

MICROSTRATEGY INC  
Form 10-K  
February 26, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended December 31, 2014**

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

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 ☒

## Edgar Filing: MICROSTRATEGY INC - Form 10-K

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 ☒

Accelerated filer ☐

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

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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, 2014 on the NASDAQ Global Select Market) was approximately \$1,305.7 million.

The number of shares of the registrant's class A common stock and class B common stock outstanding on February 20, 2015 was 9,290,853 and 2,035,184, respectively.

Documents incorporated by reference: Portions of the definitive proxy statement for the 2015 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.

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The trademarks and registered trademarks of MicroStrategy Incorporated and its subsidiaries referred to herein include, but are not limited to, MicroStrategy, MicroStrategy Analytics Platform, MicroStrategy Mobile, MicroStrategy Analytics Desktop, and MicroStrategy Usher. 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.

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**PART I**

**Item 1. Business Overview**

MicroStrategy® is a leading worldwide provider of enterprise-ready analytics, mobile, and security software platforms. MicroStrategy provides system-of-record reporting and interactive visualization capabilities offered on any device or in the cloud. The Company's mission is to provide enterprise analytics, mobility, and security platforms that are flexible, powerful, scalable, and user-friendly.

MicroStrategy Analytics empowers organizations to analyze vast amounts of data and securely distribute actionable business insight throughout an enterprise through two distinct offerings – MicroStrategy Analytics Platform and MicroStrategy Analytics Desktop. The MicroStrategy Analytics Platform delivers reports and dashboards, and enables users to conduct ad hoc analysis and share insights anywhere, anytime, via mobile devices or the 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. The MicroStrategy Analytics Platform is integrated with MicroStrategy Analytics Desktop, a standalone desktop tool designed to enable business users to analyze and understand their data. With MicroStrategy Analytics Desktop, 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 information-rich applications that deliver analytics combined with transactions, multimedia, and custom workflows, to mobile devices. The powerful code-free platform approach is designed to reduce the costs of development and enable organizations to deploy powerful mobile business apps quickly and cost-effectively. 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 Usher is a mobile identity and security platform designed to make identity management simple, seamless, and secure. Built on an advanced mobile-centric enterprise security platform, MicroStrategy Usher can dematerialize traditional forms of identity verification such as passwords and physical badges and replace them with a single mobile identity badge, stored on a smartphone, that is cryptographically linked to its owner's phone and dynamically linked to the enterprise's existing identity repositories. MicroStrategy Usher's enterprise mobile identity solution addresses some of the biggest challenges facing corporations today, including authentication, cybersecurity, access management, and resource authorization, while applying industry leading business intelligence and analytics to an enterprise's security infrastructure. Users can log into applications, unlock doors, validate each other's identities, and gain a holistic view of network activity using only mobile identities, either through Bluetooth®, QR codes, or time-limited PIN codes. MicroStrategy 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. We currently offer MicroStrategy Usher as a subscription-based service.

MicroStrategy Secure Cloud (formerly known as MicroStrategy Cloud) is a platform for organizations that want to harness the power of enterprise analytics, mobility, and security applications via the cloud. MicroStrategy Secure

Cloud brings together enterprise analytics, analytical databases, and extract, transform, load (ETL) capabilities in a high performance integrated environment. MicroStrategy Secure Cloud offers on-demand access to the full breadth of the MicroStrategy Analytics Platform and MicroStrategy Mobile capabilities and is optimized for a variety of enterprise applications. Compared to traditional on-premises approaches, MicroStrategy Secure Cloud is architected to deliver best-of-breed MicroStrategy and Usher software via the cloud, with pre-configured, ready to go MicroStrategy servers, coupled with the required supporting infrastructure with metadata databases, relational databases, and big data storage.

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The MicroStrategy Analytics Platform, MicroStrategy Mobile, and MicroStrategy Secure Cloud, together with related product and support services, continue to generate the vast majority of our revenue. During 2014, 2013, and 2012, we did not generate significant revenues from MicroStrategy Usher.

