we are doing business.

## Table of Contents

Various corporate tax reform bills and other proposals have been or are currently under consideration by Congress and the Obama Administration. These proposals include, among other items, corporate income tax rate changes in varying, uncertain, or unspecified amounts, new rules for reporting international and foreign activities on a country by country basis, the reduction or elimination of certain corporate tax incentives, modifications to the existing regime for taxing overseas earnings (including consideration of a minimum tax on adjusted unrepatriated foreign earnings), and measures to prevent base erosion and profit shifting. It is not clear whether, or to what extent, these proposals may be enacted. Although the overall impact that such proposals may have on our future effective tax rate is unclear at this time, significant changes to the U.S. taxation of our international income could have a material adverse effect on our results of operations.

From time to time, we may undertake various potential intercompany transactions and legal entity restructurings that involve our international subsidiaries. We consider various factors in evaluating these potential transactions and restructurings, including the alignment of our corporate structure with our organizational objectives, the operational and tax efficiency of our corporate structure, and the long-term cash flows and cash needs of our business. Such transactions and restructurings could negatively impact our overall tax rate and result in additional tax liabilities.

In addition, compliance with foreign and U.S. laws and regulations that are applicable to our international operations is complex and may increase our cost of doing business in international jurisdictions, and our international operations could expose us to fines and penalties if we fail to comply with these regulations. These laws and regulations include import and export requirements and anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and local laws prohibiting corrupt payments to governmental officials. Although we have implemented policies and procedures designed to help ensure compliance with these laws, there can be no assurance that our employees, partners, and other persons with whom we do business will not take actions in violation of our policies or these laws. Any violations of these laws could subject us to civil or criminal penalties, including substantial fines or prohibitions on our ability to offer our products and services to one or more countries, and could also materially damage our reputation and our brand.

These factors may have a material adverse effect on our future sales and, consequently, on our business, operating results, and financial condition.

### **We may lose sales, or sales may be delayed, due to the long sales and implementation cycles of certain of our products, which could reduce our revenues**

To date, our customers have typically invested substantial time, money, and other resources and involved many people in the decision to license our software products and purchase our consulting and education services. As a result, we may wait nine months or more after the first contact with a customer for that customer to place an order while it seeks internal approval for the purchase of our products or services. During this long sales cycle, events may occur that affect the size and/or timing of the order or even cause it to be canceled. For example, our competitors may introduce new offerings, or the customer's own budget and purchasing priorities may change.

Even after an order is placed, the time it takes to deploy our products and complete consulting engagements can vary widely. Implementing some of our offerings can take several months, depending on the customer's needs, and may begin only with a pilot program. It may be difficult to deploy our products if the customer has complicated deployment requirements, which typically involve integrating databases, hardware, and software from different vendors. If a customer hires a third party to deploy our products, we cannot be sure that our products will be deployed successfully.

**Our results in any particular period may depend upon the number and volume of large transactions in that period and these transactions may involve lengthier, more complex, and more unpredictable sales cycles than other transactions**

As existing and potential customers seek to standardize on a single analytics vendor or require greater vendor capacity to meet their growing analytics needs, our business may experience larger transactions at the enterprise level and larger transactions may account for a greater proportion of our business. The presence or absence of one or more large transactions in a particular period may have a material positive or negative effect on our revenue and operating results for that period. For the years ended December 31, 2015, 2014, and 2013, our top three product licenses transactions with recognized revenue totaled \$7.4 million, \$6.4 million, and \$14.3 million respectively, or 6.2%, 5.1%, and 9.7% of total product licenses revenues, respectively. These transactions represent significant business and financial decisions for our customers, require considerable effort on the part of customers to assess alternative products, and often require additional levels of management approval. In addition, large transactions are often more complex than smaller transactions. These factors generally lengthen the typical sales cycle and increase the risk that customers may postpone or delay purchasing decisions from one period to another subsequent or later period or that customers will alter their purchasing requirements. The sales effort and service delivery scope for larger transactions also require us to use additional resources to execute the transaction. These factors could result in lower than anticipated revenue and earnings for a particular period or in lower estimated revenue and earnings in future periods.

**Table of Contents**

**We face a variety of risks in doing business with the U.S. and foreign governments, various state and local governments, and government agencies, including risks related to the procurement process, budget constraints and cycles, termination of contracts, and compliance with government contracting requirements**

Our customers include the U.S. government and a number of state and local governments and government agencies. There are a variety of risks in doing business with government entities, including:

*Procurement.* Contracting with public sector customers is highly competitive and can be time-consuming and expensive, requiring that we incur significant up-front time and expense without any assurance that we will win a contract.

*Budgetary Constraints and Cycles.* Demand and payment for our products and services are impacted by public sector budgetary cycles and funding availability, with funding reductions or delays adversely impacting public sector demand for our products and services.

*Termination of Contracts.* Public sector customers often have contractual or other legal rights to terminate current contracts for convenience or due to a default. If a contract is terminated for convenience, which can occur if the customer's needs change, we may only be able to collect fees for products or services delivered prior to termination and settlement expenses. If a contract is terminated because of default, we may not recover even those amounts, and we may be liable for excess costs incurred by the customer for procuring alternative products or services.

*Compliance with Government Contracting Requirements.* Government contractors are required to comply with a variety of complex laws, regulations, and contractual provisions relating to the formation, administration, or performance of government contracts that give public sector customers substantial rights and remedies, many of which are not typically found in commercial contracts. These may include rights with respect to price protection, the accuracy of information provided to the government, contractor compliance with socio-economic policies, and other terms that are particular to government contracts. U.S. government and state and local governments and government agencies routinely investigate and audit contractors for compliance with these requirements. If, as a result of an audit or review, it is determined that we have failed to comply with these requirements, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, cost associated with the triggering of price reduction clauses, fines, and suspensions or debarment from future government business, and we may suffer harm to our reputation.

Our customers also include a number of foreign governments and government agencies. Similar procurement, budgetary, contract, and audit risks also apply to our doing business with these entities. In addition, compliance with complex regulations and contracting provisions in a variety of jurisdictions can be expensive and consume significant management resources. In certain jurisdictions our ability to win business may be constrained by political and other factors unrelated to our competitive position in the market. Each of these difficulties could materially adversely affect our business and results of operations.

**We depend on technology licensed to us by third parties, and the loss of this technology could impair our software, delay implementation of our offerings, or force us to pay higher license fees**

We license third-party technologies that are incorporated into or utilized by our existing offerings. There can be no assurance that the licenses for such third-party technologies will not be terminated or that we will be able to license third-party software for future offerings. In addition, we may be unable to renegotiate acceptable third-party license terms or we may be subject to infringement liability if third-party software that we license is found to infringe intellectual property rights of others. Changes in or the loss of third-party licenses could lead to a material increase in

the costs of licensing or to our software offerings becoming inoperable or their performance being materially reduced, with the result that we may need to incur additional development costs to ensure continued performance of our offerings, and we may experience a decreased demand for our offerings.

## Table of Contents

### **If we are unable to recruit or retain skilled personnel, or if we lose the services of our Chairman of the Board, Chief Executive Officer & President, our business, operating results, and financial condition could be materially adversely affected**

Our future success depends on our continuing ability to attract, train, assimilate, and retain highly skilled personnel. Competition for these employees is intense. We may not be able to retain our current key employees or attract, train, assimilate, or retain other highly skilled personnel in the future. For example, our restructuring activities and cost-saving initiatives may adversely impact our ability to attract or retain key employees. Our future success also depends in large part on the continued service of Michael J. Saylor, our Chairman of the Board of Directors, Chief Executive Officer & President. If we lose the services of Mr. Saylor or other key personnel, or if we are unable to attract, train, assimilate, and retain the highly skilled personnel we need, our business, operating results, and financial condition could be materially adversely affected.

### **The emergence of new industry standards may materially adversely affect the demand for our existing offerings**

The emergence of new industry standards in related fields may materially adversely affect the demand for our existing offerings. This could happen if new Web standards and technologies or new standards in the field of operating system support emerged that were incompatible with customer deployments of our software offerings. For example, if we are unable to adapt our software offerings on a timely basis to new standards in database access technology, the ability of our software offerings to access customer databases could be impaired.

### **The nature of our software offerings makes them particularly vulnerable to undetected errors, or bugs, which could cause problems with how the offerings perform and which could, in turn, reduce demand for our offerings, reduce our revenue, and lead to product liability claims against us**

Software as complex as ours may contain errors and/or defects. Although we test our software offerings extensively, we have in the past discovered software errors in our offerings after their introduction. Despite testing by us and by our current and potential customers, errors may be found in new offerings or releases after commercial shipments begin. This could result in lost revenue, damage to our reputation, or delays in market acceptance, which could have a material adverse effect on our business, operating results, and financial condition. We may also have to expend resources and capital to correct these defects.

Our agreements with customers typically contain provisions designed to limit our exposure to product liability, warranty, and other claims. It is possible, however, that these provisions may not be effective under the laws of certain domestic or international jurisdictions and we may be exposed to product liability, warranty, and other claims. A successful product liability claim against us could have a material adverse effect on our business, operating results, and financial condition.

### **Changes in laws or regulations relating to privacy or the protection or transfer of personal data, or any actual or perceived failure by us or our third-party service providers to comply with such laws and regulations or applicable privacy policies, could materially adversely affect our business**

Aspects of our business, including our cloud services offerings and Usher, involve processing, storing, and transmitting personal data, which is subject to certain privacy policies and certain federal, state, and foreign laws and regulations relating to privacy and data protection. The amount of customer and employee data that we store through our cloud services offerings, networks, and other systems, including personal data, is increasing. In recent years, the collection and use of personal data by companies have come under increased regulatory and public scrutiny. For

example, in the United States, protected health information is subject to the Health Insurance Portability and Accountability Act ( HIPAA ). HIPAA has been supplemented by the Health Information Technology for Economic and Clinical Health Act with the result of increased civil and criminal penalties for noncompliance. Under HIPAA, entities performing certain functions that engage in creating, receiving, maintaining, or transmitting protected health information provided by covered entities and other business associates are directly subject to HIPAA. Our access to protected health information through our cloud services offerings triggers obligations to comply with certain privacy rules and data security requirements under HIPAA. Any systems failure or security breach that results in the release of, or unauthorized access to, personal data, or any failure or perceived failure by us or our third-party service providers to comply with applicable privacy policies or any applicable laws or regulations relating to privacy or data protection, could result in proceedings against us by governmental entities or others. Such proceedings could result in the imposition of sanctions, fines, penalties, liabilities, and/or governmental orders requiring that we change our data practices, any of which could have a material adverse effect on our business, operating results, and financial condition.

---

**Table of Contents**

Various federal, state, and foreign legislative, regulatory, or other governmental bodies may enact new or additional laws or regulations, or issue rulings that invalidate prior laws or regulations, concerning privacy and data protection that could materially adversely impact our business. For example, a recent ruling by the European Court of Justice invalidated the U.S.-EU Safe Harbor Framework. Following this ruling, U.S. and European authorities agreed to an updated version of the Safe Harbor Framework, referred to as the Privacy Shield. In addition, the European Union recently issued a final draft of a new EU General Data Protection Regulation, which is expected to go into effect in 2018. Complying with these and other changing requirements could cause us or our customers to incur substantial costs, require us to change our business practices, or limit our ability to provide certain products and services in certain jurisdictions, any of which could materially adversely affect our business and operating results. Additionally, the legislation and regulation regarding mobile data collection continue to evolve and if laws or regulations restricting or limiting the collection or use of mobile data are enacted, they may reduce demand for certain of our services or require changes to our business practices, which could materially adversely affect our business and operating results.

**If we or our third-party service providers experience a security breach and unauthorized parties obtain access to our customers' data, our channel partners' data, our data, or our cloud services offerings, networks, or other systems, our offerings may be perceived as not being secure, our reputation may be harmed, demand for our offerings may be reduced, our operations may be disrupted, we may incur significant legal liabilities, and our business could be materially adversely affected**

As part of our business, we process, store, and transmit our customers' and channel partners' information and data as well as our own, including in our cloud services offerings, networks, and other systems. There can be no assurance that any security measures that have been implemented will be effective against all security threats. For example, security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, fraudulent inducement of employees, customers, or channel partners to disclose sensitive information such as user names or passwords, and employee error or malfeasance. Such breach could result in someone obtaining unauthorized access to our customers' or channel partners' data, our data (including our proprietary information or trade secrets), or our cloud services offerings, networks, or other systems. Because there are many different security breach techniques and such techniques continue to evolve, we may be unable to anticipate attempted security breaches and implement adequate preventative measures. Third parties may also conduct attacks designed to temporarily deny customers access to our services. Any security breach or successful denial of service attack could result in a loss of customer confidence in the security of our offerings and damage to our brand, reducing the demand for our offerings and our revenue, disrupt our normal business operations, require us to spend material resources to correct the breach, expose us to legal liabilities including litigation and indemnity obligations, and materially adversely affect our operating results. These risks will increase as we continue to grow the number and scale of our cloud-based offerings and process, store, and transmit increasingly large amounts of our customers' information and data, which may include proprietary or confidential data or personal or identifying information.

**Our intellectual property is valuable, and any inability to protect it could reduce the value of our products, services, and brand**

We rely on a combination of copyrights, patents, trademarks, trade secrets, confidentiality procedures, and contractual commitments to protect our intellectual property. Despite our efforts, these measures can only provide limited protection. Unauthorized third parties may try to copy or reverse engineer portions of our products or otherwise obtain and use our intellectual property. Any patents owned by us may be invalidated, circumvented, or challenged. Any of our pending or future patent applications, whether or not being currently challenged, may not be issued with the scope of the claims we seek, if at all. Moreover, recent amendments to and developing jurisprudence regarding U.S. patent law may affect our ability to protect our intellectual property and defend against claims of patent infringement. In addition, the laws of some countries do not provide the same level of protection of our intellectual property as do the



laws of the United States. If we cannot protect our intellectual property against unauthorized copying or use, we may not remain competitive.

**Table of Contents**

**Third parties may claim we infringe their intellectual property rights**

We periodically receive notices from others claiming we are infringing their intellectual property rights, principally patent and trademark rights. We expect the number of such claims will increase as we continue to expand our offerings and branding, the number of offerings and level of competition in our industry segments grow, the functionality of offerings overlap, and the volume of issued patents, patent applications, and trademark registrations continues to increase. Responding to any infringement claim, regardless of its validity, could:

be time-consuming, costly, and/or result in litigation;

divert management's time and attention from developing our business;

require us to pay monetary damages or enter into royalty and licensing agreements that we would not normally find acceptable;

require us to stop selling certain of our offerings;

require us to redesign certain of our offerings using alternative non-infringing technology or practices, which could require significant effort and expense;

require us to rename certain of our offerings or entities; or

require us to satisfy indemnification obligations to our customers.

Additionally, while we monitor our use of third-party software, including open source software, we cannot assure you that our processes for controlling such use in our products will be effective. If we inadvertently embed certain types of open source software into one or more of our products, or if third-party software that we license is found to infringe intellectual property rights of others, we could subject ourselves to infringement liability and be required to re-engineer our products, to discontinue the sale of our products if re-engineering could not be accomplished on a timely or cost-effective basis, or to make available to certain third parties or generally available, in source code form, our proprietary code, any of which could materially adversely affect our business, operating results, and financial condition.

If a successful infringement claim is made against us and we fail to develop or license a substitute technology or brand name as applicable, our business, results of operations, financial condition, or cash flows could be materially adversely affected.

For example, in December 2011, we were sued by DataTern, which alleged that certain of our analytics products infringe its patents, and we have received indemnification requests from certain of our channel partners and customers who were also named as defendants in connection with this matter. This matter is described in further detail in this Annual Report on Form 10-K under Part I. Item 3. Legal Proceedings.

**Pending or future litigation could have a material adverse impact on our results of operation and financial condition**

In addition to intellectual property litigation, from time to time, we have been subject to other litigation. Regardless of the merits of any claims that may be brought against us, pending or future litigation could result in a diversion of management's attention and resources and we may be required to incur significant expenses defending against these claims. If we are unable to prevail in litigation we could incur substantial liabilities. Where we can make a reasonable estimate of the liability relating to pending litigation and determine that it is probable, we record a related liability. As additional information becomes available, we assess the potential liability and revise estimates as appropriate. However, because of uncertainties relating to litigation, the amount of our estimates could be wrong.

---

**Table of Contents**

**Because of the rights of our two classes of common stock, and because we are controlled by Michael J. Saylor, who beneficially owns the majority of our class B common stock, Mr. Saylor could transfer control of MicroStrategy to a third party without the approval of our Board of Directors or our other stockholders, prevent a third party from acquiring MicroStrategy, or limit your ability to influence corporate matters**

We have two classes of common stock: class A common stock and class B common stock. Holders of our class A common stock generally have the same rights as holders of our class B common stock, except that holders of class A common stock have one vote per share while holders of class B common stock have ten votes per share. As of February 22, 2016, holders of our class B common stock owned 2,035,184 shares of class B common stock, or 68.5% of the total voting power. Michael J. Saylor, our Chairman of the Board of Directors, Chief Executive Officer & President, beneficially owned 2,011,668 shares of class B common stock, or 67.7% of the total voting power, as of February 22, 2016. Accordingly, Mr. Saylor is able to control MicroStrategy through his ability to determine the outcome of elections of our directors, amend our certificate of incorporation and by-laws, and take other actions requiring the vote or consent of stockholders, including mergers, going-private transactions, and other extraordinary transactions and their terms.

Our certificate of incorporation allows holders of class B common stock to transfer shares of class B common stock, subject to the approval of stockholders possessing a majority of the outstanding class B common stock. Mr. Saylor or a group of stockholders possessing a majority of the outstanding class B common stock could, without the approval of our Board of Directors or our other stockholders, transfer voting control of MicroStrategy to a third party. Such a transfer of control could have a material adverse effect on our business, operating results, and financial condition. Mr. Saylor or a group of stockholders possessing a majority of the outstanding class B common stock would also be able to prevent a change of control of MicroStrategy, regardless of whether holders of class A common stock might otherwise receive a premium for their shares over the then current market price. In addition, this concentrated control limits stockholders' ability to influence corporate matters and, as a result, we may take actions that our non-controlling stockholders do not view as beneficial or that conflict with their interests. As a result, the market price of our class A common stock could be materially adversely affected.

**We rely on the controlled company exemption from certain corporate governance requirements for NASDAQ-listed companies, which could make our class A common stock less attractive to some investors or otherwise materially adversely affect our stock price**

Because we qualify as a controlled company under the corporate governance rules for NASDAQ-listed companies, we are not required to have a majority of our Board of Directors be comprised of independent directors. Additionally, our Board of Directors is not required to have an independent compensation or nominating committee, or to have the independent directors exercise the nominating function. We also are not required to have the compensation of our executive officers be determined by a compensation committee of independent directors. In addition, we are not required to empower our Compensation Committee with the authority to engage the services of any compensation consultants, legal counsel, or other advisors, or to have the Compensation Committee assess the independence of compensation consultants, legal counsel, and other advisors that it engages.

In light of our status as a controlled company, our Board of Directors has determined not to establish an independent nominating committee or have its independent directors exercise the nominating function, and has elected instead to have the Board of Directors be directly responsible for nominating members of the board. A majority of our Board of Directors is currently comprised of independent directors, and our Board of Directors has established a compensation committee comprised entirely of independent directors. The Compensation Committee determines the compensation of our chief executive officer. However, our Board of Directors has authorized our chief executive officer to determine the compensation of executive officers other than himself, rather than having such compensation

determined by the Compensation Committee, except that certain executive officer compensation that is intended to qualify as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code is determined by the Compensation Committee pursuant to the requirements of Section 162(m). Awards under our 2013 Equity Plan are also approved by the Compensation Committee. Additionally, while our Compensation Committee is empowered with the authority to retain and terminate outside counsel, compensation consultants, and other experts or consultants, it is not required to assess their independence.

Although currently a majority of our Board of Directors is comprised of independent directors and the Compensation Committee is comprised entirely of independent directors, we may elect in the future not to have independent directors constitute a majority of the Board of Directors or the Compensation Committee, have our chief executive officer's compensation determined by a compensation committee of independent directors, or have a compensation committee of the Board of Directors at all.

**Table of Contents**

Accordingly, should the interests of our controlling stockholder differ from those of other stockholders, the other stockholders may not have the same protections that are afforded to stockholders of companies that are required to follow all of the corporate governance rules for NASDAQ-listed companies. Our status as a controlled company could make our class A common stock less attractive to some investors or otherwise materially adversely affect our stock price.

**Revenue recognition accounting pronouncements may materially adversely affect our reported results of operations**

We continuously review our compliance with all new and existing revenue recognition accounting pronouncements. In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ( ASU 2014-09 ), which supersedes nearly all existing revenue recognition guidance. See Note 3, Recent Accounting Standards, to the Consolidated Financial Statements in Part IV. Item 15. Exhibits, Financial Statement Schedules of this Annual Report on Form 10-K for further information regarding ASU 2014-09. We are currently evaluating the impact of this guidance on our consolidated financial position, results of operations, and cash flows. Depending upon the outcome of these ongoing reviews and the potential issuance of further accounting pronouncements, implementation guidelines, and interpretations, we may be required to modify our reported results, revenue recognition policies, or business practices, which could materially adversely affect our results of operations.

**Item 1B. Unresolved Staff Comments**

None.

**Table of Contents**

**Item 2. Properties**

As of December 31, 2014, we were leasing approximately 233,000 square feet of office space at a location in Northern Virginia that began serving as our corporate headquarters in October 2010. We gave written notice in August 2014 of our intent to terminate the lease with respect to 19,000 square feet of this office space, effective February 2015, as part of the 2014 Restructuring Plan. We never used the terminated lease space and it remained vacant until it was terminated in February 2015. As of December 31, 2015, we leased approximately 214,000 square feet of office space at our corporate headquarters. The corporate headquarters office lease includes tenant incentives and allowances that we may use for leasehold improvements. The term of the amended lease expires in December 2020.

In addition, we lease offices in U.S. and foreign locations for our services and support, sales and marketing, research and development, and administrative personnel. As of December 31, 2015, we leased approximately 33,000 square feet of office space in the U.S., in addition to our corporate headquarters and approximately 213,000 square feet of office space in various foreign locations.

**Table of Contents**

**Item 3. Legal Proceedings**

In December 2011, DataTern, Inc. ( DataTern ) filed a complaint for patent infringement against the Company in the United States District Court for the District of Massachusetts (the District Court ). The complaint alleged that the Company infringes U.S. Patent No. 6,101,502 (the 502 Patent ), allegedly owned by DataTern, by making, selling, or offering for sale several of the Company s products and services including MicroStrategy 9, MicroStrategy Intelligence Server, MicroStrategy Business Intelligence Platform, MicroStrategy Cloud Personal, and other MicroStrategy applications for creating or using data mining, dashboards, business analytics, data storage and warehousing, and Web hosting support. The complaint accused the Company of willful infringement and sought an unspecified amount of damages, an award of attorneys fees, and preliminary and permanent injunctive relief. In light of a judgment in a separate action involving DataTern in another jurisdiction, in February 2013, MicroStrategy and DataTern filed motions for summary judgment of non-infringement and the District Court entered summary judgment against DataTern. In March 2013, DataTern filed a notice of appeal with the United States Court of Appeals for the Federal Circuit (the Federal Circuit ). In December 2014, the Federal Circuit issued an opinion vacating the District Court s summary judgment, stating that the claim construction on which the summary judgment was based was incorrect. In January 2015, the Federal Circuit ordered that the case be remanded for further proceedings, and in February 2015, MicroStrategy filed motions for summary judgment in the District Court on grounds of non-infringement and invalidity. On September 4, 2015, the District Court denied the Company s motions for summary judgment. We have received indemnification requests from certain of our channel partners and customers who were sued by DataTern in the District Court in lawsuits alleging infringement of the 502 Patent. The outcome of these matters is not presently determinable.

We are also involved in various other legal proceedings arising in the normal course of business. Although the outcomes of these other legal proceedings are inherently difficult to predict, we do not expect the resolution of these other legal proceedings to have a material adverse effect on our financial position, results of operations, or cash flows.

**Item 4. Mine Safety Disclosures**

Not applicable.



**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our class A common stock is traded on the NASDAQ Global Select Market under the symbol MSTR. The following table sets forth the high and low sales prices for the class A common stock for the periods indicated as reported by the NASDAQ Global Select Market:

	<b>High</b>	<b>Low</b>
Year ended December 31, 2015		
First Quarter	\$ 182.62	\$ 150.01
Second Quarter	197.89	165.91
Third Quarter	226.48	168.63
Fourth Quarter	209.77	164.19
Year ended December 31, 2014		
First Quarter	\$ 135.83	\$ 112.38
Second Quarter	146.13	98.79
Third Quarter	155.86	129.48
Fourth Quarter	176.96	127.46

There is no established public trading market for our class B common stock. As of February 22, 2016, there were approximately 1,589 stockholders of record of our class A common stock and three stockholders of record of our class B common stock.

Holders of our class A common stock generally have the same rights as holders of our class B common stock, except that holders of class A common stock have one vote per share while holders of class B common stock have ten votes per share.