We were incorporated as a Delaware corporation on November 17, 1989. Today, with operations in 28 countries worldwide, the company is one of the largest independent publicly-traded analytics vendors as measured by annual revenue.

## **MicroStrategy Analytics**

MicroStrategy Analytics 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.

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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 Analytics 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 Analytics can give analysts, managers, and executives the critical insight they need to reduce costs, better allocate resources, improve efficiencies, and optimize operations. MicroStrategy Analytics 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 Analytics also includes predictive capabilities that enable organizations to leverage their historical data to project future business outcomes.

MicroStrategy Analytics provides IT professionals with a powerful, highly automated mechanism for delivering insightful reports, visualizations, and dashboards to employees throughout an organization. In addition, MicroStrategy Analytics 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 Analytics is available in two different offerings: the MicroStrategy Analytics Platform and MicroStrategy Analytics Desktop. The MicroStrategy Analytics Platform is designed for enterprise-scale business intelligence, supporting high performance analytics on gigabytes, terabytes, or petabytes of data. Organizations can deploy the MicroStrategy Analytics Platform on-premises or access the same functionality within the MicroStrategy Secure Cloud offering. MicroStrategy Analytics Desktop puts the power of MicroStrategy Analytics 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 the MicroStrategy Analytics Platform.

### **MicroStrategy Analytics Platform**

The MicroStrategy Analytics Platform 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 the MicroStrategy Analytics Platform include:

***Flexibility to report, analyze, and monitor.*** The MicroStrategy Analytics Platform 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.

***Industrial-strength analytics.*** The MicroStrategy Analytics Platform 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, and office productivity software

suites expanding the reach of business intelligence across the enterprise.

***Integration of analysis in every report or scorecard.*** The MicroStrategy Analytics Platform makes powerful analytic capability automatically available directly from enterprise reports and scorecards. It delivers analytic integration to users in two ways. The first is by providing online analytical processing (OLAP) capabilities directly to tables, charts, and visualizations embedded within report documents, allowing business users to analyze the data while staying within the bigger report document. The second is by allowing users to drill from a report document to a dedicated analysis view that is optimized for conducting detailed analysis. In both cases, the integration of reporting with analysis is automatic.

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***Data to insight in minutes without IT involvement.*** Our self-service analytics feature, MicroStrategy Visual Insight, 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. The combination of our traditional enterprise scalability along with the MicroStrategy Visual Insight feature brings the power of enterprise analytics to the personal level, and easily extends that power to everyone in the organization.

***Actionable insight.*** The MicroStrategy Analytics Platform 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.*** The MicroStrategy Analytics Platform 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.

***Heterogeneous joining of data from across the enterprise.*** The MicroStrategy Analytics Platform 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. Data can come from any source accessible by MicroStrategy, including the data warehouse, data marts, Apache Hadoop®, SAP® Business Information Warehouse (SAP BW), Microsoft® SQL Server® Analysis Services, IBM® Cognos® TM1®, Oracle® Essbase, and other operational system databases.

***Integration of advanced analytics into mainstream reporting and analyses.*** The MicroStrategy Analytics Platform's 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, the MicroStrategy Analytics Platform 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, MicroStrategy's Data Mining Services™ extension enables these metrics to be used freely and calculated quickly in reports, analyses, and alerts.

***Support for large data volumes and all major relational database/hardware combinations.*** The MicroStrategy Analytics Platform 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:

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;

Highly reliable up-time, even in high volume applications; and

Ability to work with and support multiple languages for international applications.

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***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 includes drivers for all major device types used in both domestic and international markets, enabling the delivery of information to users when and where it is needed.

**MicroStrategy Analytics Desktop**

MicroStrategy Analytics Desktop is a fast, powerful, and easy-to-use product for self-service data visualization. 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 Analytics Desktop is available for free and can be readily downloaded and installed on a standard desktop computer or laptop, making the power of MicroStrategy analytics easily available to everyone.

**MicroStrategy Analytics Technology 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;

***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, and custom workflows to mobile devices. The powerful code-free platform approach is designed to reduce the costs of development and enable organizations to deploy powerful mobile business apps quickly and cost-effectively. 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.

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During 2014, independent analyst firm Dresner Advisory Services rated MicroStrategy Mobile the number one overall offering out of twenty-five vendors for Mobile Computing / Mobile Business Intelligence. This is the fourth year in a row that MicroStrategy has topped the list of vendors included in Dresner's Wisdom of Crowds Mobile Computing / Mobile BI Market Study. Additionally, in its 2014 Value Index for Mobile Business Intelligence (BI) report, Ventana Research ranked MicroStrategy first out of 16 mobile BI vendors. MicroStrategy was cited for the value its solution provides to its customers, with a focus on app usability and return on investment.

MicroStrategy Mobile is available both as on-premises software and hosted as a service offering in MicroStrategy Secure Cloud. It is also available on Amazon Web Services ( AWS ) through the AWS Marketplace.

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.

***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 2014**

MicroStrategy Mobile currently includes the following significant functional enhancements made during 2014:

***Enhanced native transactional capabilities.*** MicroStrategy enhanced the native transactional capabilities by adding conditional logic, input validation, and smart transactions. Smart transactions allow users to submit



information and display the outcome on their app even while offline. For example, if a marketing executive approves spend for a new purchase order, the executive could view how that new spend impacts the total budget while working offline. When connectivity is resumed, the new inputs are transmitted to, and captured by, the database.

***Enhanced enterprise-grade mobile security.*** Some of the new security capabilities include integration with SAML, Good Dynamics®, and Apple®'s Touch ID™ fingerprint identity sensor. There is also a new logout function that allows users to end their sessions. Additionally, MicroStrategy's improved certificate server workflow allows a client certificate to be generated on the client's device and verified on the server for improved security.

***Apple Touch ID integration.*** MicroStrategy became the first analytics firm to integrate with Apple Touch ID fingerprint identity sensor. Developers can configure app and document-level biometric security for their mobile analytical apps, reports, and documents. Additionally, developers can configure a Touch ID requirement to restrict printing and sharing of information.

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***Enhanced Mobile SDK.*** The MicroStrategy Mobile SDK framework now accommodates and integrates with any major custom authentication system. Customized application developers have a simple and reliable way to hook into an authentication workflow that interfaces with any major external custom authentication mechanism.

***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 2014 include new mobile analytics folder browsing, options to easily switch from light to dark themes, local selection caching, animated information windows and menus, and two new types of prompts: nested and hierarchy.

***Enhanced performance with background fetch.*** Caching can significantly impact app performance speeds. MicroStrategy Mobile administrators can configure background fetch for apps so that information can be cached on a user's device without requiring the user to run the app. Background fetch can be scheduled for any desired time or frequency.

***Enhanced mapping.*** To accelerate performance and improve user interface, MicroStrategy introduced cluster mapping. Upon rendering a map visualization, instead of loading every map marker, markers are grouped into clusters. As a user zooms into desired locations, the clusters ungroup to display the detail of the individual markers.

## **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.

## **MicroStrategy Usher**

MicroStrategy Usher is a mobile identity and security platform. At its core, MicroStrategy Usher is designed to make identity management simple, seamless, and secure. Built on our advanced mobile-centric enterprise security platform, MicroStrategy Usher can dematerialize traditional forms of identity verification such as passwords and physical badges and replace them with a single mobile identity badge, stored on a smartphone that is cryptographically linked to its owner's phone and dynamically linked to the enterprise's existing identity repositories. MicroStrategy Usher is designed to render passwords, physical badges, and other inherently vulnerable security practices unnecessary or irrelevant.

MicroStrategy Usher's enterprise mobile identity solution addresses some of the biggest challenges facing corporations today, including authentication, cybersecurity, access management, and resource authorization, while applying industry leading business intelligence and analytics to an enterprise's security infrastructure. Users can log into applications, unlock doors, validate each other's identity, and gain a holistic view of network activity using only mobile identities, either through Bluetooth® signals, QR codes, or time-limited PIN codes.