We have never declared or paid any cash dividends on either our class A or class B common stock and have no current plans to declare or pay any such dividends.

Information regarding our equity compensation plans and the securities authorized for issuance thereunder is incorporated by reference in Part III. Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table provides information about our repurchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the periods indicated:

<b>Period</b>	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>
	<b>Total</b>	<b>Average</b>	<b>Total Number</b>	<b>Maximum Number (or</b>
	<b>Number of</b>	<b>Price Paid</b>	<b>Shares (or Units)</b>	<b>Approximate</b>
	<b>Shares</b>	<b>per Share</b>	<b>Purchased as Part of</b>	<b>Dollar</b>
	<b>(or</b>	<b>(or Unit) (1)</b>	<b>Publicly</b>	<b>Value) of Shares (or</b>

		<b>Units) Purchased</b>	<b>Announced Plans or Programs</b>	<b>Units) that May Yet Be Purchased Under the Plans or Programs (1)</b>	
October 1, 2015	October 31, 2015	0	N/A	0	\$ 454,708,615
November 1, 2015	November 30, 2015	0	N/A	0	\$ 454,708,615
December 1, 2015	December 31, 2015	0	N/A	0	\$ 454,708,615
Total:		0	N/A	0	\$ 454,708,615

**Table of Contents**

- (1) On July 28, 2005, we announced that the Board of Directors authorized us to repurchase up to an aggregate of \$300.0 million of our class A common stock from time to time on the open market (the 2005 Share Repurchase Program ). On April 29, 2008, the Board of Directors amended the 2005 Share Repurchase Program to increase the amount of class A common stock that we are authorized to repurchase from \$300.0 million to \$800.0 million and extended the term of the 2005 Share Repurchase Program to April 29, 2013. On April 25, 2013, the Board of Directors extended the term of the 2005 Share Repurchase Program through April 29, 2018, although the program may be suspended or discontinued by us at any time. The timing and amount of any shares repurchased will be determined by management based on its evaluation of market conditions and other factors. The 2005 Share Repurchase Program may be funded using our working capital, as well as proceeds from any other funding arrangements that we may enter into in the future. As of December 31, 2015, pursuant to the 2005 Share Repurchase Program, we had repurchased an aggregate of 3,826,947 shares of our class A common stock at an average price per share of \$90.23 and an aggregate cost of \$345.3 million. As of December 31, 2015, \$454.7 million of our class A common stock remained available for repurchase pursuant to the 2005 Share Repurchase Program. The average price per share and aggregate cost amounts disclosed above include broker commissions.

**Performance Graph**

The following graph compares the cumulative total stockholder return on our class A common stock from December 31, 2010 (the last trading day before the beginning of our fifth preceding fiscal year) to December 31, 2015 (the last trading day of the fiscal year ended December 31, 2015) with the cumulative total return of (i) the Total Return Index for The NASDAQ Stock Market (U.S. Companies) (the NASDAQ Composite Index ) and (ii) the NASDAQ Computer Index. The graph assumes the investment of \$100.00 on December 31, 2010 in our class A common stock, the NASDAQ Composite Index, and the NASDAQ Computer Index, and assumes that any dividends are reinvested. Measurement points are December 31, 2010, December 30, 2011, December 31, 2012, December 31, 2013, December 31, 2014, and December 31, 2015.

	12/31/10	12/30/11	12/31/12	12/31/13	12/31/14	12/31/15
MicroStrategy Incorporated	\$ 100.00	\$ 126.73	\$ 109.25	\$ 145.36	\$ 190.01	\$ 209.77
NASDAQ Composite Index	\$ 100.00	\$ 99.17	\$ 116.48	\$ 163.21	\$ 187.27	\$ 200.31
NASDAQ Computer Index	\$ 100.00	\$ 101.35	\$ 115.50	\$ 154.87	\$ 188.48	\$ 202.94

**Table of Contents****Item 6. Selected Financial Data**

The following selected consolidated financial data should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Financial Statements and notes thereto, and other financial information appearing elsewhere in this Annual Report on Form 10-K.

	<b>Years Ended December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>(in thousands, except per share data)</b>					
<b>Statements of Operations Data</b>					
Total revenues	\$ 529,869	\$ 579,830	\$ 575,888	\$ 565,724	\$ 537,168
Income from continuing operations, net of tax	\$ 105,931	\$ 5,035	\$ 26,550	\$ 22,473	\$ 21,807
Discontinued operations, net of tax	\$ 0	\$ 0	\$ 56,782	\$ (1,927)	\$ (3,867)
Net income	\$ 105,931	\$ 5,035	\$ 83,332	\$ 20,546	\$ 17,940
Earnings (loss) per share (1)(2):					
Basic, from continuing operations	\$ 9.33	\$ 0.45	\$ 2.35	\$ 2.05	\$ 2.03
Basic, from discontinued operations	0.00	0.00	5.02	(0.18)	(0.36)
Basic earnings per share	\$ 9.33	\$ 0.45	\$ 7.37	\$ 1.87	\$ 1.67
Diluted, from continuing operations	\$ 9.18	\$ 0.44	\$ 2.35	\$ 2.01	\$ 1.97
Diluted, from discontinued operations	0.00	0.00	5.02	(0.17)	(0.35)
Diluted earnings per share	\$ 9.18	\$ 0.44	\$ 7.37	\$ 1.84	\$ 1.62

	<b>As of December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>(in thousands)</b>					
<b>Balance Sheet Data</b>					
Total assets, excluding held-for-sale	\$ 656,894	\$ 558,797	\$ 585,514	\$ 467,367	\$ 440,487
Long-term liabilities, excluding deferred revenue, advance payments, and held-for-sale	\$ 19,960	\$ 26,208	\$ 32,699	\$ 49,649	\$ 55,551
Total stockholders' equity	\$ 455,281	\$ 324,471	\$ 310,326	\$ 200,311	\$ 168,978

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

(2) We have never declared or paid any cash dividends on either class A or class B common stock.

---

**Table of Contents**

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations  
Forward-Looking Information**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Exchange Act. For this purpose, any statements contained herein that are not statements of historical fact, including without limitation, certain statements regarding industry prospects and our results of operations or financial position, may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects, and similar expressions are intended to identify forward-looking statements. The important factors discussed under Item 1A. Risk Factors, among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. Such forward-looking statements represent management's current expectations and are inherently uncertain. Investors are warned that actual results may differ from management's expectations.

**Overview**

MicroStrategy is a leading worldwide provider of enterprise software platforms. The Company's mission is to provide enterprise analytics, mobility, and security platforms that are flexible, powerful, scalable, and user-friendly.

MicroStrategy 10 consolidates analytics, mobility, and security in a single integrated platform, available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud. MicroStrategy's enterprise platform combines traditional business intelligence functionality with data discovery, mobile analytics, and powerful enterprise security. MicroStrategy 10 builds on proven enterprise capabilities to make sophisticated, high-performance analytics more accessible, easier to use, and faster. MicroStrategy 10 consists of MicroStrategy Analytics, MicroStrategy Mobile, and Usher.

MicroStrategy Analytics empowers large organizations to analyze vast amounts of data and securely distribute actionable business insight throughout an enterprise, while also being able to cater to smaller workgroups and departmental use via MicroStrategy Desktop. MicroStrategy Analytics delivers reports and dashboards, and enables users to conduct ad hoc analysis and share insights anywhere, anytime, via mobile devices or the Web (via MicroStrategy Web). It also combines the agility and productivity of self-service visual data discovery with the security, scalability, and governance features of enterprise-grade business intelligence. MicroStrategy Analytics is available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud. MicroStrategy Desktop is a standalone, on-premise visual data discovery tool designed to enable business users to analyze and understand their data. With MicroStrategy Desktop, smaller departments or individual business users can create stunning data visualizations and dashboards that provide new insight and new understanding in just minutes.

MicroStrategy Mobile enables organizations to rapidly build custom business applications that deliver analytics combined with transactions, multimedia, mapping, and custom workflows to mobile devices. The powerful code-free platform approach is designed to reduce the costs of development and enable organizations to quickly deploy powerful mobile business apps. MicroStrategy Mobile is an easy, fast, and cost-effective vehicle for mobilizing an organization's information systems, including its data warehouses, business intelligence, ERP, CRM, and Web applications that are currently accessible only on the desktop. With MicroStrategy Mobile, businesses can transform their entire workforce into a connected and more productive mobile workforce using information-driven mobile apps that are significantly more robust and secure than their Web-only counterparts. With mobile access to critical corporate data and systems that drive the business, employees can have a virtual office in their hands at all times. MicroStrategy Mobile is available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud.

Usher, MicroStrategy's security solution, is a powerful mobile security platform designed to dematerialize traditional forms of identity verification (such as passwords, tokens, and physical badges) and replace them with a single mobile identity badge that is cryptographically linked to its owner's smartphone and dynamically linked to an enterprise's existing identity repositories. Usher works on standard smartphones running on iOS or the Android platform, and also boasts an Apple Watch integration. By delivering strong, multi-factor authentication that can be extended to nearly every corporate system, Usher's enterprise mobile security solution addresses some of the biggest challenges facing corporations today - including authentication, identity and access management, and resource authorization - while applying industry leading business intelligence and analytics to an enterprise's security infrastructure. Through the use of Bluetooth, QR codes, biometrics, push notifications, time-limited PIN codes, and other authentication methods, Usher users can log into applications, VPNs, and workstations, unlock doors and other physical gateways, and validate each other's identities. Usher can also be used as a powerful workforce management resource because it is designed to enable managers to gain a new real-time window into the activity of their distributed workforces, while providing powerful interactive features to manage or direct them. With the addition of Usher Professional, administrators can track user activity on a real-time map and communicate with users from the Usher application. Usher is available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud.

**Table of Contents**

MicroStrategy Secure Cloud is a platform for organizations that want to harness the power of data through MicroStrategy's enterprise solutions via the cloud. Compared to traditional on-premises approaches, MicroStrategy Secure Cloud is architected to deliver best-of-breed MicroStrategy software via the cloud, with pre-configured, ready to go servers, coupled with the required supporting infrastructure with metadata databases, relational databases, and big data storage. With MicroStrategy Secure Cloud, customers can launch enterprise analytics environments within minutes and use the full MicroStrategy 10 offering on a subscription basis.

MicroStrategy Analytics, MicroStrategy Mobile, and MicroStrategy Secure Cloud, together with related product and support services, continue to generate the vast majority of our revenue. During 2015, 2014, and 2013, we did not generate significant revenues from Usher.

We previously operated Angel.com, a provider of cloud-based Customer Experience Management (CEM) solutions for Interactive Voice Response (IVR) and contact centers. On March 15, 2013, we completed the sale of our equity interest in Angel.com. As a result of the transaction, we received consideration of approximately \$111.2 million, resulting in a net cash inflow of \$100.7 million after \$10.5 million in transaction costs. The sale of our ownership interest in Angel.com resulted in us recognizing an after-tax gain of approximately \$57.4 million during 2013, which included the cost of terminating all outstanding Angel.com employee stock options prior to the closing of the transaction and other costs associated with the sale. In our Consolidated Statement of Operations, we classified operations of the Angel.com business as Loss from Discontinued Operations, net of tax, because we have no continuing involvement with or cash flows from this business following its divestiture.

**Table of Contents**

The following tables set forth certain operating highlights (in thousands) for the years ended December 31, 2015, 2014, and 2013:

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>			
Product licenses	\$ 119,143	\$ 125,952	\$ 147,879
Subscription services	27,839	22,322	12,246
Total product licenses and subscription services	146,982	148,274	160,125
Product support	281,740	295,703	277,509
Other services	101,147	135,853	138,254
<b>Total revenues</b>	<b>529,869</b>	<b>579,830</b>	<b>575,888</b>
<b>Cost of revenues</b>			
Product licenses	8,118	6,957	6,606
Subscription services	13,051	17,560	15,636
Total product licenses and subscription services	21,169	24,517	22,242
Product support	12,748	14,241	16,617
Other services	67,191	96,452	99,710
<b>Total cost of revenues</b>	<b>101,108</b>	<b>135,210</b>	<b>138,569</b>
<b>Gross profit</b>	<b>428,761</b>	<b>444,620</b>	<b>437,319</b>
<b>Operating expenses</b>			
Sales and marketing	148,522	225,086	215,089
Research and development	65,206	103,355	98,056
General and administrative	80,732	96,343	104,734
Restructuring costs	279	14,732	0
<b>Total operating expenses</b>	<b>294,739</b>	<b>439,516</b>	<b>417,879</b>
<b>Income from continuing operations</b>	<b>\$ 134,022</b>	<b>\$ 5,104</b>	<b>\$ 19,440</b>

The analytics market is highly competitive and our results of operations depend on our ability to market and sell offerings that provide customers with greater value than those offered by our competitors. Within the analytics space we compete with many different vendors, including (1) large software vendors (megavendors), such as IBM (Cognos), SAP (BO), Microsoft (Power BI), and Oracle (OBIEE), that provide one or more products that directly compete with our products; (2) open source analytics vendors such as Open Text (Actuate) and Hitachi (Pentaho); (3) various other analytics software providers, such as Qlik, Tableau Software, TIBCO, Information Builders, and the SAS Institute; (4) pure-play mobile analytics vendors, such as MeLLmo (Roambi), that do not offer an analytics platform, but offer a



mobile user interface that can be used as an extension to existing analytics platforms; and (5) other vendors offering cloud-based offerings, such as GoodData and Birst. Our success depends on the effectiveness with which we can differentiate our product from both the megavendors and other analytics vendors across large, mid-sized, and small opportunities.

Organizations recently have sought, and we expect may continue to seek, to standardize their various analytics applications around a single software platform. This trend presents both opportunities and challenges for our business. It offers us the opportunity to increase the size of transactions with new customers and to expand the size of our analytics installations with existing customers. On the other hand, it presents the challenge that we may not be able to penetrate accounts that a competitor has penetrated or in which a competitor is the incumbent analytics provider.

The market for mobile business apps is rapidly changing, highly competitive, and complex with many competitors and different offerings ranging from fully custom-coded applications to plug-and-play solutions. While organizations vary greatly in their approach to, and pace of adoption of, mobile solutions, they are increasingly accelerating the transition of their businesses onto mobile devices, such as tablets and smartphones. Over the next few years, we expect that organizations will continue to construct their information and systems to take advantage of the efficiencies and cost savings of mobile computing. Ultimately, we expect that the majority of routine business tasks and workflows will become available as mobile-optimized touch-enabled apps.

In addition, there is increased market demand for analysis of a wider variety of data sources, including sensor data, social data, web log data, and other data types. These new data sources are driving massive increases in the volume of data that can potentially be analyzed ( Big Data ), which in turn is accelerating development of new storage technologies like Hadoop and NoSQL databases. The demand for analytics on Big Data represents an opportunity for MicroStrategy, as it opens up new potential applications and use cases for our technology. It also creates a challenge as we will need to continually enhance our technology to support emerging data sources; deliver faster performance necessary to support analysis against large scale data sets; and support analysis of a wider variety of data types, such as unstructured, semi-structured, and streaming data.

**Table of Contents**

We have undertaken a number of initiatives to address these opportunities and challenges, including:

a major simplification of our product packaging structure aimed at delivering the best end-to-end customer and partner experience, making it easier to acquire and deploy the MicroStrategy platform, and delivering free upgrades to premium capabilities for existing customers, empowering customers to realize the full potential of their analytical applications;

release of MicroStrategy 10 Secure Enterprise, which consolidates analytics, mobility and security in a single integrated platform;

improved access to MicroStrategy Analytics through MicroStrategy Secure Cloud, optimally configured to be scalable and elastic, ready to grow with an enterprise's cloud applications, and also built to scale to meet usage spikes from a user's analytics and mobile apps;

enhancement of our ability to support new enterprise-scale requirements for analytics, where we are currently a technology leader, with a focus on supporting more varied database platforms, providing higher performance, and providing greater ability to manage and administer large-scale analytics operations, such as a massively scalable, in-memory analytics service designed to deliver high performance for complex analytical applications that have the largest data sets and highest user concurrency;

extension of our technology to provide greater support for the latest trend in self-service analytics, which is often referred to as governed data discovery or agile analytics, by adding new user interface flows, new visualizations, new exploration features, and new self-service capabilities for the preparation of data;

enhancement of our mobile application platform for creating and deploying analytics applications to the expanding community of mobile device users; and

maintenance of a dedicated performance engineering team and conduct of research and development focused on providing our customers with the highest levels of performance for analytics applications of all sizes and for security solutions.

In the third quarter of 2014, we committed to the 2014 Restructuring Plan to streamline our workforce and spending to better align our cost structure with our business strategy. We implemented substantially all of the plan by the end of the fourth quarter of 2014. See Note 8, Restructuring, to the Consolidated Financial Statements for further detail on the 2014 Restructuring Plan. In addition to the 2014 Restructuring Plan, we have implemented other internal cost-savings initiatives. Our results of operations also reflect the impact of additional cost reductions resulting from employee turnover that has occurred outside of the 2014 Restructuring Plan.

As discussed in Note 12, Share-based Compensation, to the Consolidated Financial Statements, we have outstanding stock options to purchase shares of our class A common stock under our 2013 Stock Incentive Plan (as amended, the 2013 Equity Plan ). Share-based compensation expense (in thousands) from these stock option awards was recognized

in the following operating expense line items in our Consolidated Statements of Operations for the periods indicated:

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Sales and marketing	\$ 2,842	\$ 335	\$ 0
Research and development	1,112	967	346
General and administrative	13,345	10,484	1,732
Total share-based compensation expense	\$ 17,299	\$ 11,786	\$ 2,078

**Table of Contents**

As of December 31, 2015, we estimated that approximately \$47.8 million of additional share-based compensation expense for options granted under the 2013 Equity Plan would have been recognized over a remaining weighted average period of 2.7 years. Included in these amounts is approximately \$6.8 million of total unrecognized share-based compensation expense related to unvested stock options subsequently forfeited in January 2016 as a result of the executive management reorganization described in Note 19, Subsequent Events. Prior to the executive management reorganization, such amount was expected to be recognized over a remaining service period of 1.6 years.

We base our internal operating expense forecasts on expected revenue trends and strategic objectives. Many of our expenses, such as office leases and certain personnel costs, are relatively fixed. Accordingly, any shortfall in revenue may cause significant variation in our operating results. We therefore believe that quarter-to-quarter comparisons of our operating results may not be a good indication of our future performance.

**Non-GAAP Financial Measures**

We are providing a supplemental financial measure for income from continuing operations that excludes the impact of our share-based compensation arrangements and restructuring activities. This financial measure is not a measurement of financial performance under generally accepted accounting principles in the United States ( GAAP ) and, as a result, this financial measure may not be comparable to similarly titled measures of other companies. Management uses this non-GAAP financial measure internally to help understand, manage, and evaluate our business performance and to help make operating decisions. We believe that this non-GAAP financial measure is also useful to investors and analysts in comparing our performance across reporting periods on a consistent basis because it excludes a significant non-cash expense that we believe is not reflective of the Company's general business performance and significant restructuring charges that we believe are not reflective of ongoing operating results. In addition, accounting for share-based compensation arrangements requires significant management judgment and the resulting expense could vary significantly in comparison to other companies. Therefore, we believe the use of this non-GAAP financial measure can also facilitate comparison of our operating results to those of our competitors.

Non-GAAP financial measures are subject to material limitations as they are not in accordance with, or a substitute for, measurements prepared in accordance with GAAP. For example, we expect that share-based compensation expense, which is excluded from our non-GAAP financial measure, will continue to be a significant recurring expense over the coming years and is an important part of the compensation provided to certain employees, officers, and directors. Our non-GAAP financial measure is not meant to be considered in isolation and should be read only in conjunction with our Consolidated Financial Statements, which have been prepared in accordance with GAAP. We rely primarily on such Consolidated Financial Statements to understand, manage, and evaluate our business performance, and use the non-GAAP financial measure only supplementally.

The following is a reconciliation of our non-GAAP financial measure to its most directly comparable GAAP measure (in thousands) for the periods indicated:

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Reconciliation of non-GAAP income from continuing operations:</b>			
Income from continuing operations	\$ 134,022	\$ 5,104	\$ 19,440
Share-based compensation expense	17,299	11,786	2,078

Restructuring costs	279	14,732	0
Non-GAAP income from continuing operations	\$ 151,600	\$ 31,622	\$ 21,518

### Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States.

The preparation of our Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and equity and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates, particularly estimates relating to revenue recognition, allowance for doubtful accounts, valuation of property and equipment, accrued restructuring costs, litigation and contingencies, valuation of net deferred tax assets, share-based compensation, and fair value measurements of our derivative financial instruments have a material impact on our financial statements and are discussed in detail throughout our analysis of the results of operations discussed below. In some cases, changes in accounting estimates are reasonably likely to occur from period to period.

## Table of Contents

In addition to evaluating estimates relating to the items discussed above, we also consider other estimates and judgments, including, but not limited to, software development costs, provision for income taxes, and other contingent liabilities, including liabilities that we deem not probable of assertion. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets, liabilities, and equity that are not readily apparent from other sources. Actual results and outcomes could differ from these estimates and assumptions.

We do not have any material ownership interest in any special purpose or other entities that are not wholly-owned and/or consolidated into our Consolidated Financial Statements. Additionally, we do not have any material related party transactions.

**Revenue Recognition.** We recognize revenue from sales of software licenses to end users upon:

- 1) persuasive evidence of an arrangement, as provided by agreements, contracts, purchase orders or other arrangements, generally executed by both parties;
- 2) existence of a fixed or determinable fee;
- 3) delivery of the software; and
- 4) determination that collection is reasonably assured.

When the fees for software upgrades and enhancements, technical support, consulting, and education are bundled with the license fee, they are unbundled for revenue recognition purposes using vendor specific objective evidence ( VSOE ) of fair value of the elements.

Product support or post contract support ( PCS ) revenue is derived from providing technical software support and software updates and upgrades to customers. PCS revenue is recognized ratably over the term of the contract, which in most cases is one year. Our VSOE for PCS, which includes updates, upgrades, and enhancements, is determined based upon the optional stated renewal fee for PCS in the contract, which is the price the customer is required to pay when PCS is renewed. Additionally, the optional stated renewal fee used to establish VSOE for PCS in a software transaction must be above our minimum substantive VSOE rate for PCS. If a stated renewal rate is considered non-substantive, VSOE of PCS has not been established, and we recognize all revenue under the arrangement ratably over the PCS period. A minimum substantive VSOE rate is determined based upon an analysis of historical sales of PCS. For a renewal rate to be non-substantive, we believe it must be significantly lower than our minimum VSOE rate. We consider a 10% variance below our minimum VSOE rate to be significant. It is rare for us to have an arrangement that includes a renewal rate that is below the minimum VSOE rate.

Revenue from consulting, education, and subscription services is recognized as the services are performed. Our VSOE for services other than PCS is determined based upon an analysis of our historical sales of each element when sold separately from software.

For new offerings of services other than PCS or service offerings that have not had a sufficient history of sales activity, we initially establish VSOE based on the list price as determined by management with the relevant authority.

Each service offering has a single list price in each country where sold.

If VSOE exists for all undelivered elements and there is no such evidence of fair value established for delivered elements, the arrangement fee is first allocated to the elements where evidence of fair value has been established and the residual amount is allocated to the delivered elements. If evidence of fair value for any undelivered element of an arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value exists for undelivered elements or until all elements of the arrangement are delivered, subject to certain limited exceptions.

## **Table of Contents**

If an arrangement includes acceptance criteria, revenue is not recognized until we can objectively demonstrate that the software or service can meet the acceptance criteria or the acceptance period lapses, whichever occurs earlier. If a software license arrangement obligates us to deliver specified future products or upgrades, revenue is recognized when the specified future product or upgrades are delivered or when the obligation to deliver specified future products expires, whichever occurs earlier. If a software license arrangement obligates us to deliver unspecified future products, then revenue is recognized on a subscription basis, ratably over the term of the contract.

License revenue derived from sales to resellers or OEMs who purchase our products for resale is recognized upon sufficient evidence that the products have been sold to the end user, provided all other revenue recognition criteria have been met. Our standard software license and reseller agreements do not include any return rights other than the right to return non-conforming products for repair or replacement under our standard product warranties. During the last three fiscal years, we have not experienced any product returns related to warranty claims.

We generally offer either commercial discounts or referral fees to our channel partners, depending on the nature of services performed. Revenue recognized from transactions with channel partners involved in resale or distribution activities is recorded net of any commercial discounts provided to them. Referral fees paid to channel partners not involved in resale or distribution activities are expensed as cost of revenues and, during the last three fiscal years, were not significant.

Our standard software license agreements do not include any price protection provisions. However, transactions under our General Services Administration Federal Supply Schedule contract must comply with the Price Reductions clause. In addition, certain government agencies have the right to cancel contracts for convenience. During the last three fiscal years, there were no material amounts refunded under the Price Reductions clause and there were no material contracts cancelled for convenience.

Amounts collected prior to satisfying our revenue recognition criteria are included in net deferred revenue and advance payments in the accompanying Consolidated Balance Sheets.

Software revenue recognition requires judgment, including determinations about whether collectability is reasonably assured, the fee is fixed and determinable, a software arrangement includes multiple elements, and if so, whether VSOE exists for those elements. Judgment is also required to assess whether future releases of certain software represent new products or upgrades and enhancements to existing products.

We also generate subscription services revenues primarily from our cloud services offerings. Subscription services revenues include subscription fees from customers for access to the full breadth of MicroStrategy Analytics and MicroStrategy Mobile capabilities, database services, and data integration services. Our standard arrangements with customers generally do not provide the customer with the right to take possession of the software supporting the cloud-based application service at any time. As such, these arrangements are considered service contracts and revenue is recognized ratably over the service period of the contract, following completion of the set-up service. Any related set-up service fees are recognized ratably over the longer of the contract period or the estimated average life of the customer relationship.

Our subscription services are generally offered as stand-alone arrangements or as part of arrangements that include professional services. If deliverables in a multiple-element arrangement have stand-alone value upon delivery, we account for each such deliverable separately. We have concluded that our subscription services and our professional services each have stand-alone value. When we enter into multiple-element arrangements that include subscription services and professional services, the total arrangement consideration is allocated to each of the deliverables based on the relative selling price hierarchy. We determine the relative selling price for each deliverable using VSOE of selling



price, if available, or our best estimate of selling price ( **BESP** ), if **VSOE** is not available. We have determined that third-party evidence of selling price ( **TPE** ) is not a practical alternative due to differences in our services offerings as compared to other companies and the lack of availability of third-party pricing information. For professional services, we have established **VSOE** because a consistent number of standalone sales of this deliverable have been priced within a reasonably narrow range. For subscription services, we have not established **VSOE** because, among other factors, the offering is relatively new and our pricing model continues to evolve. Accordingly, we use **BESP** to determine the relative selling price of our subscription services.

We determine **BESP** by reviewing historical transactions and by considering the service's pricing models and objectives that take into account factors such as gross margin, the size and volume of the transactions, perceived pricing sensitivity, and growth strategies. The determination of **BESP** is made through consultation with, and approval by, our management team, taking into consideration our go-to-market strategy. As our pricing and go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes to the determination of **VSOE** and **BESP**.

## **Table of Contents**

Amounts, upon invoicing, are recorded in accounts receivable and either gross deferred revenue or revenue, depending on whether the applicable revenue recognition criteria have been met.

During 2015, 2014, and 2013, we did not generate significant revenues from Usher.

***Allowance for Doubtful Accounts.*** We have established an allowance for doubtful accounts, which represents our best estimate of probable losses inherent in the accounts receivable balances. We evaluate specific accounts when we become aware that a customer may not be able to meet its financial obligations due to deterioration of its liquidity or financial viability, credit ratings, or bankruptcy. In addition, we periodically adjust this allowance based upon management's review and assessment of the aging of receivables. While actual credit losses have historically been within management's expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates we have in the past. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

***Property and Equipment.*** Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows: three years for computer equipment and purchased software, five years for office equipment and automobiles, and ten years for office furniture and our corporate aircraft, which has an estimated salvage value of 70%. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the term of the lease, whichever is shorter. We periodically evaluate the appropriateness of the estimated useful lives and salvage value of all property and equipment. Any change in the estimated useful life or salvage value is treated as a change in estimate and accounted for prospectively in the period of change.

Expenditures for maintenance and repairs are charged to expense as incurred, except for certain costs related to the aircraft. The costs of normal, recurring, or periodic repairs and maintenance activities related to the aircraft are expensed as incurred. The cost of planned major maintenance activities ( PMMA ) may be treated differently because those activities may involve the acquisition of additional aircraft components or the replacement of existing aircraft components. PMMA are performed periodically based on passage of time and the use of the aircraft. The classification of a maintenance activity as part of PMMA requires judgment and can affect the amount of expense we recognize in any particular period. The cost of each PMMA is expected to be capitalized and amortized over the period until the next scheduled PMMA.

When assets are retired or sold, the capitalized cost and related accumulated depreciation are removed from the property and equipment accounts and any resulting gain or loss is recognized in the results of operations.

Eligible internal-use software development costs are capitalized subsequent to the completion of the preliminary project stage. Such costs include external direct material and service costs, employee payroll, and payroll-related costs. After all substantial testing and deployment is completed and the software is ready for its intended use, capitalization ceases and internal-use software development costs are amortized using the straight-line method over the estimated useful life of the software, generally three years.

We review long-lived assets, including intangible assets, for impairment annually or whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded value of the asset. If an asset is impaired, the asset is written down by the amount by which the carrying value of the asset exceeds the related fair value of the asset.

***Litigation and Contingencies.*** We are subject to various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted.

---

**Table of Contents**

We have contingent liabilities that, in management's judgment, are not probable of assertion. If such unasserted contingent liabilities were to be asserted, or become probable of assertion, we may be required to record significant expenses and liabilities in the period in which these liabilities are asserted or become probable of assertion.

***Income Taxes.*** In determining our net deferred tax assets and valuation allowances, management is required to make judgments and estimates related to projections of domestic and foreign profitability, the timing and extent of the utilization of net operating loss carryforwards, changes in applicable tax laws, transfer pricing methods, and prudent and feasible tax planning strategies. However, judgments and estimates related to our projections and assumptions are inherently uncertain; therefore, actual results could differ materially from our projections, which could impact the carrying value of our net deferred tax assets in future periods.

As a global company with subsidiaries in many countries, we are required to calculate and provide for estimated income tax liabilities for each of the tax jurisdictions in which we operate. This process involves estimating current tax liabilities and exposures in each jurisdiction as well as making judgments regarding the future recoverability of deferred tax assets. Changes in the estimated level of annual pre-tax income, changes in tax laws related to the utilization of net operating losses in various jurisdictions, changes in tax rates, and changes resulting from tax audits can all affect the overall effective income tax rate which, in turn, impacts the overall level of income tax expense and net income. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We consider past and future taxable income and ongoing tax planning strategies in assessing the need for a valuation allowance. If we determine that we would not be able to realize all or part of net deferred tax assets in the future, an adjustment to deferred tax assets would reduce income in the period that such determination was made.

***Share-based Compensation.*** We recognize share-based compensation expense associated with stock option awards on a straight-line basis over the award's requisite service period. The share-based compensation expense is based on the fair value of such awards on the date of grant, as estimated using the Black-Scholes option pricing model. See Note 12, Share-based Compensation, to our Consolidated Financial Statements for further information regarding the assumptions used in the Black-Scholes option pricing model. These assumptions are based on management's best judgment, and changes to these assumptions could materially affect the fair value estimates and amount of share-based compensation expense recognized.

***Fair Value Measurements.*** We measure certain assets and liabilities at fair value on a recurring basis. Fair value is defined as the price that is expected to be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We use a three-level hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques. The three levels of the fair value hierarchy are described below:

- Level 1: Quoted (unadjusted) prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Inputs other than quoted prices that are either directly or indirectly observable, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Inputs that are generally unobservable, supported by little or no market activity, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or

liability.

The categorization of an asset or liability within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation techniques used by us when measuring fair value maximize the use of observable inputs and minimize the use of unobservable inputs.

We also estimate the fair value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, accrued compensation and employee benefits, and accrued restructuring costs. We consider the carrying value of these instruments in our Consolidated Financial Statements to approximate fair value due to their short maturities.

**Table of Contents****Impact of Foreign Currency Exchange Rate Fluctuations on Results of Operations**

We conduct a significant portion of our business in currencies other than the U.S. dollar, the currency in which we report our Consolidated Financial Statements. As currency rates change from quarter to quarter and year over year, our results of operations may be impacted. The table below summarizes the impact (in thousands) of fluctuations in foreign currency exchange rates on certain components of our Consolidated Statements of Operations by showing the increase (decrease) in revenues or expenses, as applicable, from the prior year that resulted from such fluctuations. The term "international" refers to operations outside of the United States and Canada.

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
International product licenses revenues	\$ (8,008)	\$ (1,985)	\$ (1,089)
International subscription services revenues	(408)	67	(3)
International product support revenues	(19,606)	(2,782)	(686)
International other services revenues	(7,357)	(1,078)	(859)
Cost of product support revenues	(543)	27	(146)
Cost of other services revenues	(6,420)	(665)	(109)
Sales and marketing expenses	(9,817)	(1,583)	(1,039)
Research and development expenses	(218)	278	627
General and administrative expenses	(2,458)	(536)	(264)

For example, if there had been no change to foreign currency exchange rates from 2014 to 2015, international product licenses revenues would have been \$57.0 million rather than \$49.0 million for the year ended December 31, 2015. If there had been no change to foreign currency exchange rates from 2014 to 2015, international product support revenues would have been \$129.5 million rather than \$109.9 million for the year ended December 31, 2015. If there had been no change to foreign currency exchange rates from 2014 to 2015, sales and marketing expenses would have been \$158.3 million rather than \$148.5 million for the year ended December 31, 2015.

**Table of Contents****Results of Operations****Comparison of the years ended December 31, 2015, 2014, and 2013****Revenues**

Except as otherwise indicated herein, the term "domestic" refers to operations in the United States and Canada, and the term "international" refers to operations outside of the United States and Canada.

**Product licenses and subscription services revenues.** The following table sets forth product licenses and subscription services revenues (in thousands) and related percentage changes for the periods indicated:

	Years Ended December 31,			% Change	% Change
	2015	2014	2013	in 2015	in 2014
<b>Product Licenses and Subscription Services Revenues:</b>					
<b>Product Licenses</b>					
Domestic	\$ 70,127	\$ 68,836	\$ 87,109	1.9%	-21.0%
International	49,016	57,116	60,770	-14.2%	-6.0%
<b>Total product licenses revenues</b>	<b>119,143</b>	<b>125,952</b>	<b>147,879</b>	<b>-5.4%</b>	<b>-14.8%</b>
<b>Subscription Services</b>					
Domestic	24,332	19,454	10,939	25.1%	77.8%
International	3,507	2,868	1,307	22.3%	119.4%
<b>Total subscription services revenues</b>	<b>27,839</b>	<b>22,322</b>	<b>12,246</b>	<b>24.7%</b>	<b>82.3%</b>
<b>Total product licenses and subscription services revenues</b>	<b>\$ 146,982</b>	<b>\$ 148,274</b>	<b>\$ 160,125</b>	<b>-0.9%</b>	<b>-7.4%</b>

The following table sets forth a summary, grouped by size, of the number of recognized product licenses transactions for the periods indicated:

	Years Ended December 31,		
	2015	2014	2013
<b>Product Licenses Transactions with Recognized Licenses Revenue in the Applicable Period:</b>			
More than \$1.0 million in licenses revenue recognized	15	14	18
Between \$0.5 million and \$1.0 million in licenses revenue recognized	34	29	32
<b>Total</b>	<b>49</b>	<b>43</b>	<b>50</b>

<i>Domestic:</i>			
More than \$1.0 million in licenses revenue recognized	12	11	14
Between \$0.5 million and \$1.0 million in licenses revenue recognized	17	15	21
Total	29	26	35

<i>International:</i>			
More than \$1.0 million in licenses revenue recognized	3	3	4
Between \$0.5 million and \$1.0 million in licenses revenue recognized	17	14	11
Total	20	17	15



**Table of Contents**

The following table sets forth the recognized revenue (in thousands) attributable to product licenses transactions, grouped by size, and related percentage changes for the periods indicated:

	Years Ended December 31,			% Change	% Change
	2015	2014	2013	in 2015	in 2014
<b>Product Licenses Revenue Recognized in the Applicable Period:</b>					
More than \$1.0 million in licenses revenue recognized	\$ 25,462	\$ 21,335	\$ 37,585	19.3%	-43.2%
Between \$0.5 million and \$1.0 million in licenses revenue recognized	23,296	19,755	22,089	17.9%	-10.6%
Less than \$0.5 million in licenses revenue recognized	70,385	84,862	88,205	-17.1%	-3.8%
<b>Total</b>	<b>119,143</b>	<b>125,952</b>	<b>147,879</b>	<b>-5.4%</b>	<b>-14.8%</b>
<b>Domestic:</b>					
More than \$1.0 million in licenses revenue recognized	20,350	16,231	30,710	25.4%	-47.1%
Between \$0.5 million and \$1.0 million in licenses revenue recognized	12,503	10,596	14,505	18.0%	-26.9%
Less than \$0.5 million in licenses revenue recognized	37,274	42,009	41,894	-11.3%	0.3%
<b>Total</b>	<b>70,127</b>	<b>68,836</b>	<b>87,109</b>	<b>1.9%</b>	<b>-21.0%</b>
<b>International:</b>					
More than \$1.0 million in licenses revenue recognized	5,112	5,104	6,875	0.2%	-25.8%
Between \$0.5 million and \$1.0 million in licenses revenue recognized	10,793	9,159	7,584	17.8%	20.8%
Less than \$0.5 million in licenses revenue recognized	33,111	42,853	46,311	-22.7%	-7.5%
<b>Total</b>	<b>\$ 49,016</b>	<b>\$ 57,116</b>	<b>\$ 60,770</b>	<b>-14.2%</b>	<b>-6.0%</b>

Product licenses revenues decreased \$6.8 million and \$21.9 million during 2015 and 2014, respectively, as compared to the prior year. For the years ended December 31, 2015, 2014, and 2013, product licenses transactions with more than \$0.5 million in recognized revenue represented 40.9%, 32.6%, and 40.4%, respectively, of our product licenses revenues. During 2015, our top three product licenses transactions totaled \$7.4 million in recognized revenue, or 6.2% of total product licenses revenues, compared to \$6.4 million and \$14.3 million, or 5.1% and 9.7% of total product licenses revenues, during 2014 and 2013, respectively. We believe that challenges in execution experienced by our sales, marketing, and technology organizations, particularly as the 2014 Restructuring Plan was being implemented, contributed to the decrease in product licenses revenues during 2014.

**Domestic product licenses revenues.** Domestic product licenses revenues increased \$1.3 million during 2015, as compared to the prior year, primarily due to an increase in the number and average deal size of transactions with more than \$1.0 million in recognized revenue, and an increase in the number and average deal size of transactions with recognized revenue between \$0.5 million and \$1.0 million, partially offset by a decrease in the number of transactions with less than \$0.5 million in recognized revenue.

Domestic product licenses revenues decreased \$18.3 million during 2014, as compared to the prior year, primarily due to a decrease in the number and average deal size of transactions with more than \$1.0 million in recognized revenue and a decrease in the number of transactions with recognized revenue between \$0.5 million and \$1.0 million.

***International product licenses revenues.*** International product licenses revenues decreased \$8.1 million during 2015, as compared to the prior year, primarily due to an \$8.0 million negative foreign currency exchange impact and a decrease in the number of transactions with less than \$0.5 million in recognized revenue, partially offset by an increase in the number of transactions with recognized revenue between \$0.5 million and \$1.0 million.

International product licenses revenues decreased \$3.7 million during 2014, as compared to the prior year, primarily due to a \$2.0 million negative foreign currency exchange impact, a decrease in the number of transactions with less than \$0.5 million in recognized revenue, and a decrease in the number of transactions with more than \$1.0 million in recognized revenue, partially offset by an increase in the number of transactions with recognized revenue between \$0.5 million and \$1.0 million.

***Subscription services revenues.*** Subscription services revenues are primarily derived from our cloud services offerings that are recognized on a subscription basis over the service period of the contract. Subscription services revenues increased \$5.5 million and \$10.1 million during 2015 and 2014, respectively, as compared to the prior year, primarily due to an increase in the number of new subscription services customers and an increase in the use of subscription services by existing customers as our cloud services business has continued to grow.

**Table of Contents**

**Product support revenues.** The following table sets forth product support revenues (in thousands) and related percentage changes for the periods indicated:

	Years Ended December 31,			% Change	% Change
	2015	2014	2013	in 2015	in 2014
<b>Product Support Revenues:</b>					
Domestic	\$ 171,832	\$ 171,505	\$ 159,659	0.2%	7.4%
International	109,908	124,198	117,850	-11.5%	5.4%
Total product support revenues	\$ 281,740	\$ 295,703	\$ 277,509	-4.7%	6.6%

Product support revenues are derived from providing technical software support and software updates and upgrades to customers. Product support revenues are recognized ratably over the term of the contract, which is generally one year. Product support revenues decreased \$14.0 million during 2015, as compared to the prior year, primarily due to a \$19.6 million negative foreign currency exchange impact, partially offset by new product and premium support contracts. Product support revenues increased \$18.2 million during 2014, as compared to the prior year, primarily due to an increase in the number of new product and premium support contracts and more timely renewals at quarter-end.

**Other services revenues.** The following table sets forth other services revenues (in thousands) and related percentage changes for the periods indicated:

	Years Ended December 31,			% Change	% Change
	2015	2014	2013	in 2015	in 2014
<b>Other Services Revenues:</b>					
<b>Consulting</b>					
Domestic	\$ 54,159	\$ 73,180	\$ 75,193	-26.0%	-2.7%
International	37,906	48,778	47,037	-22.3%	3.7%
Total consulting revenues	92,065	121,958	122,230	-24.5%	-0.2%
Education	9,082	13,895	16,024	-34.6%	-13.3%
Total other services revenues	\$ 101,147	\$ 135,853	\$ 138,254	-25.5%	-1.7%

**Consulting revenues.** Consulting revenues are derived from helping customers plan and execute the deployment of our software. Consulting revenues decreased during 2015, as compared to the prior year, primarily due to a decrease in billable hours worldwide and a \$6.9 million negative foreign currency exchange impact, partially offset by an increase in the average bill rate. Consulting revenues decreased during 2014, as compared to the prior year, primarily due to a decrease in billable hours with customers in the domestic and Latin American regions, partially offset by an increase in billable hours with customers in the EMEA region, which includes operations in Europe, the Middle East, and Africa.

**Education revenues.** Education revenues are derived from the education and training that we provide to our customers to enhance their ability to fully utilize the features and functionality of our software. These offerings include self-tutorials, custom course development, joint training with customers' internal staff, and standard course offerings, with pricing dependent on the specific offering delivered. Education revenues decreased during 2015, as compared to the prior year, primarily due to lower overall contract values and a decrease in onsite and online course delivery. Education revenues decreased during 2014, as compared to the prior year, primarily due to lower overall contract values, a decrease in private and custom courses delivered, and continued shifting demand from traditional classroom training to virtual training in the domestic, Latin American, and Asia Pacific regions.

**Table of Contents****Costs and Expenses**

**Cost of revenues.** The following table sets forth cost of revenues (in thousands) and related percentage changes for the periods indicated:

	Years Ended December 31,			% Change	% Change
	2015	2014	2013	in 2015	in 2014
<b>Cost of Revenues:</b>					
<b>Product licenses and subscription services:</b>					
Product licenses	\$ 8,118	\$ 6,957	\$ 6,606	16.7%	5.3%
Subscription services	13,051	17,560	15,636	-25.7%	12.3%
<b>Total product licenses and subscription services</b>	<b>21,169</b>	<b>24,517</b>	<b>22,242</b>	<b>-13.7%</b>	<b>10.2%</b>
Product support	12,748	14,241	16,617	-10.5%	-14.3%
<b>Other services:</b>					
Consulting	63,344	90,780	93,661	-30.2%	-3.1%
Education	3,847	5,672	6,049	-32.2%	-6.2%
<b>Total other services</b>	<b>67,191</b>	<b>96,452</b>	<b>99,710</b>	<b>-30.3%</b>	<b>-3.3%</b>
<b>Total cost of revenues</b>	<b>\$ 101,108</b>	<b>\$ 135,210</b>	<b>\$ 138,569</b>	<b>-25.2%</b>	<b>-2.4%</b>

**Cost of product licenses revenues.** Cost of product licenses revenues consists of amortization of capitalized software development costs, referral fees paid to channel partners, the costs of product manuals and media, and royalties paid to third-party software vendors. Capitalized software development costs are generally amortized over a useful life of three years.

Cost of product licenses revenues increased \$1.2 million during 2015, as compared to the prior year, primarily due to a \$3.5 million increase in amortization of capitalized software development costs related to MicroStrategy 10, which was made generally available in June 2015, partially offset by a \$0.9 million decrease in referral fees related to channel partners, a \$0.8 million decrease in amortization of capitalized software development costs related to MicroStrategy 9.3, which became fully amortized in September 2015, a \$0.4 million decrease in amortization of capitalized software development costs related to MicroStrategy 9.2.1, which became fully amortized in June 2014, and a \$0.3 million decrease in amortization of capitalized software development costs related to MicroStrategy 9.2, which became fully amortized in March 2014. We expect to amortize the remaining balance of our products capitalized software development costs as of December 31, 2015 ratably over the applicable remaining amortization periods as follows:

**Capitalized Software Development Costs, Net of Amortization Period as of December 31, (in months)**

**2015**  
**(in thousands)**

MicroStrategy 9.4	\$	1,359	9
MicroStrategy 10		14,496	29
<b>Total capitalized software development costs, net</b>	<b>\$</b>	<b>15,855</b>	

All of the above software form part of MicroStrategy 10.

Cost of product licenses revenues increased \$0.4 million during 2014, as compared to the prior year, primarily due to a \$1.4 million increase in amortization of capitalized software development costs related to the release of MicroStrategy 9.4 in October 2013 and a \$0.6 million increase in referral fees related to channel partners, partially offset by a \$1.3 million decrease in amortization of capitalized software development costs related to MicroStrategy 9.2, which became fully amortized in March 2014, and a \$0.4 million decrease in amortization of capitalized software development costs related to MicroStrategy Mobile, which became fully amortized in June 2013.

**Cost of subscription services revenues.** Cost of subscription services revenues consists of equipment, facility and other related support costs, and personnel and related overhead costs. Cost of subscription services revenues decreased \$4.5 million during 2015, as compared to the prior year, primarily due to a \$3.0 million decrease in equipment, facility, and other related support costs, which included a \$1.5 million decrease related to certain reclassifications of depreciation costs to research and development expenses, a \$1.1 million decrease in compensation and related costs due to a decrease in staffing levels, a \$0.7 million decrease in consulting and advisory costs, and a \$0.2 million decrease in recruiting costs, partially offset by a \$0.4 million increase in third-party hosting service provider fees. Subscription services headcount decreased 35.1% to 37 at December 31, 2015 from 57 at December 31, 2014.

---

**Table of Contents**

Cost of subscription services revenues increased \$1.9 million during 2014, as compared to the prior year, primarily due to a \$3.1 million increase in compensation and related costs due to an increase in staffing levels, partially offset by a \$0.7 million decrease in equipment depreciation and facility and other related support costs and a \$0.6 million decrease in consulting and advisory costs. Subscription services headcount increased 46.2% to 57 at December 31, 2014 from 39 at December 31, 2013.

***Cost of product support revenues.*** Cost of product support revenues consists of product support personnel and related overhead costs. Cost of product support revenues decreased \$1.5 million during 2015, as compared to the prior year, due to a \$1.5 million decrease in compensation and related costs due to a decrease in staffing levels. Product support headcount decreased 5.1% to 131 at December 31, 2015 from 138 at December 31, 2014.

Cost of product support revenues decreased \$2.4 million during 2014, as compared to the prior year, primarily due to a \$1.8 million decrease in compensation and related costs due to a decrease in staffing levels, a \$0.2 million decrease in facility and other related support costs, a \$0.2 million decrease in consulting and advisory costs, and a \$0.1 million decrease in travel and entertainment expenditures. Product support headcount decreased 15.9% to 138 at December 31, 2014 from 164 at December 31, 2013.

***Cost of consulting revenues.*** Cost of consulting revenues consists of personnel and related overhead costs. Cost of consulting revenues decreased \$27.4 million during 2015, as compared to the prior year, due to a \$13.1 million decrease in compensation and related costs due to a decrease in staffing levels, a \$6.7 million decrease in subcontractor costs, a \$5.0 million decrease in travel and entertainment expenditures, a \$2.3 million decrease in facility and other related support costs, and a \$0.3 million decrease in recruiting costs. Included in the above components is an aggregate \$6.2 million favorable foreign currency exchange impact. Consulting headcount decreased 22.2% to 467 at December 31, 2015 from 600 at December 31, 2014.

Cost of consulting revenues decreased \$2.9 million during 2014, as compared to the prior year, primarily due to a \$3.9 million decrease in compensation and related costs due to a decrease in staffing levels, a \$1.3 million decrease in travel and entertainment expenditures, and a \$0.7 million decrease in facility and other related support costs, partially offset by a \$3.2 million increase in subcontractor costs. Consulting headcount decreased 10.3% to 600 at December 31, 2014 from 669 at December 31, 2013.

***Cost of education revenues.*** Cost of education revenues consists of personnel and related overhead costs. Cost of education revenues decreased \$1.8 million during 2015, as compared to the prior year, due to a \$0.7 million decrease in compensation and related costs due to a decrease in average staffing levels, a \$0.5 million decrease in travel and entertainment expenditures, a \$0.4 million decrease in subcontractor costs, and a \$0.2 million decrease in facility and other related support costs. Education headcount increased 16.7% to 28 at December 31, 2015 from 24 at December 31, 2014.

Cost of education revenues decreased \$0.4 million during 2014, as compared to the prior year, primarily due to a \$0.4 million decrease in compensation and related costs due to a decrease in staffing levels and a \$0.2 million decrease in facility and other related support costs, partially offset by a \$0.3 million increase in subcontractor costs. Education headcount decreased 33.3% to 24 at December 31, 2014 from 36 at December 31, 2013.