MicroStrategy Usher can appeal to businesses, universities, associations, governments, and other organizations because it adds a layer of biometric security to their systems, physical spaces, and transactions that would otherwise be technically difficult or cost-prohibitive. MicroStrategy Usher is designed to secure an enterprise by offering an alternative to existing forms of identification and authentication. MicroStrategy Usher is designed to provide a more secure alternative to passwords which can be stolen or cracked. MicroStrategy Usher is also designed to help reduce identity-related fraud by replacing physical ID cards that can be counterfeited and stolen. MicroStrategy Usher can also be used as a powerful workforce management resource because it is designed to enable managers to gain a near real-time window into the activity of their distributed workforces, while providing powerful interactive features to manage or direct them.

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Key benefits of MicroStrategy Usher include:

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

***Cyber security.*** MicroStrategy Usher is designed to provide a more secure alternative to passwords which can be the weak link exploited by cybercrime attacks with biometrically-secured mobile identities.

***Physical access control.*** MicroStrategy 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.*** MicroStrategy Usher can collect data about the locations of users MicroStrategy Usher activity, enabling managers to remotely monitor and direct distributed workforces.

***Activity analysis.*** MicroStrategy Usher uses MicroStrategy Analytics to monitor and analyze MicroStrategy Usher user activity.

***Convenience and cost-effectiveness.*** MicroStrategy 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.

## **MicroStrategy Usher Technology Strategy**

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

***Biometrics.*** We continue to monitor the market and test new biometric measurement systems that can be integrated into MicroStrategy Usher, such as Apple's Touch ID, voice authentication, and facial recognition.

***Validation.*** We continue to explore ways in which users can validate one another's identities to broaden the applicability of MicroStrategy Usher in interpersonal engagements and business transactions.

***Logical access.*** We continue to explore new techniques with which MicroStrategy Usher can provide identity to applications and systems and provide alternatives to passwords, keys, and fobs.

***Physical access.*** We continue to expand on the integration of MicroStrategy 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 MicroStrategy Usher's ability to determine MicroStrategy 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 Analytics, 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 the MicroStrategy Analytics Platform and MicroStrategy Mobile offerings through a Platform-as-a-Service (PaaS) solution hosted in the cloud. In addition to the MicroStrategy Analytics Platform and

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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 Platform 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 the MicroStrategy Analytics Platform 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.

***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, the MicroStrategy Analytics Platform 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.

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**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.

**Support Renewal Maintenance.** The support renewal business manages the 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.

## **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 enterprise. These solutions provide our customers with greater access to critical business information, KPI s, and metrics, which enables them to make better business decisions faster.

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 for customers and partners. Through a variety of offerings, MicroStrategy Education consultants develop an ongoing education program to meet our customers specific business needs. Education consultants deliver quality, cost-effective instruction and skill development for administrators, developers, analysts, and business users. MicroStrategy offers programs to train individuals through instructor-led courses and online 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 MicroStrategy 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

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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.

## **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.*** MicroStrategy has 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.

MicroStrategy makes 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 the MicroStrategy Analytics Platform.

***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:*** Admiral Group; 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.; Society for Worldwide Interbank Financial Telecommunication (SWIFT); Wintrust Financial Corporation; Zurich Insurance Group

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***Pharmaceutical and Healthcare:*** CareSource Management Group Co.; Cincinnati Children's Medical Center; HealthTrust; Johnson & Johnson; NHS Greater Glasgow and Clyde; Novation

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

***Technology, Media, and Telecommunications:*** Adobe; AutoTrader.com; Dell; eBay Inc.; eHarmony; Eyefreight; Facebook; Iridium Satellite LLC; 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

***Restaurants:*** Chipotle Mexican Grill, Inc.; Domino's Pizza, Inc.; Logan's Roadhouse, Inc.; PF Chang's China Bistro, 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

## **Customer Deals from 2014**

### **Admiral Group**

With headquarters in Cardiff, Wales, Admiral Group is one of the leading car insurance providers in the United Kingdom, insuring more than 3.9 million vehicles and employing 7,000 staff worldwide. A MicroStrategy customer since 2009, Admiral Group will replace its existing policy administration system and leverage the MicroStrategy Analytics Platform to anchor a new dashboard reporting analytics solution. The MicroStrategy-based solution will enable Admiral employees to easily access important brand and product data across Admiral's multiple lines of business and deliver customized products and services more efficiently to Admiral customers. MicroStrategy was chosen for its solution's user-friendly capabilities, superior performance and scalability, system availability, as well as its ability to support trusted governed data discovery within a comprehensive enterprise analytics platform.