***Sales and marketing expenses.*** Sales and marketing expenses consists of personnel costs, commissions, office facilities, travel, advertising, public relations programs, and promotional events, such as trade shows, seminars, and technical conferences. The following table sets forth sales and marketing expenses (in thousands) and related percentage changes for the periods indicated:

	<b>Years Ended December 31,</b>			<b>% Change</b>	<b>% Change</b>
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>in 2015</b>	<b>in 2014</b>
Sales and marketing expenses	\$ 148,522	\$ 225,086	\$ 215,089	-34.0%	4.6%



**Table of Contents**

Sales and marketing expenses decreased \$76.6 million during 2015, as compared to the prior year, primarily due to a \$51.5 million decrease in compensation and related costs due to a decrease in staffing levels, a \$10.5 million decrease in marketing and advertising costs, a \$7.9 million decrease in travel and entertainment expenditures, a \$5.1 million decrease in facility and other related support costs, a \$2.1 million decrease in recruiting costs, and a \$1.5 million decrease in consulting and advisory costs, partially offset by a \$2.5 million increase in share-based compensation expense related to the grant of stock options under the 2013 Equity Plan. Included in the above components is an aggregate \$9.8 million favorable foreign currency exchange impact. Sales and marketing headcount decreased 22.5% to 513 at December 31, 2015 from 662 at December 31, 2014.

As a result of the grant of stock options under the 2013 Equity Plan, we expect that share-based compensation expense, a portion of which is recognized as sales and marketing expense, will continue to be a significant recurring expense. As of December 31, 2015, we estimate that approximately \$9.5 million of additional share-based compensation expense will be recognized as sales and marketing expense over a remaining weighted average period of 3.3 years. See Overview and Note 12, Share-based Compensation, to the Consolidated Financial Statements for further information regarding the 2013 Equity Plan and related share-based compensation expense.

Sales and marketing expenses increased \$10.0 million during 2014, as compared to the prior year, primarily due to a \$4.1 million increase in compensation and related costs due to an increase in average staffing levels, a \$2.9 million increase in marketing and advertising costs, a \$1.5 million increase in facility and other related support costs, a \$1.3 million increase in recruiting costs, a \$1.0 million increase due to previously disputed variable compensation, a \$0.7 million increase in consulting and advisory costs, and a \$0.3 million increase in share-based compensation expense related to the grant of stock options under the 2013 Equity Plan, partially offset by a \$1.2 million decrease in variable compensation primarily due to a reduction in accrued bonus expense, resulting from both a reduction in the percentage payout of targeted bonuses and a decrease in staffing levels, and a \$0.4 million decrease in travel and entertainment expenditures. Sales and marketing headcount decreased 19.8% to 662 at December 31, 2014 from 825 at December 31, 2013.

**General and administrative expenses.** General and administrative expenses consists of personnel and related overhead costs, and other costs of our executive, finance, human resources, information systems, and administrative departments, as well as third-party consulting, legal, and other professional fees. The following table sets forth general and administrative expenses (in thousands) and related percentage changes for the periods indicated:

	Years Ended December 31,			% Change	% Change
	2015	2014	2013	in 2015	in 2014
General and administrative expenses	\$ 80,732	\$ 96,343	\$ 104,734	-16.2%	-8.0%

General and administrative expenses decreased \$15.6 million during 2015, as compared to the prior year, primarily due to a \$10.9 million decrease in compensation and related costs due to a decrease in staffing levels, a \$2.2 million decrease in legal, consulting, and other advisory costs, a \$2.2 million decrease in facility and other related support costs, a \$0.9 million decrease in travel and entertainment expenditures, a \$0.8 million decrease in other aircraft-related operating costs, and a \$0.5 million decrease in recruiting costs, partially offset by a \$2.9 million increase in share-based compensation expense related to the grant of stock options under the 2013 Equity Plan. Included in the above components is an aggregate \$2.5 million favorable foreign currency exchange impact. General and administrative headcount decreased 9.9% to 310 at December 31, 2015 from 344 at December 31, 2014. Having substantially implemented the 2014 Restructuring Plan, we do not expect to increase general and administrative headcount significantly in the near term.

As a result of the grant of stock options under the 2013 Equity Plan, we expect that share-based compensation expense, a portion of which is recognized as general and administrative expense, will continue to be a significant recurring expense. As of December 31, 2015, we estimated that approximately \$31.3 million of additional share-based compensation expense would have been recognized as general and administrative expense over a remaining weighted average period of 2.4 years. Included in these amounts is approximately \$6.8 million of total unrecognized share-based compensation expense related to unvested stock options subsequently forfeited in January 2016 as a result of the executive management reorganization described in Note 19, Subsequent Events to the Consolidated Financial Statements. Prior to the executive management reorganization, such amount was expected to be recognized over a remaining service period of 1.6 years. See Overview and Note 12, Share-based Compensation, to the Consolidated Financial Statements for further information regarding the 2013 Equity Plan and related share-based compensation expense.

**Table of Contents**

General and administrative expenses decreased \$8.4 million during 2014, as compared to the prior year, primarily due to a \$9.9 million decrease in variable compensation primarily due to a reduction in accrued bonus expense, resulting from both a reduction in the percentage payout of targeted bonuses and a decrease in staffing levels, and due to the fact that variable compensation in the prior year included additional amounts incurred as a result of the sale of Angel.com, a \$3.9 million decrease in legal, consulting, and other advisory costs, a \$0.8 million decrease in other aircraft-related operating costs, a \$0.8 million decrease in travel and entertainment expenditures, a \$0.6 million decrease in facility and other related support costs, a \$0.6 million decrease in recruiting costs, and a \$0.2 million decrease in compensation and related costs, partially offset by an \$8.8 million increase in share-based compensation expense related to the grant of stock options under the 2013 Equity Plan. General and administrative headcount decreased 27.1% to 344 at December 31, 2014 from 472 at December 31, 2013.

**Research and development expenses.** Research and development expenses consists of the personnel costs for our software engineering personnel, depreciation of equipment, and other related costs. The following table summarizes research and development expenses and amortization of capitalized software development costs (in thousands) and related percentage changes for the periods indicated:

	Years Ended December 31,			% Change	% Change
	2015	2014	2013	in 2015	in 2014
Gross research and development expenses before capitalized software development costs	\$ 74,804	\$ 111,751	\$ 103,493	-33.1%	8.0%
Capitalized software development costs	(9,598)	(8,396)	(5,437)	14.3%	54.4%
<b>Total research and development expenses</b>	<b>\$ 65,206</b>	<b>\$ 103,355</b>	<b>\$ 98,056</b>	<b>-36.9%</b>	<b>5.4%</b>
Amortization of capitalized software development costs included in cost of product licenses revenues	\$ 7,212	\$ 5,222	\$ 5,502	38.1%	-5.1%

Research and development expenses, before capitalization of software development costs, decreased \$36.9 million during 2015, as compared to the prior year, due to a \$27.8 million decrease in compensation and related costs due to a decrease in staffing levels, a \$5.0 million decrease in facility and other related support costs, a \$2.4 million decrease in consulting and advisory costs, a \$0.9 million decrease in travel and entertainment expenditures, and a \$0.8 million decrease in recruiting costs. In 2015, we capitalized \$9.6 million in costs associated with development efforts related to MicroStrategy 10, as compared to \$8.4 million in software development costs that were capitalized in the prior year. Research and development headcount decreased 28.5% to 461 at December 31, 2015 from 645 at December 31, 2014.

As a result of the grant of stock options under the 2013 Equity Plan, we expect that share-based compensation expense, a portion of which is recognized as research and development expense, will continue to be a significant recurring expense. As of December 31, 2015, we estimate that approximately \$7.0 million of additional share-based compensation expense will be recognized as research and development expense over a remaining weighted average period of 3.4 years. See Overview and Note 12, Share-based Compensation, to the Consolidated Financial Statements for further information regarding the 2013 Equity Plan and related share-based compensation expense.

Research and development expenses, before capitalization of software development costs, increased \$8.3 million during 2014, as compared to the prior year, primarily due to an \$11.8 million increase in compensation and related costs due to an increase in average staffing levels, a \$1.2 million increase in recruiting costs, a \$0.6 million increase in share-based compensation expense related to the grant of stock options under the 2013 Equity Plan, and a \$0.4 million increase in facility and other related support costs, partially offset by a \$5.0 million decrease in variable compensation primarily due to a reduction in accrued bonus expense, resulting from both a reduction in the percentage payout of targeted bonuses and a decrease in staffing levels, and a \$0.9 million decrease in consulting and advisory costs. During 2014, we capitalized \$8.4 million in costs associated with development efforts related to MicroStrategy 10, as compared to \$5.4 million in software development costs that were capitalized in the prior year. Research and development headcount decreased 32.3% to 645 at December 31, 2014 from 953 at December 31, 2013.

**Restructuring costs.** In the third quarter of 2014, we adopted the 2014 Restructuring Plan, which included a workforce reduction of 777 employees. Restructuring costs consisted primarily of employee severance and related benefit costs, contract termination costs, and other related costs associated with our restructuring activities. As of December 31, 2014, we had implemented substantially all of the 2014 Restructuring Plan. Total restructuring costs were \$0.3 million for the year ended December 31, 2015, consisting primarily of costs related to the liquidation of certain foreign subsidiaries as part of the 2014 Restructuring Plan. Total restructuring costs were \$14.7 million for the year ended December 31, 2014. See [Overview](#) , [Liquidity and Capital Resources](#) , and Note 8, Restructuring, to the Consolidated Financial Statements for further information regarding the 2014 Restructuring Plan and related restructuring costs by major cost category.

---

**Table of Contents****Other Income (Expense), Net**

Other income (expense), net is comprised primarily of realized and unrealized gains and losses on our foreign currency forward contracts and foreign currency transaction gains and losses. During 2015, other income, net, of \$3.6 million was comprised primarily of \$2.4 million in foreign currency transaction net gains, arising mainly from the revaluation of U.S. dollar denominated cash balances held at international locations, \$0.5 million in net realized and unrealized gains from the settlement of certain foreign currency forward contracts, and a \$0.3 million foreign currency translation gain reclassified from other comprehensive income that resulted from the completion of the liquidation of one of our foreign subsidiaries as part of the 2014 Restructuring Plan. During 2014, other income, net, of \$5.8 million was comprised primarily of \$5.3 million in foreign currency transaction net gains, arising mainly from the revaluation of U.S. dollar denominated cash balances held at international locations, and \$1.6 million in net unrealized gains from outstanding foreign currency forward contracts, offset by \$0.5 million in net realized and unrealized losses from the settlement of certain foreign currency forward contracts, \$0.3 million in net losses on disposal of fixed assets, and \$0.3 million in impairment losses related to software developed for internal use. During 2013, other expense, net, of \$3.2 million was comprised primarily of \$3.3 million in foreign currency transaction net losses, arising mainly from the revaluation of U.S. dollar denominated cash balances held at international locations and \$0.6 million in net realized losses from the settlement of certain foreign currency forward contracts, partially offset by \$0.4 million in proceeds received from litigation settlements.

**Provision for Income Taxes**

During 2015, we recorded a provision for income taxes from continuing operations of \$31.9 million that resulted in an effective tax rate from continuing operations of 23.2%, as compared to a provision for income taxes from continuing operations of \$6.0 million that resulted in an effective tax rate of 54.4% during 2014. The change in the Company's effective tax rate from continuing operations in 2015, as compared to the prior year, was primarily due to a change in the overall income amount for 2015 and a change in the proportion of U.S. versus foreign income.

As of December 31, 2015, we utilized all of our U.S. federal net operating loss ( NOL ) carryforwards, but had foreign NOL carryforwards of \$1.1 million. As of December 31, 2015, foreign NOL carryforwards, other temporary differences and carryforwards, and credits resulted in deferred tax assets, net of valuation allowances and deferred tax liabilities, of \$8.0 million. As of December 31, 2015, we had a valuation allowance of \$2.0 million primarily related to certain foreign tax credit carryforwards that, in our present estimation, more likely than not will not be realized.

If we are unable to sustain profitability in future periods, we may be required to increase the valuation allowance against our deferred tax assets, which could result in a charge that would materially adversely affect net income in the period in which the charge is incurred. We will continue to assess regularly the realizability of deferred tax assets.

Except as discussed below, we intend to indefinitely reinvest our undistributed earnings of all of our foreign subsidiaries. Therefore, the annualized effective tax rate applied to our pre-tax income from continuing operations does not include any provision for U.S. federal and state income taxes on the amount of the undistributed foreign earnings. U.S. federal tax laws, however, require us to include in our U.S. taxable income certain investment income earned outside of the U.S. in excess of certain limits ( Subpart F deemed dividends ). Because Subpart F deemed dividends are already required to be recognized in our U.S. federal income tax return, we regularly repatriate Subpart F deemed dividends to the U.S. and no additional tax is incurred on the distribution. We did not repatriate any Subpart F deemed dividends in 2015 because we did not report any Subpart F income on our 2014 U.S. tax return, but repatriated Subpart F deemed dividends of \$1.3 million and \$1.0 million in 2014 and 2013, respectively, with no additional tax. As of December 31, 2015 and December 31, 2014, the amount of cash and cash equivalents and short-term investments held by U.S. entities was \$219.3 million and \$139.1 million, respectively, and by non- U.S.

entities was \$266.4 million and \$206.4 million, respectively. If the cash and cash equivalents and short-term investments held by non-U.S. entities were to be repatriated to the U.S., we would generate U.S. taxable income to the extent of our undistributed foreign earnings, which amounted to \$252.9 million at December 31, 2015. Although the tax impact of repatriating these earnings is difficult to determine, we would not expect the maximum effective tax rate that would be applicable to such repatriation to exceed the U.S. statutory rate of 35.0%, after considering applicable foreign tax credits.

**Table of Contents**

During 2013, we recorded a benefit from income taxes from continuing operations of \$9.8 million, resulting in an effective tax rate of negative 58.5%. The change in our effective tax rate from continuing operations in 2014, as compared to 2013, was primarily due to the increase in the valuation allowance in 2014 and the release of liability for certain unrecognized tax benefits in 2013.

**Discontinued Operations**

On March 15, 2013, we completed the sale of our equity interest in our Angel.com business and received consideration of approximately \$111.2 million, resulting in a net cash inflow of \$100.7 million after \$10.5 million in transaction costs. The sale resulted in a gain of \$57.4 million, net of tax, during 2013. We reclassified revenues and expenses associated with the Angel.com business to discontinued operations for all periods presented, resulting in a loss from discontinued operations of \$0.6 million, net of tax, during 2013.

**Deferred Revenue and Advance Payments**

Deferred revenue and advance payments represent subscription services, product support, and other services fees that are collected in advance and recognized over the contract service period and product licenses revenues relating to multiple-element software arrangements that include future deliverables.

The following table summarizes deferred revenue and advance payments (in thousands), as of:

	<b>December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Current:</b>			
Deferred product licenses revenue	\$ 13,506	\$ 10,927	\$ 14,538
Deferred subscription services revenue	15,763	16,018	10,923
Deferred product support revenue	158,738	168,833	167,771
Deferred other services revenue	9,149	10,564	17,056
Gross current deferred revenue and advance payments	197,156	206,342	210,288
Less: unpaid deferred revenue	(96,461)	(97,929)	(96,632)
Net current deferred revenue and advance payments	\$ 100,695	\$ 108,413	\$ 113,656
<b>Non-current:</b>			
Deferred product licenses revenue	\$ 5,397	\$ 8,012	\$ 4,401
Deferred subscription services revenue	2,138	750	1,161
Deferred product support revenue	7,607	7,505	5,877
Deferred other services revenue	795	1,047	1,175
Gross non-current deferred revenue and advance payments	15,937	17,314	12,614
Less: unpaid deferred revenue	(6,942)	(6,496)	(3,644)
Net non-current deferred revenue and advance payments	\$ 8,995	\$ 10,818	\$ 8,970

Total current and non-current:			
Deferred product licenses revenue	\$ 18,903	\$ 18,939	\$ 18,939
Deferred subscription services revenue	17,901	16,768	12,084
Deferred product support revenue	166,345	176,338	173,648
Deferred other services revenue	9,944	11,611	18,231
Gross current and non-current deferred revenue and advance payments			
	213,093	223,656	222,902
Less: unpaid deferred revenue	(103,403)	(104,425)	(100,276)
Net current and non-current deferred revenue and advance payments			
	\$ 109,690	\$ 119,231	\$ 122,626

We offset our accounts receivable and deferred revenue for any unpaid items included in deferred revenue and advance payments.

Total gross deferred revenue and advance payments decreased \$10.6 million in 2015, as compared to the prior year, primarily due to the recognition of previously deferred product licenses, product support, and other services revenues and a strengthening of the U.S. dollar, partially offset by an increase in deferred revenue from new subscription services contracts. Total gross deferred revenue and advance payments increased \$0.8 million in 2014, as compared to the prior year, primarily due to the recognition of previously deferred other services revenues, partially offset by an increase in deferred revenue from new subscription services and product support contracts.



---

## **Table of Contents**

We expect to recognize approximately \$197.2 million of deferred revenue and advance payments over the next 12 months. However, the timing and ultimate recognition of our deferred revenue and advance payments depend on our performance of various service obligations, and the amount of deferred revenue and advance payments at any date should not be considered indicative of revenues for any succeeding period.

As of December 31, 2015, we had entered into certain additional agreements that include future minimum commitments by our customers to purchase products, subscription services, product support, or other services through 2020 totaling approximately \$127.5 million. As of December 31, 2014, the future minimum commitments by our customers to purchase products, subscription services, product support, or other services through 2019 totaled approximately \$136.4 million. Revenue relating to such future commitments by our customers is not included in our deferred revenue balances. Revenue relating to such agreements will be recognized during the period in which all revenue recognition criteria are met. The timing and ultimate recognition of any revenue from such customer purchase commitments depend on our customers meeting their future purchase commitments and our meeting our associated performance obligations related to those purchase commitments.

## **Liquidity and Capital Resources**

**Liquidity.** Our principal sources of liquidity are cash and cash equivalents and on-going collection of our accounts receivable. Cash and cash equivalents include holdings in bank demand deposits, money market instruments, and U.S. Treasury securities. We also periodically invest a portion of our excess cash in short-term investments with stated maturity dates between three months and one year from the purchase date.

As of December 31, 2015, total accrued restructuring costs were \$0.1 million and are expected to be paid in the next 12 months. We do not expect future costs associated with implementing the remainder of the 2014 Restructuring Plan, consisting primarily of the liquidation of certain foreign subsidiaries, to be material. In addition to the 2014 Restructuring Plan, we have implemented other internal cost-saving initiatives. Our results of operations also reflect the impact of additional cost reductions resulting from employee turnover that has occurred outside of the 2014 Restructuring Plan.

As of December 31, 2015 and December 31, 2014, the amount of cash and cash equivalents and short-term investments held by U.S. entities was \$219.3 million and \$139.1 million, respectively, and by non-U.S. entities was \$266.4 million and \$206.4 million, respectively. We earn a significant amount of our revenues outside the U.S. and, except for Subpart F deemed dividends, we intend to indefinitely reinvest undistributed earnings of all of our non-U.S. entities. We do not anticipate needing to repatriate the cash or cash equivalents held by non-U.S. entities to the U.S. to finance our U.S. operations. However, if we were to elect to repatriate these amounts, we would generate U.S. taxable income to the extent of our undistributed foreign earnings, which amounted to \$252.9 million at December 31, 2015. Although the tax impact of repatriating these earnings is difficult to determine and our effective tax rate could increase as a result of any such repatriation, we would not expect the maximum effective tax rate that would be applicable to such repatriation to exceed the U.S. statutory rate of 35.0%, after considering applicable foreign tax credits.

We believe that existing cash and cash equivalents and short-term investments held by us and cash and cash equivalents anticipated to be generated by us are sufficient to meet working capital requirements, anticipated capital expenditures, and contractual obligations for at least the next 12 months.

**Table of Contents**

The following table sets forth a summary of our cash flows from continuing operations (in thousands) and related percentage changes for the periods indicated:

	Years Ended December 31,			% Change	% Change
	2015	2014	2013	in 2015	in 2014
Net cash provided by operating activities from continuing operations	\$ 149,699	\$ 14,600	\$ 30,598	925.3%	-52.3%
Net cash used in investing activities from continuing operations	\$ (7,681)	\$ (82,110)	\$ (154,066)	-90.6%	-46.7%
Net cash provided by (used in) financing activities from continuing operations	\$ 9,178	\$ (1,470)	\$ 21,637	-724.4%	-106.8%

**Net Cash Provided by Operating Activities from Continuing Operations.** The primary source of our cash provided by operating activities from continuing operations is cash collections of our accounts receivable from customers following the sales and renewals of our software licenses, technical software support, software updates and upgrades, as well as consulting, education, and subscription services. Our primary uses of cash in operating activities from continuing operations are for personnel related expenditures for software development, personnel related expenditures for providing consulting, education, and subscription services, and for sales and marketing costs, general and administrative costs, and income taxes.

Net cash provided by operating activities from continuing operations was \$149.7 million, \$14.6 million, and \$30.6 million during 2015, 2014, and 2013, respectively. The increase in net cash provided by operating activities from continuing operations during 2015, as compared to the prior year, was due to a \$100.9 million increase in income from continuing operations, net of tax, a \$23.0 million increase from changes in operating assets and liabilities, and an \$11.3 million increase from changes in non-cash items. The decrease in net cash provided by operating activities from continuing operations during 2014, as compared to the prior year, was due to a \$42.3 million decrease from changes in operating assets and liabilities and a \$21.5 million decrease in income from continuing operations, net of tax, partially offset by a \$47.8 million increase from changes in non-cash items. Non-cash items consist of depreciation and amortization, bad debt expense, unrealized net gains and losses on foreign currency forward contracts, the non-cash portion of adjustments to accrued restructuring costs, deferred taxes, release of liabilities for unrecognized tax benefits, share-based compensation expense, excess tax benefits from share-based compensation arrangements, and reclassification of foreign currency translation adjustments that resulted from the completion of the liquidation of certain foreign subsidiaries.

**Net Cash Used in Investing Activities from Continuing Operations.** The changes in net cash used in investing activities from continuing operations primarily relate to purchases and redemptions of short-term investments, expenditures on property and equipment, capitalized software development costs, and changes in restricted cash. Net cash used in investing activities from continuing operations was \$7.7 million, \$82.1 million, and \$154.1 million during 2015, 2014, and 2013, respectively. The decrease in net cash used in investing activities from continuing operations during 2015, as compared to the prior year, was primarily due to a \$170.3 million increase in proceeds from the redemption of U.S. Treasury securities and an \$8.9 million decrease in purchases of property and equipment, partially offset by a \$103.7 million increase in purchases of short-term investments and a \$1.2 million increase in capitalized software development costs. The decrease in net cash used in investing activities from continuing operations during 2014, as compared to the prior year, was primarily due to a \$221.9 million increase in proceeds from the redemption of U.S. Treasury securities, partially offset by a \$145.9 million increase in purchases of short-term investments, a \$3.0 million increase in capitalized software development costs, and a \$1.4 million increase in purchases of property and equipment.

***Net Cash Provided by (Used in) Financing Activities from Continuing Operations.*** The changes in net cash provided by (used in) financing activities from continuing operations primarily relate to the exercise of stock options under the 2013 Equity Plan, excess tax benefits from share-based compensation arrangements, and payments on capital lease and other financing arrangements. Net cash provided by financing activities from continuing operations was \$9.2 million and \$21.6 million during 2015 and 2013, respectively. Net cash used in financing activities from continuing operations was \$1.5 million during 2014. The increase in net cash provided by financing activities from continuing operations during 2015, as compared to the prior year, was due to an \$8.7 million increase in proceeds from the exercise of stock options under the 2013 Equity Plan, a \$1.1 million increase in excess tax benefits from share-based compensation arrangements, and a \$0.9 million decrease in payments on capital lease and other financing arrangements. The decrease in net cash provided by financing activities from continuing operations during 2014, as compared to the prior year, was primarily due to a \$23.6 million decrease in excess tax benefits, generated primarily from stock option exercises in previous years that were recognized in 2013 due to the taxable gain arising from the sale of Angel.com, partially offset by a \$0.5 million increase in proceeds from the exercise of employee stock options.

**Table of Contents**

**Share Repurchases.** Our Board of Directors has authorized us to repurchase up to an aggregate of \$800.0 million of our class A common stock from time to time on the open market through April 29, 2018 (the 2005 Share Repurchase Program), although the program may be suspended or discontinued by us at any time. The timing and amount of any shares repurchased will be determined by management based on its evaluation of market conditions and other factors. The 2005 Share Repurchase Program may be funded using working capital, as well as proceeds from any other funding arrangements that we may enter into in the future. During the years ended December 31, 2015, 2014, and 2013, we did not repurchase any shares of our class A common stock pursuant to the 2005 Share Repurchase Program.

**Contractual Obligations.** As disclosed in Note 10, Commitments and Contingencies, to the Consolidated Financial Statements, we lease office space and computer and other equipment under operating lease agreements. We also lease certain computer and other equipment under capital lease agreements and license certain software under other financing arrangements. Under the lease agreements, in addition to base rent, we are generally responsible for certain taxes, utilities and maintenance costs, and other fees; and several leases include options for renewal or purchase. The following table shows future minimum rent payments under noncancellable operating and capital leases and agreements with initial terms of greater than one year, net of total future minimum rent payments to be received under noncancellable sublease agreements (in thousands), based on the expected due dates of the various installments as of December 31, 2015:

	Payments due by period ended December 31,				
	Total	2016	2017-2018	2019-2020	Thereafter
<i>Contractual Obligations:</i>					
Operating leases	\$ 89,925	\$ 21,115	\$ 36,148	\$ 28,901	\$ 3,761
Capital leases and other financing arrangements	167	124	42	1	0
Total	\$ 90,092	\$ 21,239	\$ 36,190	\$ 28,902	\$ 3,761

**Unrecognized Tax Benefits.** As of December 31, 2015, we had \$3.6 million of total gross unrecognized tax benefits, including interest accrued, recorded in other long-term liabilities. The timing of any payments which could result from these unrecognized tax benefits will depend on a number of factors, and accordingly the amount and period of any future payments cannot be estimated. We do not expect a significant tax payment related to these obligations during 2016.

**Off-Balance Sheet Arrangements.** As of December 31, 2015, we did not have any off-balance sheet arrangements that had or were reasonably likely to have a current or future material impact on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

**Recent Accounting Standards**

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance. The standard's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard creates a five-step model to achieve its core principle: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the

entity satisfies a performance obligation. In addition, entities must disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative disclosures are required about: (1) the entity's contracts with customers, (2) the significant judgments, and changes in judgments, made in applying the guidance to those contracts, and (3) any assets recognized from the costs to obtain or fulfill a contract with a customer. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 to interim and annual periods beginning January 1, 2018. The standard allows entities to apply the standard retrospectively to each prior reporting period presented ( full retrospective adoption ) or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application ( modified retrospective adoption ). The Company is currently evaluating the impact of this guidance on its consolidated financial position, results of operations, and cash flows.

**Table of Contents**

In April 2015, the FASB issued Accounting Standards Update No. 2015-05, *Intangibles – Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement* ( ASU 2015-05 ), which provides guidance on which existing accounting model should be applied to cloud computing arrangements. Under ASU 2015-05, customers will apply the same criteria as vendors to determine whether a cloud computing arrangement contains a software license or is solely a service contract. Specifically, fees paid by a customer in a cloud computing arrangement will be subject to internal-use software guidance if the customer has both the contractual right to take possession of the software at any time without significant penalty and it is feasible for the customer to run the software on its own hardware. Arrangements that do not meet both of the criteria are considered service contracts, and separate accounting for a license will not be permitted. The Company utilizes certain cloud computing arrangements in its daily business operations and adopted ASU 2015-05 on December 31, 2015. The adoption of this guidance did not have a material effect on the Company’s consolidated financial position, results of operations, and cash flows.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ( ASU 2015-17 ), which requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The Company adopted ASU 2015-17 prospectively on December 31, 2015 and presented all deferred tax assets and liabilities as noncurrent on the balance sheet as of December 31, 2015. No prior periods were restated. The adoption of this guidance did not have a material effect on the Company’s consolidated results of operations and cash flows.

---

**Table of Contents**

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The following discussion about our market risk exposures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements.

We are exposed to the impact of both interest rate changes and foreign currency fluctuations.

**Interest Rate Risk.** We face exposure to changes in interest rates primarily relating to our investments. We generally invest our excess cash in short-term, highly-rated, fixed-rate financial instruments. These fixed-rate instruments are subject to interest rate risk and may fall in value if interest rates increase. As of December 31, 2015, we held approximately \$193.3 million of investments in U.S. Treasury securities with stated maturity dates between three months and one year from the purchase date, and we intend to hold these investments until maturity.

**Foreign Currency Risk.** We conduct a significant portion of our business in currencies other than the U.S. dollar, the currency in which we report our Consolidated Financial Statements. International revenues accounted for 38.3%, 41.1%, and 40.4% of our total revenues from continuing operations for the years ended December 31, 2015, 2014, and 2013, respectively. We anticipate that international revenues will continue to account for a significant portion of our total revenues. The functional currency of each of our foreign subsidiaries is the local currency.

Assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at exchange rates in effect as of the applicable balance sheet date and any resulting translation adjustments are included as an adjustment to stockholders equity. Revenues and expenses generated from these subsidiaries are translated at average monthly exchange rates during the quarter in which the transactions occur. Gains and losses from transactions in local currencies are included in net income.

As a result of transacting in multiple currencies and reporting our financial statements in U.S. dollars, our operating results may be adversely impacted by currency exchange rate fluctuations in the future. The impact of foreign currency exchange rate fluctuations on current and comparable periods is described in Item 7, Management Discussion and Analysis of Financial Condition and Results of Operations.

We cannot predict the effect of exchange rate fluctuations upon our future results. We attempt to minimize our foreign currency risk by converting our excess foreign currency held in foreign jurisdictions to U.S. dollar denominated cash and investment accounts. Although we were not party to any foreign currency forward contracts as of December 31, 2015, from time to time we have entered into foreign currency forward contracts to hedge certain risks associated with foreign currency exchange exposure, and may do so again in the future. We manage the use of foreign exchange derivative instruments centrally, and we do not hold or enter into derivative financial instruments for speculative trading purposes. See Note 4, Fair Value Measurements, to the Consolidated Financial Statements for further information on foreign currency forward contracts. We cannot be sure that our hedging techniques will be successful or that our business, results of operations, financial condition, and cash flows will not be materially adversely affected by exchange rate fluctuations.

As of December 31, 2015 and 2014, a 10% adverse change in foreign currency exchange rates versus the U.S. dollar, before applying the impact of our foreign currency forward contracts, would have decreased our aggregate reported cash and cash equivalents and short-term investments by 0.3% and 0.3%, respectively. The exposure to an adverse change in foreign currency rates as of December 31, 2015 remained unchanged, as compared to the prior year, primarily due to a strengthening of the U.S. dollar, offset by an increase of cash balances in our non-U.S. dollar based bank accounts. If average exchange rates during the year ended December 31, 2015 had changed unfavorably by 10%, our revenues for the year ended December 31, 2015 would have decreased by 3.4%. During the year ended December 31, 2015, our revenues were lower by 6.3% as a result of a 14.3% unfavorable change in weighted average

exchange rates, as compared to the prior year.

**Item 8. Financial Statements and Supplementary Data**

Our Consolidated Financial Statements, together with the related notes and the associated Reports of Independent Registered Public Accounting Firms, are set forth on the pages indicated in Item 15.



**Table of Contents**

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this annual report. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their control objectives. Based on the evaluation of our disclosure controls and procedures as of the end of the period covered by this annual report, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Such internal control includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, our management used the criteria set forth in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, our management has determined that, as of December 31, 2015, our internal control over financial reporting is effective based on those criteria.

KPMG LLP has issued an attestation report on our internal control over financial reporting. This report is included in the Reports of Independent Registered Public Accounting Firms in Item 15.

**Table of Contents**

**Remediation of Material Weakness**

The material weakness that was previously disclosed as of December 31, 2014 was remediated as of December 31, 2015. See Item 9A. Controls and Procedures Management's Report on Internal Control over Financial Reporting and Item 9A. Controls and Procedures Planned Remediation of Material Weakness contained in the Company's report on Form 10-K for the fiscal year ended December 31, 2014 and Item 4. Controls and Procedures contained in the Company's subsequent quarterly reports on Form 10-Q during 2015, for disclosure of information about the material weakness that was reported as a result of the Company's annual assessment as of December 31, 2014 and the remediation plan for that material weakness. As disclosed in the quarterly reports on Form 10-Q for the first three quarters of 2015, the Company has monitored the controls necessary to remediate the material weakness, and as of December 31, 2015, such controls were successfully tested and the material weakness was remediated.

**Changes in Internal Control Over Financial Reporting**

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, other than continued monitoring of the controls necessary to remediate the material weakness disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

**Item 9B. Other Information**

None.

**Table of Contents**

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item is incorporated herein by reference to the information provided under the headings Executive Officers of the Company, Election of Directors Nominees, and Corporate Governance and the Board of Directors and its Committees in our definitive proxy statement to be filed with the Securities and Exchange Commission not later than 120 days after the fiscal year ended December 31, 2015 (the 2016 Proxy Statement ).

**Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference to the information provided under the headings Executive and Director Compensation, Compensation Committee Report, and Corporate Governance and the Board of Directors and its Committees Compensation Committee in the 2016 Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is incorporated herein by reference to the information provided under the headings Security Ownership of Certain Beneficial Owners and Management and Executive and Director Compensation in the 2016 Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is incorporated herein by reference to the information provided under the heading Corporate Governance and the Board of Directors and its Committees in the 2016 Proxy Statement.

**Item 14. Principal Accountant Fees and Services**

The information required by this Item is incorporated herein by reference to the information provided under the heading Independent Registered Public Accounting Firm Fees and Services in the 2016 Proxy Statement.

**Table of Contents****PART IV****Item 15. Exhibits, Financial Statement Schedules**

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements

	<b>Page</b>
<u>Reports of Independent Registered Public Accounting Firm</u>	70
Consolidated Financial Statements:	72
<u>Balance Sheets</u>	72
<u>Statements of Operations</u>	73
<u>Statements of Comprehensive Income</u>	74
<u>Statements of Stockholders' Equity</u>	75
<u>Statements of Cash Flows</u>	76
<u>Notes to Consolidated Financial Statements</u>	77

2. Consolidated Financial Statement Schedule

<u>Schedule II - Valuation and Qualifying Accounts</u>	103
--	-----

3. Exhibits

104

(b) Exhibits

We hereby file as part of this Annual Report on Form 10-K the exhibits listed in the Index to Exhibits.

(c) Financial Statement Schedule

The following financial statement schedule is filed herewith:

Schedule II Valuation and Qualifying Accounts

All other items included in an Annual Report on Form 10-K are omitted because they are not applicable or the answers thereto are none.

---

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

MicroStrategy Incorporated:

We have audited MicroStrategy Incorporated's (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 26, 2016, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

McLean, Virginia  
February 26, 2016

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

MicroStrategy Incorporated:

We have audited the accompanying consolidated balance sheets of MicroStrategy Incorporated and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule listed in the index appearing under Item 15(a)(2). These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MicroStrategy Incorporated's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2016, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

McLean, Virginia  
February 26, 2016



**Table of Contents****MICROSTRATEGY INCORPORATED****CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)**

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 292,341	\$ 146,919
Restricted cash	618	661
Short-term investments	193,320	198,547
Accounts receivable, net	68,154	78,633
Prepaid expenses and other current assets	10,881	17,669
Deferred tax assets, net	0	19,936
<b>Total current assets</b>	<b>565,314</b>	<b>462,365</b>
Property and equipment, net	65,664	77,852
Capitalized software development costs, net	15,855	13,469
Deposits and other assets	2,072	3,951
Deferred tax assets, net	7,989	1,160
<b>Total assets</b>	<b>\$ 656,894</b>	<b>\$ 558,797</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 31,840	\$ 35,458
Accrued compensation and employee benefits	40,067	50,588
Accrued restructuring costs	56	2,284
Deferred revenue and advance payments	100,695	108,413
Deferred tax liabilities	0	557
<b>Total current liabilities</b>	<b>172,658</b>	<b>197,300</b>
Deferred revenue and advance payments	8,995	10,818
Other long-term liabilities	19,943	22,679
Deferred tax liabilities	17	3,529
<b>Total liabilities</b>	<b>201,613</b>	<b>234,326</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders Equity</b>		
Preferred stock undesignated, \$0.001 par value; 5,000 shares authorized; no	0	0

shares issued or outstanding		
Class A common stock, \$0.001 par value; 330,000 shares authorized; 15,771 shares issued and 9,366 shares outstanding, and 15,660 shares issued and 9,255 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 2,055 shares issued and outstanding, respectively	2	2
Additional paid-in capital	534,651	506,727
Treasury stock, at cost; 6,405 shares	(475,184)	(475,184)
Accumulated other comprehensive loss	(7,408)	(4,363)
Retained earnings	403,204	297,273
<b>Total stockholders equity</b>	455,281	324,471
<b>Total liabilities and stockholders equity</b>	\$ 656,894	\$ 558,797

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

Table of Contents

**MICROSTRATEGY INCORPORATED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Revenues:</b>			
Product licenses	\$ 119,143	\$ 125,952	\$ 147,879
Subscription services	27,839	22,322	12,246
Total product licenses and subscription services	146,982	148,274	160,125
Product support	281,740	295,703	277,509
Other services	101,147	135,853	138,254
<b>Total revenues</b>	<b>529,869</b>	<b>579,830</b>	<b>575,888</b>
<b>Cost of revenues:</b>			
Product licenses	8,118	6,957	6,606
Subscription services	13,051	17,560	15,636
Total product licenses and subscription services	21,169	24,517	22,242
Product support	12,748	14,241	16,617
Other services	67,191	96,452	99,710
<b>Total cost of revenues</b>	<b>101,108</b>	<b>135,210</b>	<b>138,569</b>
<b>Gross profit</b>	<b>428,761</b>	<b>444,620</b>	<b>437,319</b>
<b>Operating expenses:</b>			
Sales and marketing	148,522	225,086	215,089
Research and development	65,206	103,355	98,056
General and administrative	80,732	96,343	104,734
Restructuring costs	279	14,732	0
<b>Total operating expenses</b>	<b>294,739</b>	<b>439,516</b>	<b>417,879</b>
<b>Income from continuing operations</b>	<b>134,022</b>	<b>5,104</b>	<b>19,440</b>
Interest income, net	284	162	497
Other income (expense), net	3,558	5,785	(3,186)
<b>Income from continuing operations before income taxes</b>	<b>137,864</b>	<b>11,051</b>	<b>16,751</b>

Edgar Filing: MICROSTRATEGY INC - Form 10-K

Provision for (benefit from) income taxes	31,933	6,016	(9,799)
<b>Income from continuing operations, net of tax</b>	<b>105,931</b>	<b>5,035</b>	<b>26,550</b>
<b>Discontinued operations:</b>			
Gain from sale of discontinued operations, net of tax provision (\$0, \$0, and \$37,548, respectively)	0	0	57,377
Loss from discontinued operations, net of tax benefit (\$0, \$0, and \$391, respectively)	0	0	(595)
<b>Discontinued operations, net of tax</b>	<b>0</b>	<b>0</b>	<b>56,782</b>
<b>Net income</b>	<b>\$ 105,931</b>	<b>\$ 5,035</b>	<b>\$ 83,332</b>
<b>Basic earnings per share (1):</b>			
From continuing operations	\$ 9.33	\$ 0.45	\$ 2.35
From discontinued operations	0.00	0.00	5.02
Basic earnings per share	\$ 9.33	\$ 0.45	\$ 7.37
Weighted average shares outstanding used in computing basic earnings per share	11,355	11,301	11,300
<b>Diluted earnings per share (1):</b>			
From continuing operations	\$ 9.18	\$ 0.44	\$ 2.35
From discontinued operations	0.00	0.00	5.02
Diluted earnings per share	\$ 9.18	\$ 0.44	\$ 7.37
Weighted average shares outstanding used in computing diluted earnings per share	11,539	11,356	11,301

(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 COMPREHENSIVE INCOME**

(in thousands)

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Net income</b>	\$ 105,931	\$ 5,035	\$ 83,332
Other comprehensive (loss) income, net of applicable taxes:			
Foreign currency translation adjustment	(3,018)	(3,585)	684
Less: reclassification adjustment for translation gain included in other income	280	0	0
Foreign currency translation adjustment, net	(2,738)	(3,585)	684
Unrealized (loss) gain on short-term investments	(27)	53	0
<b>Total other comprehensive (loss) income</b>	<b>(2,765)</b>	<b>(3,532)</b>	<b>684</b>
<b>Comprehensive income</b>	<b>\$ 103,166</b>	<b>\$ 1,503</b>	<b>\$ 84,016</b>

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

Table of Contents

## MICROSTRATEGY INCORPORATED

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

	Total	Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
<b>Balance at January 1, 2013</b>	\$ 200,311	15,462	\$ 15	2,227	\$ 2	\$ 468,087	(6,405)	\$ (475,184)	\$ (1,515)	\$ 208,906
Net income	83,332	0	0	0	0	0	0	0	0	83,332
Other comprehensive income	684	0	0	0	0	0	0	0	684	0
Issuance of class A common stock under stock option plans	341	16	0	0	0	341	0	0	0	0
Tax effect of stock option exercises	23,580	0	0	0	0	23,580	0	0	0	0
Share-based compensation expense	2,078	0	0	0	0	2,078	0	0	0	0
<b>Balance at December 31, 2013</b>	\$ 310,326	15,478	\$ 15	2,227	\$ 2	\$ 494,086	(6,405)	\$ (475,184)	\$ (831)	\$ 292,238
Net income	5,035	0	0	0	0	0	0	0	0	5,035
Other comprehensive loss	(3,532)	0	0	0	0	0	0	0	(3,532)	0
Conversion of class B to class A common stock	0	172	0	(172)	0	0	0	0	0	0
Issuance of class A common stock	856	10	1	0	0	855	0	0	0	0

under stock option plans										
Share-based compensation expense	11,786	0	0	0	0	11,786	0	0	0	0
<b>Balance at December 31, 2014</b>	<b>\$ 324,471</b>	<b>15,660</b>	<b>\$ 16</b>	<b>2,055</b>	<b>\$ 2</b>	<b>\$ 506,727</b>	<b>(6,405)</b>	<b>\$(475,184)</b>	<b>\$(4,363)</b>	<b>\$ 297,273</b>
Net income	105,931	0	0	0	0	0	0	0	0	105,931
Other comprehensive loss	(2,765)	0	0	0	0	0	0	0	(2,765)	0
Translation gain released to other income	(280)	0	0	0	0	0	0	0	(280)	0
Conversion of class B to class A common stock	0	20	0	(20)	0	0	0	0	0	0
Issuance of class A common stock under stock option plans	9,529	91	0	0	0	9,529	0	0	0	0
Tax effect of stock option exercises	1,096	0	0	0	0	1,096	0	0	0	0
Share-based compensation expense	17,299	0	0	0	0	17,299	0	0	0	0
<b>Balance at December 31, 2015</b>	<b>\$ 455,281</b>	<b>15,771</b>	<b>\$ 16</b>	<b>2,035</b>	<b>\$ 2</b>	<b>\$ 534,651</b>	<b>(6,405)</b>	<b>\$(475,184)</b>	<b>\$(7,408)</b>	<b>\$ 403,204</b>

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

Table of Contents

**MICROSTRATEGY INCORPORATED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Operating activities:</b>			
Net income	\$ 105,931	\$ 5,035	\$ 83,332
Less: Income from discontinued operations, net of tax	0	0	(56,782)
Income from continuing operations, net of tax	105,931	5,035	26,550
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,214	25,295	26,399
Bad debt expense	884	2,969	2,281
Unrealized net loss (gain) on foreign currency forward contracts	1,641	(1,682)	0
Non-cash restructuring costs and adjustments	(136)	199	0
Deferred taxes	9,666	(1,526)	(3,319)
Release of liabilities for unrecognized tax benefits	(899)	0	(14,643)
Share-based compensation expense	17,299	11,786	2,078
Excess tax benefits from share-based compensation arrangements	(1,096)	0	(23,580)
Reclassification of foreign currency translation adjustment from other comprehensive income	(280)	0	0
Changes in operating assets and liabilities:			
Accounts receivable	5,003	(276)	676
Prepaid expenses and other current assets	4,446	(2,713)	(565)
Deposits and other assets	1,631	909	794
Accounts payable and accrued expenses	1,904	(1,701)	(4,786)
Accrued compensation and employee benefits	(8,387)	(26,875)	8,176
Accrued restructuring costs	(1,922)	2,379	0
Deferred revenue and advance payments	(4,176)	731	13,465
Other long-term liabilities	(3,024)	70	(2,928)
Net cash provided by operating activities from continuing operations	149,699	14,600	30,598
Net cash used in operating activities from discontinued operations	0	0	(664)
Net cash provided by operating activities	149,699	14,600	29,934
<b>Investing activities:</b>			
Proceeds from redemption of short-term investments	479,200	308,900	87,000
Purchases of property and equipment	(3,484)	(12,400)	(11,043)
Purchases of short-term investments	(473,779)	(370,050)	(224,103)
Capitalized software development costs	(9,598)	(8,396)	(5,437)
Increase in restricted cash	(20)	(164)	(483)



Net cash used in investing activities from continuing operations	(7,681)	(82,110)	(154,066)
Net cash provided by investing activities from discontinued operations	0	0	99,136
<b>Net cash used in investing activities</b>	<b>(7,681)</b>	<b>(82,110)</b>	<b>(54,930)</b>
<b>Financing activities:</b>			
Proceeds from sale of class A common stock under exercise of employee stock options	9,529	856	341
Excess tax benefits from share-based compensation arrangements	1,096	0	23,580
Payments on capital lease obligations and other financing arrangements	(1,447)	(2,326)	(2,284)
<b>Net cash provided by (used in) financing activities from continuing operations</b>	<b>9,178</b>	<b>(1,470)</b>	<b>21,637</b>
<b>Net cash provided by financing activities from discontinued operations</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net cash provided by (used in) financing activities</b>	<b>9,178</b>	<b>(1,470)</b>	<b>21,637</b>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	<b>(5,774)</b>	<b>(4,272)</b>	<b>(863)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>145,422</b>	<b>(73,252)</b>	<b>(4,222)</b>
<b>Cash and cash equivalents (including held-for-sale of \$0, \$0, and \$1,350, respectively), beginning of year</b>	<b>146,919</b>	<b>220,171</b>	<b>224,393</b>
<b>Cash and cash equivalents (including held-for-sale of \$0, \$0, and \$0, respectively), end of year</b>	<b>\$ 292,341</b>	<b>\$ 146,919</b>	<b>\$ 220,171</b>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the year for interest	\$ 34	\$ 74	\$ 78
Cash paid during the year for income taxes, net of tax refunds	\$ 13,346	\$ 5,529	\$ 12,941
<b>Supplemental disclosure of noncash investing and financing activities:</b>			
Assets acquired under capital lease obligations and other financing arrangements	\$ 14	\$ 70	\$ 3,793

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

**Table of Contents**

**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Organization**

MicroStrategy is a leading worldwide provider of enterprise software platforms. The Company's mission is to provide enterprise analytics, mobility, and security platforms that are flexible, powerful, scalable, and user-friendly.

MicroStrategy 10 consolidates analytics, mobility, and security in a single integrated platform, available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud. MicroStrategy's enterprise platform combines traditional business intelligence functionality with data discovery, mobile analytics, and powerful enterprise security. MicroStrategy 10 builds on proven enterprise capabilities to make sophisticated, high-performance analytics more accessible, easier to use, and faster. MicroStrategy 10 consists of MicroStrategy Analytics, MicroStrategy Mobile, and Usher.

MicroStrategy Analytics empowers large organizations to analyze vast amounts of data and securely distribute actionable business insight throughout an enterprise, while also being able to cater to smaller workgroups and departmental use via MicroStrategy Desktop. MicroStrategy Analytics delivers reports and dashboards, and enables users to conduct ad hoc analysis and share insights anywhere, anytime, via mobile devices or the Web (via MicroStrategy Web). It also combines the agility and productivity of self-service visual data discovery with the security, scalability, and governance features of enterprise-grade business intelligence. MicroStrategy Analytics is available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud. MicroStrategy Desktop is a standalone, on-premise visual data discovery tool designed to enable business users to analyze and understand their data. With MicroStrategy Desktop, smaller departments or individual business users can create stunning data visualizations and dashboards that provide new insight and new understanding in just minutes.

MicroStrategy Mobile enables organizations to rapidly build custom business applications that deliver analytics combined with transactions, multimedia, mapping, and custom workflows to mobile devices. The powerful code-free platform approach is designed to reduce the costs of development and enable organizations to quickly deploy powerful mobile business apps. MicroStrategy Mobile is an easy, fast, and cost-effective vehicle for mobilizing an organization's information systems, including its data warehouses, business intelligence, ERP, CRM, and Web applications that are currently accessible only on the desktop. With MicroStrategy Mobile, businesses can transform their entire workforce into a connected and more productive mobile workforce using information-driven mobile apps that are significantly more robust and secure than their Web-only counterparts. With mobile access to critical corporate data and systems that drive the business, employees can have a virtual office in their hands at all times. MicroStrategy Mobile is available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud.