### **Bankia**

With its operational headquarters in Madrid, Spain, Bankia has 12 million customers and 10,000 employees. Bankia selected MicroStrategy as its enterprise analytics standard to improve efficiencies, boost competitiveness, and deliver better customer service. Bankia currently uses the MicroStrategy Analytics Platform to speed information analytics and management processes, yielding data-driven decisions for its employees. Bankia is currently developing a MicroStrategy-based scorecard for senior management to analyze critical KPIs. Bankia's sales managers will leverage MicroStrategy Mobile on their mobile devices to track sales and employee performance trends, as well as conduct analyses to boost office productivity and internal competitiveness. After a thorough evaluation of the various analytics solutions available in the market, Bankia selected MicroStrategy for its comprehensive analytics platform, ease of use, ease of deployment, and ability to support various data sources, as well as the platform's agility, flexibility and

scalability to accommodate Big Data.

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**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 a competitive advantage. As a strategic partner of MicroStrategy, Blackbox BI Consultancy selected the MicroStrategy Analytics Platform 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. MicroStrategy was selected for its scalability, robustness and short development cycle.

**Caisse d Epargne Cote d Azur**

Headquartered in Nice, France, Caisse d Epargne Cote d Azur is one of the 17 regional entities of Caisse d Epargne and part of BPCE, the second largest banking group in France. A new MicroStrategy customer, Caisse d Epargne Cote d Azur selected MicroStrategy to deploy an enterprise analytics and reporting platform to develop intuitive, actionable dashboards and reports for 1,700 users across the organization. The MicroStrategy Analytics Platform will be the cornerstone of the bank network's sales and financial performance management system. Caisse d Epargne Cote d Azur selected MicroStrategy for its unified architecture, best-in-class performance and scalability, full range of mobile capabilities, and its commitment to customer success.

**Electronic Partner Benelux**

Electronic Partner Benelux, with its 550 affiliated stores in the Netherlands and approximately 5,000 stores in Europe, is a leading organization in the consumer and household electrical sector. A new MicroStrategy customer, Electronic Partner Benelux selected MicroStrategy to improve its management information dashboards and reporting. Recently implementing a pilot to distribute reports to its suppliers and customers, Electronic Partner Benelux will roll out mobile dashboards to its salesforce. Electronic Partner Benelux selected MicroStrategy for its ease of use, lower total cost of ownership, and proven retail leadership.

**FNV Bondgenoten**

FNV Bondgenoten, the largest trade union in the Netherlands, works to advance the work-related and income-related interests of over 460,000 members in the retail, services, industrial, metal, agricultural, technology, temporary agency work and transportation sectors. A new MicroStrategy customer, FNV Bondgenoten will rely on the MicroStrategy Analytics Platform to analyze membership and financial data, better understand union member demographics, and devise appeals to workers to boost its membership. MicroStrategy was cited for its comprehensive enterprise software offerings, superior scalability and reliability, user-friendly capabilities, and its low total cost of ownership.

**International Post Corporation**

International Post Corporation (IPC), a cooperative association of 24 member postal operators in Asia Pacific, Europe and North America, provides its member postal operators with service quality, postal technology and market intelligence solutions and services, with the aim to support its members to ensure the high performance of international mail, packet and parcel service and respond to consumer needs. With members delivering approximately 80 percent of global postal mail, Brussels, Belgium-based IPC represents the majority of the world's mail volume. A new MicroStrategy customer, IPC selected MicroStrategy to deploy a single unified analytics platform that will enable it to develop intuitive, actionable dashboards and reports to 1,300 member postal operators and 100 internal users. These members will have access to MicroStrategy Visual Insight to build compelling visualizations and uncover insights in their data quickly. IPC selected the MicroStrategy Analytics Platform for its lowest total cost of ownership.

and fastest time to market.