Usher, MicroStrategy's security solution, is a powerful mobile security platform designed to dematerialize traditional forms of identity verification (such as passwords, tokens, and physical badges) and replace them with a single mobile identity badge that is cryptographically linked to its owner's smartphone and dynamically linked to an enterprise's existing identity repositories. Usher works on standard smartphones running on iOS or the Android platform, and also boasts an Apple Watch integration. By delivering strong, multi-factor authentication that can be extended to nearly every corporate system, Usher's enterprise mobile security solution addresses some of the biggest challenges facing corporations today - including authentication, identity and access management, and resource authorization - while applying industry leading business intelligence and analytics to an enterprise's security infrastructure. Through the use of Bluetooth, QR codes, biometrics, push notifications, time-limited PIN codes, and other authentication methods,

Usher users can log into applications, VPNs, and workstations, unlock doors and other physical gateways, and validate each other's identities. Usher can also be used as a powerful workforce management resource because it is designed to enable managers to gain a new real-time window into the activity of their distributed workforces, while providing powerful interactive features to manage or direct them. With the addition of Usher Professional, administrators can track user activity on a real-time map and communicate with users from the Usher application. Usher is available both as on-premises software and as a hosted service offering in MicroStrategy Secure Cloud.

MicroStrategy Secure Cloud is a platform for organizations that want to harness the power of data through MicroStrategy's enterprise solutions via the cloud. Compared to traditional on-premises approaches, MicroStrategy Secure Cloud is architected to deliver best-of-breed MicroStrategy software via the cloud, with pre-configured, ready to go servers, coupled with the required supporting infrastructure with metadata databases, relational databases, and big data storage. With MicroStrategy Secure Cloud, customers can launch enterprise analytics environments within minutes and use the full MicroStrategy 10 offering on a subscription basis.

---

**Table of Contents**

**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

MicroStrategy Analytics, MicroStrategy Mobile, and MicroStrategy Secure Cloud, together with related product and support services, continue to generate the vast majority of our revenue. During 2015, 2014, and 2013, we did not generate significant revenues from Usher.

**(2) Summary of Significant Accounting Policies**

***(a) Basis of Presentation***

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.

On March 15, 2013, the Company completed the sale of its wholly owned subsidiary, Angel.com Incorporated ( Angel.com ). In the Company's Consolidated Statement of Operations, the Company classified operations of the Angel.com business as Loss from Discontinued Operations, net of tax, because it does not have any continuing involvement with or cash flows from this business following its divestiture. Refer to Note 16, Discontinued Operations, to the Consolidated Financial Statements for further information.

***(b) Use of Estimates***

The preparation of the Consolidated Financial Statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. On an on-going basis, the Company evaluates its estimates, including, but not limited to, those related to revenue recognition, allowance for doubtful accounts, investments, derivative financial instruments, software development costs, fixed assets, intangible assets, variable compensation, restructuring costs, share-based compensation, income taxes, including the carrying value of deferred tax assets, and litigation and contingencies, including liabilities that the Company deems not probable of assertion. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets, liabilities, and equity that are not readily apparent from other sources. Actual results and outcomes could differ from these estimates and assumptions.

***(c) Fair Value Measurements***

The Company measures certain assets and liabilities at fair value on a recurring basis. Fair value is defined as the price that is expected to be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses a three-level hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques. The three levels of the fair value hierarchy are described below:

Level 1:

Quoted (unadjusted) prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

- Level 2: Inputs other than quoted prices that are either directly or indirectly observable, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Inputs that are generally unobservable, supported by little or no market activity, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

---

**Table of Contents**

**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The categorization of an asset or liability within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation techniques used by the Company when measuring fair value maximize the use of observable inputs and minimize the use of unobservable inputs.

The Company also estimates the fair value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, accrued compensation and employee benefits, and accrued restructuring costs. The Company considers the carrying value of these instruments in the financial statements to approximate fair value due to their short maturities.

***(d) Cash and Cash Equivalents and Restricted Cash***

Cash equivalents include bank deposits, money market instruments, U.S. Treasury bills, and equivalent funds. The Company generally considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Restricted cash consists of cash balances restricted in use by contractual obligations with third parties.

***(e) Short-term Investments***

The Company periodically invests a portion of its excess cash in short-term investment instruments. All highly liquid investments with stated maturity dates between three months and one year from the purchase date are classified as short-term investments. The Company determines the appropriate classification of its short-term investments at the time of purchase.

Substantially all of the Company's short-term investments are in U.S. Treasury securities, and the Company has the ability and intent to hold these investments to maturity. Therefore, these short-term investments are classified and accounted for as held-to-maturity and are reported at amortized cost. Each reporting period, the Company determines whether a decline in fair value below the amortized cost for each individual security is other-than-temporary and if it would be required to sell the security before recovery of its amortized cost basis. If an other-than-temporary impairment has occurred, the amount representing the credit loss is recorded in Other income (expense), net, and the amount related to all other factors is recognized in Accumulated other comprehensive income (loss). Upon recognition of an other-than-temporary impairment, the previous amortized cost basis less the other-than-temporary impairment recognized in earnings becomes the new amortized cost basis of the investment.

***(f) Derivative Financial Instruments***

The Company is exposed to certain risks related to its ongoing business operations, including the effect of changes in foreign exchange rates on the Company's monetary assets and liabilities denominated in foreign currency. The Company may use foreign currency forward contracts as part of its strategy to manage these risks, but does not hold or issue derivative instruments for trading purposes or speculation. We execute these instruments with financial institutions that hold an investment grade credit rating. These foreign currency forward contracts do not meet the requirements for hedge accounting and are recorded on the balance sheet as either an asset or liability measured at their fair value as of the reporting date. Changes in the fair value of derivative instruments, as measured using the three-level hierarchy described above, are recognized in Other income (expense), net in the Company's Consolidated

Statements of Operations.

***(g) Property and Equipment***

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows: three years for computer equipment and purchased software, five years for office equipment and automobiles, and ten years for office furniture and owned corporate aircraft, which has an estimated salvage value of 70%. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the term of the lease, whichever is shorter. The Company periodically evaluates the appropriateness of the estimated useful lives and salvage value of all property and equipment. Any change in the estimated useful life or salvage value is treated as a change in estimate and accounted for prospectively in the period of change.

---

**Table of Contents**

**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Expenditures for maintenance and repairs are charged to expense as incurred, except for certain costs related to the aircraft. The costs of normal, recurring, or periodic repairs and maintenance activities related to the aircraft are expensed as incurred. The cost of planned major maintenance activities ( PMMA ) may be treated differently because those activities may involve the acquisition of additional aircraft components or the replacement of existing aircraft components. PMMA are performed periodically based on passage of time and the use of the aircraft. The classification of a maintenance activity as part of PMMA requires judgment and can affect the amount of expense recognized in any particular period. The cost of each PMMA is expected to be capitalized and amortized over the period until the next scheduled PMMA. There have been no PMMA to date.

When assets are retired or sold, the capitalized cost and related accumulated depreciation are removed from the property and equipment accounts and any resulting gain or loss is recognized in the results of operations.

Eligible internal-use software development costs are capitalized subsequent to the completion of the preliminary project stage. Such costs include external direct material and service costs, employee payroll, and payroll-related costs. After all substantial testing and deployment is completed and the software is ready for its intended use, capitalization ceases and internal-use software development costs are amortized using the straight-line method over the estimated useful life of the software, generally three years.

The Company reviews long-lived assets, including intangible assets, for impairment annually or whenever events or changes in business circumstances indicate that the carrying value of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded value of the asset. If an asset is impaired, the asset is written down by the amount by which the carrying value of the asset exceeds the related fair value of the asset.

***(h) Software Development Costs***

Software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. Capitalized software development costs include direct labor costs and fringe benefit costs attributed to programmers, software engineers, and quality control and field certifiers working on products after they reach technological feasibility, but before they are generally available to customers for sale. Technological feasibility is considered to be achieved when a product design and working model of the software product have been completed. Capitalized software development costs are typically amortized over the estimated product life of three years, on a straight-line basis.

Capitalized software development costs, net of accumulated amortization, were \$15.9 million and \$13.5 million as of December 31, 2015 and 2014, respectively. Amortization expense related to software development costs was \$7.2 million, \$5.2 million, and \$5.5 million for the years ended December 31, 2015, 2014, and 2013, respectively, and is included in cost of product licenses and subscription services revenues. During the years ended December 31, 2015, 2014, and 2013, the Company capitalized software development costs of \$9.6 million, \$8.4 million, and \$5.4 million, respectively. The Company analyzes the net realizable value of capitalized software development costs on at least an annual basis and has determined that there is no indication of impairment of the capitalized software development costs as forecasted future sales are adequate to support amortization costs.



***(i) Restructuring Costs***

In 2014, the Company committed to, and substantially implemented, a restructuring plan. In connection with this restructuring plan, the Company has incurred restructuring related costs, including employee severance and related benefit costs, contract termination costs, and other related costs. See Note 8, Restructuring, to the Consolidated Financial Statements for further information on the Company's current restructuring activities.

Employee severance and related benefit costs may include cash payments, outplacement services, continuing health insurance coverage, and other benefits. Where no substantive severance or benefit plan relating to the involuntary termination of employees previously exists, these severance costs are generally considered one-time benefits and recognized at fair value in the period in which the liability is incurred, which is generally when management has approved and communicated to the terminated employees a detailed plan of termination. Severance costs pursuant to ongoing-benefit arrangements, including statutorily mandated termination benefits or termination benefits provided for in existing employment contracts, are recognized when probable and reasonably estimable. Severance costs are reasonably estimated based on the mix of staffing composition and geography. Where termination benefits are offered for a short period of time in exchange for voluntary termination, severance costs are recognized when the employee has irrevocably accepted the offer.

---

**Table of Contents**

**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Contract termination costs may include costs to exit office space under existing operating leases and consist of both costs to terminate the contract before the end of the term and costs that will continue to be incurred under the contract for the remaining term without economic benefit to the Company. Costs to terminate the contract before the term has ended are recognized at fair value when the Company terminates the contract in accordance with the contract terms. Costs that will continue to be incurred under the contract for the remaining term without economic benefit to the Company (for example, remaining lease rental payments and executory costs) are recognized at fair value in the period in which the Company ceases using the right conveyed by the contract (for example, when the leased space ceases to be used). In the case of operating leases, these continuing costs are also adjusted for the effects of any prepaid or deferred items previously recognized under the lease and reduced by estimated sublease rental income.

Other related costs generally include employee relocation costs, office moving costs, and external consulting and advisory fees related to restructuring activities, including the liquidation of certain foreign subsidiaries. Such costs are recognized at fair value in the period in which the costs are incurred.

At each reporting date, the Company evaluates its accrued restructuring costs to determine if the liabilities reported are still appropriate. Any changes to the estimated costs of executing approved restructuring plans are reflected in the Company's Consolidated Statements of Operations.

***(j) Loss Contingencies and Legal Costs***

The Company accrues loss contingencies that are believed to be probable and can be reasonably estimated. As events evolve during the administration and litigation process and additional information becomes known, the Company reassesses its estimates related to loss contingencies. Legal costs are expensed in the period in which the costs are incurred.

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

Deferred revenue and advance payments related to product support, subscription services, and other services result from payments received prior to the performance of services for technical support, subscription, consulting, and education. Deferred revenue and advance payments related to product licenses result primarily from multiple-element arrangements that include future deliverables. Deferred revenue comprises deferred product licenses and subscription services, deferred product support, or other services revenue based on the objective fair value of the multiple elements of the arrangement, except for software licenses for which the Company does not have an objective measure of fair value. The Company offsets its accounts receivable and deferred revenue for any billed and unpaid items included in deferred revenue and advance payments.

As of December 31, 2015, the Company has entered into certain additional agreements that include future minimum commitments by the Company's customers to purchase products, subscription services, product support, or other services through 2020 totaling approximately \$127.5 million. As of December 31, 2014, the future minimum commitments by the Company's customers to purchase products, subscription services, product support, or other services through 2019 totaled approximately \$136.4 million. These future commitments are not included in deferred revenue balances. Revenue relating to such agreements will be recognized during the period in which all revenue

recognition criteria are met. The timing and ultimate recognition of any revenue from such customer purchase commitments depend on the customers meeting their future purchase commitments and the Company's ability to meet its associated performance obligations related to those purchase commitments.

---

**Table of Contents**

**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***(1) Revenue Recognition***

The Company recognizes revenue from sales of software licenses to end users upon:

- 1) persuasive evidence of an arrangement, as provided by agreements, contracts, purchase orders, or other arrangements, generally executed by both parties;
- 2) existence of a fixed or determinable fee;
- 3) delivery of the software; and
- 4) determination that collection is reasonably assured.

When the fees for software upgrades and enhancements, technical support, consulting, and education are bundled with the license fee, they are unbundled for revenue recognition purposes, using vendor specific objective evidence ( VSOE ) of fair value of the elements.

Product support or post-contract support ( PCS ) revenue is derived from providing technical software support and software updates and upgrades to customers. PCS revenue is recognized ratably over the term of the contract, which in most cases is one year. The Company s VSOE for PCS, which includes updates, upgrades, and enhancements, is determined based upon the optional stated renewal fee for PCS in the contract, which is the price the customer is required to pay when PCS is renewed. Additionally, the optional stated renewal fee used to establish VSOE for PCS in a software transaction must be above the Company s minimum substantive VSOE rate for PCS. If a stated renewal rate is considered non-substantive, VSOE of PCS has not been established and the Company recognizes all revenue under the arrangement ratably over the PCS period. A minimum substantive VSOE rate is determined based upon an analysis of historical sales of PCS. For a renewal rate to be non-substantive, the Company believes it must be significantly lower than its minimum VSOE rate. We consider a 10% variance below our minimum VSOE rate to be significant. It is rare for the Company to have an arrangement that includes a renewal rate that is below the minimum VSOE rate.

Revenue from consulting, education, and subscription services is recognized as the services are performed. The Company s VSOE for services other than PCS is determined based upon an analysis of its historical sales of each element when sold separately from software.

For new offerings of services other than PCS or service offerings that have not had a sufficient history of sales activity, the Company initially establishes VSOE based on the list price as determined by management with the relevant authority. Each service offering has a single list price in each country where sold.

If VSOE exists for all undelivered elements and there is no such evidence of fair value established for delivered elements, the arrangement fee is first allocated to the elements where evidence of fair value has been established and the residual amount is allocated to the delivered elements. If evidence of fair value for any undelivered element of an arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value exists for undelivered elements or until all elements of the arrangement are delivered, subject to certain limited exceptions.

If an arrangement includes acceptance criteria, revenue is not recognized until the Company can objectively demonstrate that the software or service can meet the acceptance criteria, or the acceptance period lapses, whichever occurs earlier. If a software license arrangement obligates the Company to deliver specified future products or upgrades, revenue is recognized when the specified future product or upgrades are delivered, or when the obligation to deliver specified future products expires, whichever occurs earlier. If a software license arrangement obligates the Company to deliver unspecified future products, then revenue is recognized on a subscription basis, ratably over the term of the contract.

License revenue derived from sales to resellers or original equipment manufacturers ( OEMs ) who purchase the Company's products for resale is recognized upon sufficient evidence that the products have been sold to the end user, provided all other revenue recognition criteria have been met. The Company's standard software license and reseller agreements do not include any return rights other than the right to return non-conforming products for repair or replacement under standard product warranties. During the last three fiscal years, the Company has not experienced any product returns related to warranty claims.

**Table of Contents**

**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company generally offers either commercial discounts or referral fees to its channel partners, depending on the nature of services performed. Revenue recognized from transactions with channel partners involved in resale or distribution activities is recorded net of any commercial discounts provided to them. Referral fees paid to channel partners not involved in resale or distribution activities are expensed as cost of revenues and, during the last three fiscal years, were not significant.

The Company's standard software license agreements do not include any price protection provisions. However, transactions under the General Services Administration Federal Supply Schedule contract must comply with the Price Reductions clause. In addition, certain government agencies have the right to cancel contracts for convenience. During the last three fiscal years, there were no material amounts refunded under the Price Reductions clause and there were no material contracts cancelled for convenience.

Amounts collected prior to satisfying the above revenue recognition criteria are included in net deferred revenue and advance payments in the accompanying Consolidated Balance Sheets.

Software revenue recognition requires judgment, including determinations about whether collectability is reasonably assured, the fee is fixed and determinable, whether a software arrangement includes multiple elements, and if so, whether VSOE exists for those elements. Judgment is also required to assess whether future releases of certain software represent new products or upgrades and enhancements to existing products.

The Company also generates subscription services revenues primarily from its cloud services offerings. Subscription services revenues include subscription fees from customers for access to the full breadth of MicroStrategy Analytics and MicroStrategy Mobile capabilities, database services, and data integration services. Our standard arrangements with customers generally do not provide the customer with the right to take possession of the software supporting the cloud-based application service at any time. As such, these arrangements are considered service contracts and revenue is recognized ratably over the service period of the contract, following completion of the set-up service. Any related set-up service fees are recognized ratably over the longer of the contract period or the estimated average life of the customer relationship.

The Company's subscription services are generally offered as stand-alone arrangements or as part of arrangements that include professional services. If deliverables in a multiple-element arrangement have stand-alone value upon delivery, the Company accounts for each such deliverable separately. The Company has concluded that its subscription services and its professional services each have stand-alone value. When the Company enters into multiple-element arrangements that include subscription services and professional services, the total arrangement consideration is allocated to each of the deliverables based on the relative selling price hierarchy. The Company determines the relative selling price for each deliverable using VSOE of selling price, if available, or its best estimate of selling price (BESP), if VSOE is not available. The Company has determined that third-party evidence of selling price (TPE) is not a practical alternative due to differences in its services offerings as compared to other companies and the lack of availability of third-party pricing information. For professional services, the Company has established VSOE because a consistent number of standalone sales of this deliverable have been priced within a reasonably narrow range. For subscription services, the Company has not established VSOE because, among other factors, the offering is relatively new and our pricing model continues to evolve. Accordingly, the Company uses BESP to determine the relative

selling price of its subscription services.

The Company determines BESP by reviewing historical transactions and by considering its pricing models and objectives that take into account factors such as gross margin, the size and volume of the transactions, perceived pricing sensitivity, and growth strategies. The determination of BESP is made through consultation with, and approval by, the Company's management team, taking into consideration the go-to-market strategy. As the Company's pricing and go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes to the determination of VSOE and BESP.

---

**Table of Contents**

**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Amounts, upon invoicing, are recorded in accounts receivable and either gross deferred revenue or revenue, depending on whether the applicable revenue recognition criteria have been met.

During 2015, 2014, and 2013, the Company did not generate significant revenues from Usher.

***(m) Advertising Costs***

Advertising costs include production costs, which are expensed the first time the advertisement takes place, and media placement costs, which are expensed in the month the advertising appears. Total advertising costs were \$0.5 million, \$3.0 million, and \$1.9 million for the years ended December 31, 2015, 2014, and 2013, respectively. As of December 31, 2015 and 2014, the Company had no prepaid advertising costs.

***(n) Share-based Compensation***

The Company maintains its 2013 Stock Incentive Plan (as amended, the 2013 Equity Plan ), under which the Company's employees, officers, directors, and other eligible participants may be awarded various types of share-based compensation, including options to purchase shares of the Company's class A common stock. The Company recognizes share-based compensation expense associated with such stock option awards on a straight-line basis over the award's requisite service period (generally, the vesting period). The share-based compensation expense is based on the fair value of such awards on the date of grant, as estimated using the Black-Scholes option pricing model. See Note 12, Share-based Compensation, to the Consolidated Financial Statements for further information regarding the Company's 2013 Equity Plan, related share-based compensation expense, and assumptions used in the Black-Scholes option pricing model.

***(o) Income Taxes***

The Company is subject to federal, state, and local income taxes in the United States and many foreign countries. Deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which the taxes become payable. For uncertain income tax positions, the Company uses a more-likely-than-not recognition threshold based on the technical merits of the income tax position taken. Income tax positions that meet the more-likely-than-not recognition threshold are measured in order to determine the tax benefit recognized in the financial statements. The Company recognizes accrued interest related to unrecognized tax benefits as part of income tax expense. Penalties, if incurred, are recognized as a component of income tax expense.

The Company provides a valuation allowance to reduce deferred tax assets to their estimated realizable value, when appropriate.

***(p) Basic and Diluted Earnings Per Share***

Basic earnings per share is determined by dividing the net income attributable to common stockholders by the weighted average number of common shares and participating securities outstanding during the period. Participating securities are included in the basic earnings per share calculation when dilutive. Diluted earnings per share is



determined by dividing the net income attributable to common stockholders by the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares are included in the diluted earnings per share calculation when dilutive. Potential common shares consisting of common stock issuable upon exercise of outstanding employee stock options and warrants are computed using the treasury stock method. Potential common shares also consist of common stock issuable upon the conversion of preferred stock.

The Company has two classes of common stock: class A common stock and class B common stock. Holders of class A common stock generally have the same rights, including rights to dividends, as holders of class B common stock, except that holders of class A common stock have one vote per share while holders of class B common stock have ten votes per share. Each share of class B common stock is convertible at any time, at the option of the holder, into one share of class A common stock. As such, basic and fully diluted earnings per share for class A and class B common stock are the same. The Company has never declared or paid any cash dividends on either class A or class B common stock. As of December 31, 2015 and 2014, there were no shares of preferred stock outstanding.

---

**Table of Contents**

**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***(q) Foreign Currency Translation***

The functional currency of the Company's international operations is the local currency. Accordingly, all assets and liabilities of international subsidiaries are translated using exchange rates in effect at the end of the period and revenue and expenses are translated using weighted average exchange rates for the period. The related translation adjustments are reported in accumulated other comprehensive income (loss) in stockholders' equity. In general, upon complete or substantially complete liquidation of an investment in an international subsidiary, the amount of accumulated translation adjustments attributable to that subsidiary is reclassified from stockholders' equity to the statement of operations. Transaction gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved are included in the results of operations.

In 2015, upon completing the liquidation of one of our international subsidiaries, a \$0.3 million foreign currency translation gain was reclassified from Accumulated other comprehensive loss in the accompanying Consolidated Balance Sheets to Other income (expense), net in the accompanying Consolidated Statements of Operations. No reclassifications were recorded in 2014 or 2013. As of December 31, 2015, 2014, and 2013, the cumulative foreign currency translation balances were \$(7.4) million, \$(4.4) million, and \$(0.8) million, respectively. Since the Company intends to indefinitely reinvest its undistributed earnings of all of its subsidiaries, no taxes were recognized on the temporary differences resulting from foreign currency translation adjustments for the years ended December 31, 2015, 2014, and 2013.

Transaction gains and losses arising from transactions denominated in foreign currencies resulted in net gains of \$2.4 and \$5.3 million in 2015 and 2014, respectively, and net losses of \$3.3 million in 2013, and are included in Other income (expense), net in the accompanying Consolidated Statements of Operations.

***(r) Concentrations of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, short-term investments, foreign currency forward contracts, and accounts receivable. The Company places its cash equivalents and enters into foreign currency forward contracts with high credit-quality financial institutions and invests its excess cash primarily in short-term investments. The Company has established guidelines relative to credit ratings and maturities that seek to maintain safety and liquidity.

The Company sells products and services to various companies across several industries throughout the world in the ordinary course of business. The Company routinely assesses the financial strength of its customers and maintains allowances for anticipated losses. As of December 31, 2015 and 2014, no individual customer accounted for 10% or more of net accounts receivable and for the years ended December 31, 2015, 2014, and 2013, no individual customer accounted for 10% or more of revenue.

**(3) Recent Accounting Standards**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ( ASU 2014-09 ), which supersedes nearly all existing revenue

recognition guidance. The standard's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard creates a five-step model to achieve its core principle: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. In addition, entities must disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative disclosures are required about: (1) the entity's contracts with customers, (2) the significant judgments, and changes in judgments, made in applying the guidance to those contracts, and (3) any assets recognized from the costs to obtain or fulfill a contract with a customer. In August 2015, the FASB issued ASU 2015-14,

**Table of Contents****MICROSTRATEGY INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 to interim and annual periods beginning January 1, 2018. The standard allows entities to apply the standard retrospectively to each prior reporting period presented ( full retrospective adoption ) or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application ( modified retrospective adoption ). The Company is currently evaluating the impact of this guidance on its consolidated financial position, results of operations, and cash flows.

In April 2015, the FASB issued Accounting Standards Update No. 2015-05, *Intangibles – Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement* ( ASU 2015-05 ), which provides guidance on which existing accounting model should be applied to cloud computing arrangements. Under ASU 2015-05, customers will apply the same criteria as vendors to determine whether a cloud computing arrangement contains a software license or is solely a service contract. Specifically, fees paid by a customer in a cloud computing arrangement will be subject to internal-use software guidance if the customer has both the contractual right to take possession of the software at any time without significant penalty and it is feasible for the customer to run the software on its own hardware. Arrangements that do not meet both of the criteria are considered service contracts, and separate accounting for a license will not be permitted. The Company utilizes certain cloud computing arrangements in its daily business operations and adopted ASU 2015-05 on December 31, 2015. The adoption of this guidance did not have a material effect on the Company’s consolidated financial position, results of operations, or cash flows.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ( ASU 2015-17 ), which requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The Company adopted ASU 2015-17 prospectively on December 31, 2015 and presented all deferred tax assets and liabilities as noncurrent on the balance sheet as of December 31, 2015. No prior periods were restated. The adoption of this guidance did not have a material effect on the Company’s consolidated results of operations and cash flows.

**(4) Fair Value Measurements**

As of December 31, 2015, there were no financial assets or liabilities measured at fair value on a recurring basis. As of December 31, 2014, financial assets and liabilities measured at fair value on a recurring basis, by level within the fair value hierarchy, consisted of the following (in thousands), as of:

Line Item	December 31, 2014			
	Fair Value Measurements			
	Using Input Types			
	Level 1	Level 2	Level 3	Total
<b>Non-hedging derivative assets:</b>				
Prepaid expenses and other current assets	\$ 0	\$ 1,647	\$ 0	\$ 1,647

Foreign currency forward contracts

**Non-hedging derivative liabilities:**

Foreign currency forward contracts

Accounts payable and accrued expenses      \$0    \$ 6    \$ 0    \$ 6

The fair value of our foreign currency forward contracts is determined using Level 2 observable market inputs to extrapolate forward points to be added to or subtracted from the closing market spot rate on the reporting date, and then discounted to present value.

Table of Contents**MICROSTRATEGY INCORPORATED**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in the fair value of our foreign currency forward contracts during 2015, 2014, and 2013 were as follows (in thousands):

	Location	Years Ended December 31,		
		2015	2014	2013
<b>Non-hedging derivative instruments:</b>				
Unrealized (loss) gain on foreign currency forward contracts	Other income (expense), net	\$ (1,641)	\$ 1,682	\$ (41)
Realized gain (loss) on foreign currency forward contracts	Other income (expense), net	\$ 2,129	\$ (562)	\$ (629)

The unrealized (loss) gain on foreign currency forward contracts line item in the above table includes both the unrealized fair value gains and losses on outstanding foreign currency forward contracts and the reversal of previous period unrealized gains and losses upon the settlement of foreign currency forward contracts. There were no foreign currency forward contracts outstanding as of December 31, 2015. There were no transfers among the levels within the fair value hierarchy during the years ended December 31, 2015, 2014, and 2013. As of December 31, 2015 and December 31, 2014, the Company had no assets or liabilities that were required to be measured at fair value on a non-recurring basis.

**(5) Short-term Investments**

The Company periodically invests a portion of its excess cash in short-term investment instruments. Substantially all of the Company's short-term investments are in U.S. Treasury securities, and the Company has the ability and intent to hold these investments to maturity. The stated maturity dates of these investments are between three months and one year from the purchase date. These held-to-maturity investments are recorded at amortized cost and included within Short-term investments on the accompanying Consolidated Balance Sheets. The fair value of held-to-maturity investments in U.S. Treasury securities is determined based on quoted market prices in active markets for identical securities (Level 1 inputs).

The amortized cost, carrying value, and fair value of held-to-maturity investments at December 31, 2015 were \$193.3 million, \$193.3 million, and \$193.2 million, respectively. The amortized cost, carrying value, and fair value of held-to-maturity investments at December 31, 2014 were \$198.5 million, \$198.5 million, and \$198.5 million, respectively. The gross unrecognized holding gains and losses were not material for 2015, 2014, or 2013. No other-than-temporary impairments related to these investments have been recognized in accumulated other comprehensive loss as of December 31, 2015 and December 31, 2014. As of December 31, 2015 and December 31, 2014, the Company's available-for-sale investments were not material.

Table of Contents**MICROSTRATEGY INCORPORATED**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**(6) Accounts Receivable**

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

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
Billed and billable	\$ 175,382	\$ 187,470
Less: unpaid deferred revenue	(103,403)	(104,425)
Accounts receivable, gross	71,979	83,045
Less: allowance for doubtful accounts	(3,825)	(4,412)
Accounts receivable, net	\$ 68,154	\$ 78,633

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

The Company maintains an allowance for doubtful accounts which represents its best estimate of probable losses inherent in the accounts receivable balances. The Company evaluates specific accounts when it becomes aware that a customer may not be able to meet its financial obligations due to deterioration of its liquidity or financial viability, credit ratings, or bankruptcy. In addition, the Company periodically adjusts this allowance based upon its review and assessment of the aging of receivables.

**(7) Property and Equipment**

Property and equipment (in thousands) consisted of the following, as of:

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
Transportation equipment	\$ 48,879	\$ 48,906
Computer equipment and purchased software	64,615	72,602
Furniture and equipment	11,649	11,477
Leasehold improvements	28,211	28,500
Internally developed software	9,560	9,408
Property and equipment, gross	162,914	170,893
Less: accumulated depreciation and amortization	(97,250)	(93,041)

Property and equipment, net	\$ 65,664	\$ 77,852
-----------------------------	-----------	-----------

Included in transportation equipment is the Company's owned corporate aircraft, including capitalizable costs related to the repairs to the aircraft, and aircraft-related equipment. As of December 31, 2015, the net asset value of the aircraft and aircraft-related equipment was \$40.0 million, net of \$8.6 million of accumulated depreciation. As of December 31, 2014, the net asset value of the aircraft and aircraft-related equipment was \$41.5 million, net of \$7.1 million of accumulated depreciation.

Included in computer equipment at December 31, 2015 and December 31, 2014 is \$2.4 million and \$2.9 million, respectively, acquired under capital lease arrangements. At December 31, 2015 and December 31, 2014, accumulated amortization relating to computer equipment under capital lease arrangements totaled \$2.3 million and \$2.5 million, respectively.

Depreciation and amortization expense related to property and equipment, including assets under capital leases, was \$14.0 million, \$20.1 million, and \$21.0 million for the years ended December 31, 2015, 2014, and 2013, respectively.



**Table of Contents****MICROSTRATEGY INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(8) Restructuring**

In September 2014, the Company committed to a restructuring plan to streamline its workforce and spending to better align its cost structure with its business strategy, including reducing the Company's workforce by 777 employees, comprised of 217 employees in North America, 400 employees in Asia Pacific, 141 employees in Europe, the Middle East, and Africa, and 19 employees in Latin America. As of December 31, 2014, the Company had implemented substantially all of the 2014 Restructuring Plan. The Company does not expect future costs associated with implementing the remainder of the 2014 Restructuring Plan, consisting primarily of the liquidation of certain foreign subsidiaries, to be material.

Costs associated with the 2014 Restructuring Plan include employee severance and related benefit costs (including outplacement services and continuing health insurance coverage), contract termination costs (including operating lease terminations for certain office space at the Company's corporate headquarters and other international locations), and other charges (including external consulting and advisory fees related to implementing the restructuring plan). The following table summarizes the major types of costs associated with the 2014 Restructuring Plan (in thousands) for the years ended December 31, 2015 and 2014, total costs incurred through December 31, 2015, and total costs expected:

	Years Ended December 31, Cumulative Costs			
	2015	2014	Incurred To Date	Total Expected Plan Costs
Severance and related employee benefits	\$ 0	\$ 13,162	\$ 13,162	\$ 13,162
Contract termination costs	0	1,159	1,159	1,159
Other costs	279	411	690	720
Total restructuring costs	\$ 279	\$ 14,732	\$ 15,011	\$ 15,041

The total restructuring costs above are reported as Restructuring costs under Operating expenses in the Company's Consolidated Statements of Operations.

Restructuring-related liabilities are reported as Accrued restructuring costs in the Company's Consolidated Balance Sheets. The following table presents a summary of changes in the restructuring-related liabilities (in thousands) for the years ended December 31, 2015 and 2014, respectively:

	Balance as of January 1, 2015	Costs Incurred	Cash Payments	Non-cash Settlements	Adjustments and Other	Balance as of December 31, 2015
Current:						

Edgar Filing: MICROSTRATEGY INC - Form 10-K

Severance and related employee benefits	\$ 2,215	\$ 0	\$ (1,885)	\$ 0	\$ (298)	\$ 32
Contract termination costs	0	0	0	0	0	0
Other costs	69	279	(316)	0	(8)	24
<b>Total current accrued restructuring costs</b>	<b>\$ 2,284</b>	<b>\$ 279</b>	<b>\$ (2,201)</b>	<b>\$ 0</b>	<b>\$ (306)</b>	<b>\$ 56</b>

	<b>Balance as of January 1, 2014</b>	<b>Costs Incurred</b>	<b>Cash Payments</b>	<b>Non-cash Settlements</b>	<b>Adjustments and Other</b>	<b>Balance as of December 31, 2014</b>
<b>Current:</b>						
Severance and related employee benefits	\$ 0	\$ 13,162	\$ (10,746)	\$ 0	\$ (201)	\$ 2,215
Contract termination costs	0	1,159	(960)	(441)	242	0
Other costs	0	411	(302)	0	(40)	69
<b>Total current accrued restructuring costs</b>	<b>\$ 0</b>	<b>\$ 14,732</b>	<b>\$ (12,008)</b>	<b>\$ (441)</b>	<b>\$ 1</b>	<b>\$ 2,284</b>

Table of Contents**MICROSTRATEGY INCORPORATED**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Current:</b>		
Deferred product licenses revenue	\$ 13,506	\$ 10,927
Deferred subscription services revenue	15,763	16,018
Deferred product support revenue	158,738	168,833
Deferred other services revenue	9,149	10,564
Gross current deferred revenue and advance payments	197,156	206,342
Less: unpaid deferred revenue	(96,461)	(97,929)
Net current deferred revenue and advance payments	\$ 100,695	\$ 108,413
<b>Non-current:</b>		
Deferred product licenses revenue	\$ 5,397	\$ 8,012
Deferred subscription services revenue	2,138	750
Deferred product support revenue	7,607	7,505
Deferred other services revenue	795	1,047
Gross non-current deferred revenue and advance payments	15,937	17,314
Less: unpaid deferred revenue	(6,942)	(6,496)
Net non-current deferred revenue and advance payments	\$ 8,995	\$ 10,818

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

**(10) Commitments and Contingencies****(a) Commitments**

From time to time, the Company enters into certain types of contracts that require it to indemnify parties against third-party claims. These contracts primarily relate to agreements under which the Company has agreed to indemnify customers and partners for third-party claims arising from intellectual property infringement. The conditions of these obligations vary. Thus, the overall maximum amount of the Company's indemnification obligations cannot be

reasonably estimated. Historically, the Company has not been obligated to make significant payments for these obligations and does not currently expect to incur any material obligations in the future. Accordingly, the Company has not recorded an indemnification liability on its balance sheets as of December 31, 2015 or December 31, 2014.

The Company leases office space and computer and other equipment under operating lease agreements. It also leases certain computer and other equipment under capital lease agreements and licenses certain software under other financing arrangements. Under the lease agreements, in addition to base rent, the Company is generally responsible for certain taxes, utilities and maintenance costs, and other fees; and several leases include options for renewal or purchase. As of December 31, 2014, the Company was leasing approximately 233,000 square feet of office space at a location in Northern Virginia that began serving as its corporate headquarters in October 2010. The Company gave written notice in August 2014 of its intent to terminate the lease with respect to 19,000 square feet of this office space, effective February 2015, as part of the 2014 Restructuring Plan. The Company never used the terminated lease space and it remained vacant until it was terminated in February 2015. As of December 31, 2015, we leased approximately 214,000 square feet of office space at our corporate headquarters. The term of the amended lease expires in December 2020.

Table of Contents**MICROSTRATEGY INCORPORATED**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2015 and December 31, 2014, deferred rent of \$15.7 million and \$18.9 million, respectively, is included in other long-term liabilities and \$3.3 million and \$3.0 million, respectively, is included in current accrued expenses.

The following table shows future minimum rent payments under noncancellable operating and capital leases and agreements with initial terms of greater than one year, net of total future minimum rent payments to be received under noncancellable sublease agreements (in thousands), based on the expected due dates of the various installments as of December 31, 2015:

<b>Year</b>	<b>Operating Leases Amount</b>	<b>Capital Leases and Other Financing Amount</b>
2016	\$ 21,115	\$ 124
2017	18,530	21
2018	17,618	21
2019	16,471	1
2020	12,430	0
Thereafter	3,761	0
	<b>\$ 89,925</b>	<b>\$ 167</b>

Total rental expenses under operating lease agreements for the years ended December 31, 2015, 2014, and 2013 were \$22.6 million, \$30.4 million, and \$28.3 million, respectively.

**(b) Contingencies**

In December 2011, DataTern, Inc. ( DataTern ) filed a complaint for patent infringement against the Company in the United States District Court for the District of Massachusetts (the District Court ). The complaint alleged that the Company infringes U.S. Patent No. 6,101,502 (the 502 Patent ), allegedly owned by DataTern, by making, selling, or offering for sale several of the Company's products and services including MicroStrategy 9 , MicroStrategy Intelligence Server, MicroStrategy Business Intelligence Platform , MicroStrategy Cloud Personal, and other MicroStrategy applications for creating or using data mining, dashboards, business analytics, data storage and warehousing, and Web hosting support. The complaint accused the Company of willful infringement and sought an unspecified amount of damages, an award of attorneys' fees, and preliminary and permanent injunctive relief. In light of a judgment in a separate action involving DataTern in another jurisdiction, in February 2013, MicroStrategy and DataTern filed motions for summary judgment of non-infringement and the District Court entered summary judgment against DataTern. In March 2013, DataTern filed a notice of appeal with the United States Court of Appeals for the Federal Circuit (the Federal Circuit ). In December 2014, the Federal Circuit issued an opinion vacating the District Court's summary judgment, stating that the claim construction on which the summary judgment was based was incorrect. In January 2015, the Federal Circuit ordered that the case be remanded for further proceedings, and in February 2015, the

Company filed motions for summary judgment in the District Court on grounds of non-infringement and invalidity. On September 4, 2015, the District Court denied the Company's motions for summary judgment. The Company has received indemnification requests from certain of its channel partners and customers who were sued by DataTern in the District Court in lawsuits alleging infringement of the 502 Patent. The outcome of these matters is not presently determinable, and the Company cannot make a reasonable estimate of the possible loss or range of loss with respect to these matters at this time. Accordingly, no estimated liability for these matters has been accrued in the accompanying Consolidated Financial Statements.

The Company is also involved in various other legal proceedings arising in the normal course of business. Although the outcomes of these other legal proceedings are inherently difficult to predict, management does not expect the resolution of these other legal proceedings to have a material adverse effect on its financial position, results of operations, or cash flows.

The Company has contingent liabilities that, in management's judgment, are not probable of assertion. If such unasserted contingent liabilities were to be asserted, or become probable of assertion, the Company may be required to record significant expenses and liabilities in the period in which these liabilities are asserted or become probable of assertion.

Table of Contents**MICROSTRATEGY INCORPORATED**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**(11) Income Taxes**

U.S. and international components of income (loss) from continuing operations before income taxes (in thousands) were comprised of the following for the periods indicated:

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
U.S.	\$ 68,555	\$ (5,389)	\$ (6,158)
Foreign	69,309	16,440	22,909
<b>Total</b>	<b>\$ 137,864</b>	<b>\$ 11,051</b>	<b>\$ 16,751</b>

The provision for or benefit from income taxes from continuing operations (in thousands) consisted of the following for the periods indicated:

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Current:</b>			
Federal	\$ 11,748	\$ (306)	\$ (12,404)
State	2,997	(1)	172
Foreign	7,565	7,638	5,994
	<b>\$ 22,310</b>	<b>\$ 7,331</b>	<b>\$ (6,238)</b>
<b>Deferred:</b>			
Federal	\$ 9,215	\$ (2,132)	\$ (3,417)
State	693	(1,038)	267
Foreign	(285)	1,855	(411)
	<b>\$ 9,623</b>	<b>\$ (1,315)</b>	<b>\$ (3,561)</b>
<b>Total provision (benefit)</b>	<b>\$ 31,933</b>	<b>\$ 6,016</b>	<b>\$ (9,799)</b>

Table of Contents**MICROSTRATEGY INCORPORATED**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The provision for or benefit from income taxes from continuing operations differs from the amount computed by applying the federal statutory income tax rate to the Company's income from continuing operations before income taxes as follows for the periods indicated:

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Income tax expense at federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal tax effect	1.7%	-4.3%	2.0%
Foreign earnings taxed at different rates	-14.0%	2.9%	-18.3%
Withholding tax	1.1%	14.3%	9.7%
Foreign tax credit	-0.3%	-9.6%	-5.4%
Other international components	0.8%	0.8%	3.4%
Change in valuation allowance	-0.1%	21.1%	-0.8%
Deferred tax adjustments and rate changes	-0.1%	-4.9%	-2.8%
Meals and entertainment	0.3%	5.9%	4.5%
Non-deductible officers compensation	0.0%	2.0%	7.1%
Personal use of corporate aircraft	0.1%	2.5%	2.5%
Subpart F income	0.5%	4.0%	2.4%
Research and development tax credit	-0.6%	-13.7%	-12.6%
Other permanent differences	-1.2%	-1.6%	0.8%
Release of unrecognized tax benefits	0.0%	0.0%	-86.0%
<b>Total</b>	<b>23.2%</b>	<b>54.4%</b>	<b>-58.5%</b>

The Company's U.S. and foreign effective tax rates for income from continuing operations before income taxes were as follows for the periods indicated:

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
U.S.	36.0%	64.5%	249.7%
Foreign	10.5%	57.7%	24.4%
<b>Combined</b>	<b>23.2%</b>	<b>54.4%</b>	<b>-58.5%</b>

Except as discussed below, the Company intends to indefinitely reinvest its undistributed earnings of all of its foreign subsidiaries. Therefore, the annualized effective tax rate applied to the Company's pre-tax income from continuing operations does not include any provision for U.S. federal and state income taxes on the amount of the undistributed foreign earnings. U.S. federal tax laws, however, require the Company to include in its U.S. taxable income certain



investment income earned outside of the U.S. in excess of certain limits ( Subpart F deemed dividends ). Because Subpart F deemed dividends are already required to be recognized in the Company's U.S. federal income tax return, the Company regularly repatriates Subpart F deemed dividends to the U.S. and no additional tax is incurred on the distribution. The Company did not repatriate any Subpart F deemed dividends in 2015 because it did not report any Subpart F income on its 2014 U.S. tax return, but repatriated Subpart F deemed dividends to the U.S. of \$1.3 million and \$1.0 million in 2014 and 2013, respectively, with no additional tax incurred. As of December 31, 2015 and December 31, 2014, the amount of cash and cash equivalents and short-term investments held by U.S. entities was \$219.3 million and \$139.1 million, respectively, and by non-U.S. entities was \$266.4 million and \$206.4 million, respectively. If the cash and cash equivalents and short-term investments held by non-U.S. entities were to be repatriated to the U.S., the Company would generate U.S. taxable income to the extent of the Company's undistributed foreign earnings, which amounted to \$252.9 million at December 31, 2015. Although the tax impact of repatriating these earnings is difficult to determine, the Company would not expect the maximum effective tax rate that would be applicable to such repatriation to exceed the U.S. statutory rate of 35.0%, after considering applicable foreign tax credits.

Table of Contents**MICROSTRATEGY INCORPORATED**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities (in thousands) were as follows for the periods indicated:

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Deferred tax assets, net:</b>		
Net operating loss carryforwards	\$ 501	\$ 6,911
Tax credits	2,984	10,402
Intangible assets	24	59
Deferred revenue adjustment	3,454	1,989
Accrued compensation	7,331	11,452
Share-based compensation expense	9,905	5,485
Deferred rent	2,409	3,428
Other	2,915	3,425
Deferred tax assets before valuation allowance	29,523	43,151
Valuation allowance	(1,984)	(2,311)
Deferred tax assets, net of valuation allowance	27,539	40,840
<b>Deferred tax liabilities:</b>		
Prepaid expenses and other	1,389	1,044
Property and equipment	12,253	17,149
Capitalized software development costs	5,925	5,637
Total deferred tax liabilities	19,567	23,830
Total net deferred tax asset	\$ 7,972	\$ 17,010
<b>Reported as:</b>		
Current deferred tax assets, net	\$ 0	\$ 19,936
Non-current deferred tax assets, net	7,989	1,160
Current deferred tax liabilities	0	(557)
Non-current deferred tax liabilities	(17)	(3,529)
Total net deferred tax asset	\$ 7,972	\$ 17,010

The table of deferred tax assets and liabilities shown above does not include a deferred tax asset of \$0.2 million related to U.S. federal net operating loss carryforwards of \$0.4 million as of December 31, 2014 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting.

As of December 31, 2015, the Company had unrecognized tax benefits of \$3.6 million, which are recorded in other long-term liabilities. The change in unrecognized tax benefits (in thousands) is presented in the table below:

Unrecognized tax benefits at January 1, 2015	\$ 2,187
Increase related to positions taken in prior period	91
Increase related to positions taken in current period	436
Decrease related to expiration of statute of limitations	(645)
Reclassification from deferred tax assets to unrecognized tax benefits	1,229
Unrecognized tax benefits at December 31, 2015	3,298
Accrued interest	282
Unrecognized tax benefits recorded in other long-term liabilities at December 31, 2015	\$ 3,580

If recognized, \$2.9 million of the gross unrecognized tax benefits would impact the Company's effective tax rate. Over the next 12 months, the amount of the Company's liability for unrecognized tax benefits shown above is not expected to change by a material amount. The Company recognizes estimated accrued interest related to unrecognized tax benefits in the provision for income tax accounts. During the year ended December 31, 2015 and 2014, the Company released or recognized an immaterial amount of accrued interest. During the year ended December 31, 2013, the Company released approximately \$1.0 million in accrued interest. The amount of accrued interest related to the above unrecognized tax benefits was approximately \$0.3 million and \$0.3 million as of December 31, 2015 and December 31, 2014, respectively.

---

**Table of Contents**

**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company files tax returns in numerous foreign countries as well as the U.S. and its tax returns may be subject to audit by tax authorities in all countries in which it files. Each country has its own statute of limitations for making assessment of additional tax liabilities. The Company's U.S. tax returns for tax years from 2011 forward are subject to potential examination by the Internal Revenue Service.

The Company's major foreign tax jurisdictions and the tax years that remain subject to potential examination are Germany for tax years 2013 forward, Poland and China for tax years 2011 forward, Spain for tax years 2012 forward, and the United Kingdom for tax years 2014 forward. The Company settled tax examinations in Germany for tax years 2009 through 2012 in the first quarter of 2015 without a material assessment. The Company is currently under tax examination in the U.S. for tax years 2011 and 2012. To date there have been no material audit assessments related to audits in the U.S. or any of the applicable foreign jurisdictions.

The Company had \$0.0 million and \$14.7 million of U.S. net operating loss carryforwards as of December 31, 2015 and 2014, respectively. The Company had \$1.1 million and \$3.4 million of foreign net operating loss carryforwards as of December 31, 2015 and 2014, respectively. The Company had domestic research and development tax credit, foreign tax credit, and alternative minimum tax credit carryforward tax assets totaling \$1.8 million and \$10.5 million at December 31, 2015 and 2014, respectively, which begin to expire in 2016. The timing and ability of the Company to use these losses and credits may be limited by Internal Revenue Code provisions regarding changes in ownership of the Company as discussed below.

The Company's valuation allowances of \$2.0 million and \$2.3 million at December 31, 2015 and 2014, respectively, primarily relate to certain foreign tax credit carryforward tax assets.

In determining the Company's provision for or benefit from income taxes, net deferred tax assets, liabilities, and valuation allowances, management is required to make judgments and estimates related to projections of domestic and foreign profitability, the timing and extent of the utilization of net operating loss carryforwards, applicable tax rates, transfer pricing methods, and prudent and feasible tax planning strategies. As a multinational company, the Company is required to calculate and provide for estimated income tax liabilities for each of the tax jurisdictions in which it operates. This process involves estimating current tax obligations and exposures in each jurisdiction, as well as making judgments regarding the future recoverability of deferred tax assets. Changes in the estimated level of annual pre-tax income, changes in tax laws, particularly related to the utilization of net operating losses in various jurisdictions, and changes resulting from tax audits can all affect the overall effective income tax rate which, in turn, impacts the overall level of income tax expense or benefit and net income.

Judgments and estimates related to the Company's projections and assumptions are inherently uncertain; therefore, actual results could differ materially from projections. The timing and manner in which the Company will use research and development tax credit carryforward tax assets, alternative minimum tax credit carryforward tax assets, and foreign tax credit carryforward tax assets in any year, or in total, may be limited by provisions of the Internal Revenue Code regarding changes in the Company's ownership. Currently, the Company expects to use the tax assets, subject to Internal Revenue Code limitations, within the carryforward periods. Valuation allowances have been established where the Company has concluded that it is more likely than not that such deferred tax assets are not realizable. If the Company is unable to sustain profitability in future periods, it may be required to increase the

valuation allowance against the deferred tax assets, which could result in a charge that would materially adversely affect net income in the period in which the charge is incurred.

Section 382 of the Internal Revenue Code provides an annual limitation on the amount of federal net operating losses and tax credits that may be used in the event of an ownership change. The limitation is based on, among other things, the value of the company as of the change date multiplied by a U.S. federal long-term tax exempt interest rate. The Company does not currently expect the limitations under the Section 382 ownership change rules to impact the Company's ability to use its net operating loss carryforwards or tax credits that existed as of the date of the ownership change.

---

**Table of Contents**

**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(12) Share-based Compensation**

In September 2013, the Board of Directors approved the Company's 2013 Stock Incentive Plan (the "original 2013 Equity Plan"), and, as amended, the "2013 Equity Plan"), under which the Company's employees, officers, directors, and other eligible participants may be awarded various types of share-based compensation, and authorized 600,000 shares of the Company's class A common stock for issuance under the original 2013 Equity Plan. In April 2014, the Company's stockholders approved the original 2013 Equity Plan at the Company's annual meeting.

In April 2014, following the Company's annual meeting, the Board of Directors authorized an amendment to the original 2013 Equity Plan to increase the total number of shares of the Company's class A common stock authorized for issuance under the 2013 Equity Plan from 600,000 to 1,500,000 shares ("Amendment No. 1"). Also in April 2014, the Compensation Committee authorized an additional amendment to the original 2013 Equity Plan to provide for automatic annual stock option grants to each of the Company's non-employee directors with respect to 5,000 shares of the Company's class A common stock, per director, per year, beginning in May 2015 ("Amendment No. 2"). In April 2015, the Company's stockholders approved Amendments No. 1 and 2 at the Company's annual meeting. In October 2015, the Board of Directors authorized, subject to stockholder approval, a further amendment to the 2013 Equity Plan to increase the total number of shares of the Company's class A common stock authorized for issuance under the 2013 Equity Plan from 1,500,000 shares to 1,700,000 shares ("Amendment No. 3"). The Company considers stockholder approval of Amendment No. 3 to the 2013 Equity Plan to be perfunctory since the Company's Chairman, Chief Executive Officer & President holds a majority of the total voting power of all the Company's outstanding voting stock.

During 2015, stock options to purchase an aggregate of 380,000 shares of class A common stock were granted to certain Company employees, officers, and directors pursuant to the 2013 Equity Plan. As of December 31, 2015, there were options to purchase 1,322,750 shares of class A common stock outstanding under the 2013 Equity Plan. As of December 31, 2015, there were 277,500 remaining shares of class A common stock authorized for future issuance under the 2013 Equity Plan, subject to stockholder approval of Amendment No. 3.

Shares issued under the 2013 Equity Plan may consist in whole or in part of authorized but unissued shares or treasury shares. No awards may be issued more than ten years after the 2013 Equity Plan's effective date. Stock options that are granted under the 2013 Equity Plan must have an exercise price equal to at least the fair market value of the Company's class A common stock on the date of grant, become exercisable as established by the Board of Directors or the Compensation Committee, and expire no later than ten years following the date of grant. The Company recognizes share-based compensation expense associated with such stock option awards on a straight-line basis over the award's requisite service period (generally, the vesting period). The stock option awards granted to date vest in equal annual installments over an approximately four-year vesting period (unless accelerated upon a change in control event (as defined in the stock option agreement for the applicable award) or otherwise in accordance with provisions of the 2013 Equity Plan or applicable option agreement).

Share-based compensation expense is based on the fair value of the stock option awards on the date of grant, as estimated using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of certain management assumptions, including the expected term, expected stock price volatility, risk-free interest rate,

and expected dividend yield. The Company estimates the term over which option holders are expected to hold their stock options by using the simplified method for plain-vanilla stock option awards because the Company's stock option exercise history does not provide a reasonable basis to compute the expected term for stock options granted under the 2013 Equity Plan. The Company relies exclusively on its historical stock price volatility to estimate the expected stock price volatility over the expected term because the Company believes future volatility is unlikely to differ from the past. In estimating the expected stock price volatility, the Company uses a simple average calculation method. The risk-free interest rate is based on U.S. Treasury securities with terms that approximate the expected term of the stock options. The expected dividend yield is based on the Company's past cash dividend history and anticipated future cash dividend payments. The expected dividend yield is zero, as the Company has not previously declared cash dividends and does not currently intend to declare cash dividends in the foreseeable future. These assumptions are based on management's best judgment, and changes to these assumptions could materially affect the fair value estimates and amount of share-based compensation expense recognized.

Table of Contents**MICROSTRATEGY INCORPORATED**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Prior to the adoption of the 2013 Equity Plan, the Company had maintained other share-based compensation plans with respect to the Company's class A common stock (the "Other Stock Incentive Plans"), but had not granted any share-based awards under the Other Stock Incentive Plans since the first quarter of 2004 and is no longer authorized to grant any awards under such plans. As of December 31, 2015, there were no outstanding share-based awards granted under the Other Stock Incentive Plans.

The following table summarizes the Company's stock option activity (in thousands, except per share data and years) for the periods indicated:

	Shares	Stock Options Outstanding		
		Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Years)
Balance as of January 1, 2013	16	\$ 20.81		
Granted	600	92.84		
Exercised	(16)	20.81	\$ 1,262	
Forfeited/Expired	0	0		
Balance as of December 31, 2013	600	\$ 92.84		
Granted	745	125.46		
Exercised	(9)	92.84	\$ 653	
Forfeited/Expired	(135)	104.48		
Balance as of December 31, 2014	1,201	\$ 111.77		
Granted	380	178.93		
Exercised	(91)	105.25	\$ 6,367	
Forfeited/Expired	(167)	131.31		
Balance as of December 31, 2015	1,323	\$ 129.04		
Exercisable as of December 31, 2015	334	\$ 105.20	\$ 24,746	7.9
Expected to vest as of December 31, 2015	989	\$ 137.09	44,581	8.6
Total	1,323	\$ 129.04	\$ 69,327	8.4

Stock options outstanding as of December 31, 2015 are comprised of the following range of exercise prices per share (in thousands, except per share data and years):



<b>Stock Options Outstanding at December 31, 2015</b>			
<b>Range of Exercise Prices per Share</b>	<b>Shares</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>
\$92.84 - \$120.00	432	\$ 94.78	7.7
\$120.01 - \$150.00	514	\$ 121.43	8.3
\$150.01 - \$180.00	247	\$ 166.91	9.1
\$180.01 - \$201.25	130	\$ 201.25	9.7
<b>Total</b>	<b>1,323</b>	<b>\$ 129.04</b>	<b>8.4</b>

An aggregate of 283,750 and 150,000 stock options with an aggregate fair value of \$14.2 million and \$6.3 million vested during the years ended December 31, 2015 and 2014, respectively. No stock options vested during the year ended December 31, 2013. As of December 31, 2015, the Company expected all unvested and outstanding options at December 31, 2015 to fully vest in future years in accordance with their vesting schedules and therefore share-based compensation expense had not been adjusted for any expected forfeitures. However, in January 2016, the Board of Directors implemented a reorganization of the Company's executive management team. In connection with the reorganization, 200,000 of unvested stock options were forfeited upon the departure of two executives. As such, we expect to reverse approximately \$1.6 million of share-based compensation expense related to these unvested stock options in the first quarter of 2016. See Note 19, Subsequent Events, for further information on the executive management reorganization.

Table of Contents**MICROSTRATEGY INCORPORATED**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average grant date fair value of stock option awards using the Black-Scholes option pricing model was \$73.86, \$55.84, and \$42.03 for each share subject to a stock option granted during the years ended December 31, 2015, 2014, and 2013, respectively, based on the following assumptions:

	Years Ended December 31,		
	2015	2014	2013
Expected term of options in years	6.3	6.3	6.3
Expected volatility	39.0 - 40.2%	41.5 - 42.5%	42.8%
Risk-free interest rate	1.5 - 2.0%	2.1 - 2.3%	2.5%
Expected dividend yield	0.0%	0.0%	0.0%

The Company recognized approximately \$17.3 million, \$11.8 million, and \$2.1 million in share-based compensation expense for the years ended December 31, 2015, 2014, and 2013, respectively, from stock options granted under the 2013 Equity Plan. The Company recognized no share-based compensation expense for the years ended December 31, 2015, 2014, and 2013 from stock options granted under the Other Stock Incentive Plans as all such options fully vested in prior years. As of December 31, 2015, there was approximately \$47.8 million of total unrecognized share-based compensation expense related to unvested stock options. As of December 31, 2015, the Company expected to recognize this remaining share-based compensation expense over a weighted-average vesting period of approximately 2.7 years. Included in these amounts is approximately \$6.8 million of total unrecognized share-based compensation expense related to unvested stock options subsequently forfeited in January 2016 as a result of the executive management reorganization described in Note 19, Subsequent Events. Prior to the executive management reorganization, such amount was expected to be recognized over a remaining service period of 1.6 years.

During the year ended December 31, 2015, the Company was able to recognize and utilize net operating loss carryforwards arising directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting that was generated in both the current and prior year under the 2013 Equity Plan. During the year ended December 31, 2013, the Company was able to recognize and utilize net operating loss carryforwards arising directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting that was generated primarily in prior years under the Other Stock Incentive Plans. Accordingly, stockholders' equity increased by \$1.1 million and \$23.6 million during the years ended December 31, 2015 and 2013, respectively. No windfall tax benefit was realized from the exercise of stock options during the years ended December 31, 2014.

MicroStrategy's former subsidiary, Angel.com, previously maintained a stock incentive plan under which certain employees, officers, and directors of MicroStrategy and Angel.com were granted options to purchase shares of the class A common stock of Angel.com, subject to the satisfaction of both performance and continued service conditions. Share-based compensation expense would have been recognized over the requisite service period of the award based on the probability of the satisfaction of the performance condition, reduced by the number of awards that were not expected to vest due to the failure to satisfy the continued service condition. In connection with the sale of Angel.com in the first quarter of 2013, the Angel.com stock incentive plan was terminated and all outstanding options thereunder

were terminated in exchange for cash payments totaling \$8.0 million. Prior to their termination, no share-based compensation expense was recognized for these awards for the year ended December 31, 2013 because the performance condition had not been satisfied.

**(13) Basic and Diluted Earnings per Share**

Potential shares of common stock are included in the diluted earnings per share calculation when dilutive. Potential shares of common stock, consisting of common stock issuable upon exercise of outstanding employee stock options, are calculated using the treasury stock method.

Table of Contents**MICROSTRATEGY INCORPORATED**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data) for the periods indicated:

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Numerator:</b>			
<b>Income from:</b>			
Continuing operations, net of tax	\$ 105,931	\$ 5,035	\$ 26,550
Discontinued operations, net of tax	0	0	56,782
<b>Net income</b>	<b>\$ 105,931</b>	<b>\$ 5,035</b>	<b>\$ 83,332</b>
<b>Denominator:</b>			
Weighted average common shares of class A common stock	9,320	9,246	9,073
Weighted average common shares of class B common stock	2,035	2,055	2,227
Total weighted average common stock shares outstanding	11,355	11,301	11,300
Effect of dilutive securities:			
Employee stock options	184	55	1
<b>Adjusted weighted average shares</b>	<b>11,539</b>	<b>11,356</b>	<b>11,301</b>
<b>Earnings per share:</b>			
<b>Basic earnings per share</b>			
From continuing operations	\$ 9.33	\$ 0.45	\$ 2.35
From discontinued operations	0	0	5.02
<b>Basic earnings per share</b>	<b>\$ 9.33</b>	<b>\$ 0.45</b>	<b>\$ 7.37</b>
<b>Diluted earnings per share:</b>			
From continuing operations	\$ 9.18	\$ 0.44	\$ 2.35
From discontinued operations	0	0	5.02
<b>Diluted earnings per share</b>	<b>\$ 9.18</b>	<b>\$ 0.44</b>	<b>\$ 7.37</b>

For the years ended December 31, 2015, 2014, and 2013, stock options issued under the 2013 Equity Plan to purchase a weighted average of approximately 262,000, 445,000, and 194,000 shares of class A common stock, respectively, were excluded from the diluted earnings per share calculation because their impact would have been anti-dilutive.

#### **(14) Treasury Stock**

The Board of Directors has authorized the Company's repurchase of up to an aggregate of \$800.0 million of its class A common stock from time to time on the open market through April 29, 2018 (the 2005 Share Repurchase Program), although the program may be suspended or discontinued by the Company at any time. The timing and amount of any shares repurchased will be determined by the Company's management based on its evaluation of market conditions and other factors. The 2005 Share Repurchase Program may be funded using the Company's working capital, as well as proceeds from any other funding arrangements that the Company may enter into in the future. As of December 31, 2015, the Company had repurchased an aggregate of 3,826,947 shares of its class A common stock at an average price per share of \$90.23 and an aggregate cost of \$345.3 million pursuant to the 2005 Share Repurchase Program. The average price per share and aggregate cost amounts disclosed above include broker commissions. During the years ended December 31, 2015, 2014, and 2013, the Company did not repurchase any shares of its class A common stock pursuant to the 2005 Share Repurchase Program.

#### **(15) Employee Benefit Plan**

The Company sponsors a benefit plan to provide retirement benefits for its employees, known as the MicroStrategy 401(k) Savings Plan (the Plan). Participants may make voluntary contributions to the Plan of up to 50% of their annual base pre-tax compensation, cash bonuses, and commissions not to exceed the federally determined maximum allowable contribution amounts. The Plan permits for discretionary company contributions. Effective April 1, 2008, the Company elected to make a matching contribution to each plan participant in the amount of 50% of the first 6% of a participant's contributions, up to a maximum of \$3,000 per year. A participant vests in the matching contributions in increments based on the participant's years of employment by the Company, becoming fully vested after completing six years of employment. The Company made contributions to the Plan totaling \$1.6 million, \$2.9 million, and \$2.7 million during the years ended December 31, 2015, 2014, and 2013, respectively.

**Table of Contents****MICROSTRATEGY INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(16) Discontinued Operations**

On March 15, 2013, the Company completed the sale of its equity interest in its Angel.com business for consideration to the Company of approximately \$111.2 million, resulting in a net cash inflow of \$100.7 million after \$10.5 million in transaction costs. The sale resulted in a gain of \$57.4 million, net of tax, in the year ended December 31, 2013. In the Company's Consolidated Statement of Operations, the Company has classified operations of the Angel.com business as Loss from Discontinued Operations, net of tax, because the Company does not have any continuing involvement with or cash flows from this business following its divestiture.

During the year ended December 31, 2013, the Angel.com business generated \$6.3 million in revenues and a \$1.0 million pre-tax loss. The Company recorded a pre-tax gain on the sale of Angel.com during the year ended December 31, 2013 of \$94.9 million.

**(17) Segment Information**

The Company manages its business in one operating segment. As discussed in Note 16, the Angel.com business was sold on March 15, 2013. Prior to its divestiture, the Angel.com business was the sole component of the former operating segment Other. The Company's one operating segment is engaged in the design, development, marketing, and sales of analytics, mobile, and security software platforms through licensing arrangements and cloud-based subscriptions and related services. It includes MicroStrategy 10 Secure Enterprise (which consists of MicroStrategy Analytics, MicroStrategy Mobile, and Usher) and MicroStrategy Secure Cloud. The following table presents total revenues from continuing operations, gross profit from continuing operations, and long-lived assets, excluding long-term deferred tax assets, (in thousands) according to geographic region:

<b>Geographic regions:</b>	<b>Domestic</b>	<b>EMEA</b>	<b>Other Regions</b>	<b>Consolidated</b>
<b>Year ended December 31, 2015</b>				
Total revenues	\$ 326,792	\$ 153,658	\$ 49,419	\$ 529,869
Gross profit	\$ 265,438	\$ 121,148	\$ 42,175	\$ 428,761
<b>Year ended December 31, 2014</b>				
Total revenues	\$ 341,692	\$ 176,774	\$ 61,364	\$ 579,830
Gross profit	\$ 261,459	\$ 131,790	\$ 51,371	\$ 444,620
<b>Year ended December 31, 2013</b>				
Total revenues	\$ 343,073	\$ 169,194	\$ 63,621	\$ 575,888
Gross profit	\$ 261,134	\$ 123,373	\$ 52,812	\$ 437,319
<b>As of December 31, 2015</b>				
Long-lived assets	\$ 77,652	\$ 3,701	\$ 2,238	\$ 83,591
<b>As of December 31, 2014</b>				
Long-lived assets	\$ 85,504	\$ 5,690	\$ 4,078	\$ 95,272

The domestic region consists of the United States and Canada. The EMEA region includes operations in Europe, the Middle East, and Africa. The other regions include all other foreign countries, generally comprising Latin America

and the Asia Pacific region. For the years ended December 31, 2015, 2014, and 2013, no individual foreign country accounted for 10% or more of total consolidated revenues from continuing operations.

For the years ended December 31, 2015, 2014, and 2013, no individual customer accounted for 10% or more of total consolidated revenues from continuing operations.

As of December 31, 2015 and 2014, no individual foreign country accounted for 10% or more of total consolidated assets.

**Table of Contents****MICROSTRATEGY INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(18) Selected Quarterly Financial Data (Unaudited)**

The following tables contain unaudited Statement of Operations information for each quarter of 2015 and 2014. The Company believes that the following information reflects all normal recurring adjustments. During the fourth quarter of 2014, the Company recognized a reduction in its accrued bonus expense as a result of a change in estimate, which resulted in a \$7.4 million increase in net income. The operating results for any quarter are not necessarily indicative of results for any future period.

	<b>Quarter Ended</b>				<b>Year</b>
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>	
<b>(in thousands, except per share data)</b>					
<b>2015</b>					
Revenues	\$ 123,871	\$ 132,940	\$ 129,536	\$ 143,522	\$ 529,869
Gross profit	\$ 96,773	\$ 107,028	\$ 104,852	\$ 120,108	\$ 428,761
Net income	\$ 20,460	\$ 22,467	\$ 23,893	\$ 39,111	\$ 105,931
Earnings per share: <sup>(1)</sup>					
Basic	\$ 1.81	\$ 1.98	\$ 2.10	\$ 3.44	\$ 9.33
Diluted	\$ 1.79	\$ 1.95	\$ 2.06	\$ 3.38	\$ 9.18

	<b>Quarter Ended</b>				<b>Year</b>
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>	
<b>(in thousands, except per share data)</b>					
<b>2014</b>					
Revenues	\$ 137,904	\$ 141,853	\$ 151,202	\$ 148,871	\$ 579,830
Gross profit	\$ 104,895	\$ 106,240	\$ 116,249	\$ 117,236	\$ 444,620
Net (loss) income	\$ (6,482)	\$ (10,337)	\$ (845)	\$ 22,699	\$ 5,035
(Loss) earnings per share: <sup>(1)</sup>					
Basic	\$ (0.57)	\$ (0.91)	\$ (0.07)	\$ 2.01	\$ 0.45
Diluted	\$ (0.57)	\$ (0.91)	\$ (0.07)	\$ 1.99	\$ 0.44

<sup>(1)</sup> The sum of the basic and diluted earnings (loss) per share for the four quarters may differ from annual earnings (loss) per share as the weighted-average shares outstanding are computed independently for each of the quarters presented.

**(19) Subsequent Events**

In January 2016, the Board of Directors implemented a reorganization of the Company's executive management team to further streamline the Company's business. The reorganization enabled the Company to eliminate a layer of management by eliminating a separate Office of the President and was designed to better position the Company's business for profitable growth. This streamlining resulted in the departures of our former President, Paul N.



Zolfaghari, and our former President and Chief Legal Officer, Jonathan F. Klein. At the time of their departures, Mr. Klein and Mr. Zolfaghari had an aggregate of 200,000 unvested stock options, which were immediately forfeited in accordance with the terms of the 2013 Equity Plan and their award agreements. As a result, approximately \$1.6 million of previously recorded share-based compensation expense associated with these unvested stock options will be reversed in the first quarter of 2016. The Company may incur severance or other related costs during 2016 in connection with the departures of Mr. Klein and Mr. Zolfaghari as a result of negotiations with the departed executives.

Table of Contents**SIGNATURES**

*Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.*

**MICROSTRATEGY INCORPORATED**  
(Registrant)

By: /s/ Michael J. Saylor

**Name: Michael J. Saylor**

**Title: Chairman of the Board of Directors,**

**Chief Executive Officer & President**

Date: February 26, 2016

*Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.*

<b>Name</b>	<b>Position</b>	<b>Date</b>
/s/ MICHAEL J. SAYLOR <b>Michael J. Saylor</b>	Chairman of the Board of Directors, Chief Executive Officer (Principal Executive Officer) & President	February 26, 2016
/s/ PHONG LE <b>Phong Le</b>	Senior Executive Vice President & Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2016
/s/ ROBERT H. EPSTEIN <b>Robert H. Epstein</b>	Director	February 26, 2016
/s/ STEPHEN X. GRAHAM <b>Stephen X. Graham</b>	Director	February 26, 2016
/s/ JARROD M. PATTEN <b>Jarrold M. Patten</b>	Director	February 26, 2016
/s/ CARL J. RICKERTSEN <b>Carl J. Rickertsen</b>	Director	February 26, 2016

Table of Contents

## SCHEDULE II

## VALUATION AND QUALIFYING ACCOUNTS

For the years ended December 31, 2015, 2014, and 2013

(in thousands)

	Balance at the beginning of the period	Additions (1)	Deductions	Balance at the end of the period
Allowance for doubtful accounts:				
December 31, 2015	\$ 4,412	884	(1,471)	\$ 3,825
December 31, 2014	\$ 3,989	2,969	(2,546)	\$ 4,412
December 31, 2013	\$ 4,366	2,281	(2,658)	\$ 3,989
Deferred tax valuation allowance:				
December 31, 2015	\$ 2,311	75	(402)	\$ 1,984
December 31, 2014	\$ 77	2,234	0	\$ 2,311
December 31, 2013	\$ 231	77	(231)	\$ 77

*(1) Reductions in/charges to revenues and expenses.*

**Table of Contents****INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Second Restated Certificate of Incorporation of the registrant (filed as Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (File No. 000-24435) and incorporated by reference herein).
3.2	Amended and Restated By-Laws of the registrant (filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K (File No. 000-24435) filed on January 30, 2015 and incorporated by reference herein).
4.1	Form of Certificate of Class A Common Stock of the registrant (filed as Exhibit 4.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 (File No. 000-24435) and incorporated by reference herein).
10.1	MicroStrategy Incorporated 2013 Stock Incentive Plan (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K (File No. 000-24435) filed on September 9, 2013 and incorporated by reference herein).
10.2	Amendment No. 1 to the MicroStrategy Incorporated 2013 Stock Incentive Plan (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K (File No. 000-24435) filed on April 28, 2014 and incorporated by reference herein).
10.3	Amendment No. 2 to the MicroStrategy Incorporated 2013 Stock Incentive Plan (filed as Exhibit 99.3 to the registrant's Registration Statement on Form S-8 (File No. 333-197645) filed on July 25, 2014 and incorporated by reference herein).
10.4	Amendment No. 3 to the MicroStrategy Incorporated 2013 Stock Incentive Plan (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K (File No. 000-24435) filed on October 26, 2015 and incorporated by reference herein).
10.5	Form of Nonstatutory Stock Option Agreement (filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K (File No. 000-24435) filed on September 9, 2013 and incorporated by reference herein).
10.6	Summary of Perquisites and Associated Other Compensation Arrangements for Named Executive Officers.
10.7	Summary of Director Fees and Perquisites and Associated Other Compensation Arrangements for Non-Employee Directors (filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 (File No. 000-24435) and incorporated by reference herein).
10.8	Sublease Agreement, dated as of January 31, 2011, by and between the Company and Aeromar Management Company, LLC (filed as Exhibit 10.14 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (File No. 000-24435) and incorporated by reference herein).
10.9	Material Terms for Payment of Certain Executive Incentive Compensation (filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 (File No. 000-24435) and incorporated by reference herein).
10.10	Summary of Designated Company Vehicles Policy (filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q (File No. 000-24435) filed on August 3, 2007 and incorporated by reference herein).

- 10.11 Amended and Restated Performance Incentive Plan (filed as Exhibit 99.1 to the registrant's Current Report on Form 8-K (File No. 000-24435) filed on December 28, 2012 and incorporated by reference herein).

**Table of Contents**

10.12	Summary of 2015 Cash Bonus Arrangements for Jonathan F. Klein and Paul N. Zolfaghari (set forth in Item 5.02 of the registrant's Current Report on Form 8-K (File No. 000-24435) filed on March 12, 2015 under the heading "2015 President Bonus Formulas" and incorporated by reference herein).
10.13	Summary of Changes in Salary and Cash Bonus for Timothy E. Lang (set forth in Item 5.02 of the registrant's Current Report on Form 8-K (File No. 000-24435) filed on May 20, 2015 under the heading "Salary Determination and 2015 Cash Bonus Target for Chief Technology Officer" and incorporated by reference herein).
10.14	Summary of One-Time Cash Bonus for Timothy E. Lang (set forth in Item 5.02 of the registrant's Current Report on Form 8-K (File No. 000-24435) filed on November 4, 2015 under the heading "Cash Bonus Award to Chief Technology Officer" and incorporated by reference herein).
10.15	Summary of Changes in Salary and Cash Bonus for Timothy E. Lang (set forth in Item 5.02 of the registrant's Current Report on Form 8-K (File No. 000-24435) filed on January 27, 2016 under the heading "Salary Determination and Annual Cash Bonus Target for Chief Technology Officer" and incorporated by reference herein).
10.16	Summary of Compensation for Phong Le (set forth in Item 5.02 of the registrant's Current Report on Form 8-K filed on July 27, 2015, as amended by the registrant's Current Report on Form 8-K/A filed on September 14, 2015 (File Nos. 000-24435) and incorporated by reference herein).
21.1	Subsidiaries of the registrant.
23.1	Consent of KPMG LLP.
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Chairman of the Board of Directors and Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Senior Executive Vice President & Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

Management contracts and compensatory plans or arrangements.