### **Republic National Distributing Company, LLC**

Republic National Distributing Company, LLC (RNDC) is the second largest beverage alcohol distributor of premium wine and spirits in the U.S., employing more than 7,000 individuals nationwide. RNDC is extending its enterprise deployment of MicroStrategy to mobile devices. The first project will be an iPad sales enablement app for RNDC's salesforce. The purpose of the app is to help sales representatives analyze their key performance measures and customer stock, as well as provide them with a snapshot of their performance versus goals. Having this information on-the-go will keep RNDC's salesforce well-informed

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wherever they are in the field, and will enable more data-driven discussions when visiting with customers. RNDC chose MicroStrategy for its platform's ease of use, self-service analytics, scalability, and mobile capabilities.

### **SBV Services (Pty) Ltd**

With over 30 centers in Sub-Saharan Africa, SBV Services is a pioneer in the cash industry, providing services that extend across the entire cash supply value chain. Based in Johannesburg, South Africa, SBV Services recently expanded its agreement with MicroStrategy to enable its employees to access multiple systems to monitor and improve operations. While insight from MicroStrategy-based advanced analytics data currently helps SBV Services to evaluate key performance measures to reduce costs and identify risks, the latest agreement will mobilize its information systems to reach decision makers on their mobile devices. SBV Services chose MicroStrategy for its platform's ease of use, self-service analytics, scalability, and mobile capabilities.

### **Sonic Automotive Inc.**

Sonic Automotive, Inc., a Fortune 500 company based in Charlotte, N.C., is one of the largest automotive retailers in the U.S. with more than 100 dealerships in 13 states. Sonic Automotive expanded its agreement with MicroStrategy to deploy web and mobile-based applications to additional employees to help them monitor operations and track financial metrics in order to improve productivity and increase sales. A MicroStrategy customer since 2010, Sonic Automotive continues to leverage MicroStrategy Mobile as a strategic differentiator, empowering its dealerships to easily explore sales performance scorecards on their mobile devices to make better decisions. Sonic Automotive chose MicroStrategy for its platform's ease-of-use, market-leading mobile platform, superior data visualization capabilities, and ability to speed the business forward.

### **SPAR**

SPAR, a 100% privately owned company with headquarters in Salzburg, is one of Austria's most modern and most innovative trading companies. SPAR's core business in Austria and abroad is the food retail business. In Austria, there are approximately 1,600 stores and 41,000 employees. SPAR selected the MicroStrategy Analytics Platform to implement on top of its SAP BW data warehouse, with SAP HANA to be implemented later this year. MicroStrategy will initially be used to analyze vendor performance, with employee performance and wholesale reporting applications in development. Eventually, MicroStrategy will be adopted as SPAR's enterprise analytics standard. MicroStrategy was chosen for its comprehensive analytics platform, scalability, ease of use, and low total cost of ownership.

### **Watsco**

With headquarters in Miami, FL, Watsco is the largest distributor of air conditioning, heating, and refrigeration equipment and related parts and supplies in the HVAC/R distribution industry, currently operating 569 locations in 38 U.S. states, Canada, Mexico and Puerto Rico, with additional market coverage on an export basis to Latin America and the Caribbean. A MicroStrategy customer since 2011, Watsco chose to purchase additional licenses of the MicroStrategy Analytics Platform and MicroStrategy Mobile to provide its employees with the ability to analyze sales performance, improve operational efficiencies, and track inventory levels. Watsco cited MicroStrategy for its user-friendly capabilities, comprehensive analytics platform offering, trusted self-service data discovery, superior scalability, and mobile leadership in the market.

## **Competition**

### **MicroStrategy Analytics and MicroStrategy Secure Cloud Competitors**



The analytics platform 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, SAP, Microsoft, and Oracle, that provide one or more products that directly compete with our products; (2) open source analytics vendors such as TIBCO JasperSoft and Pentaho; (3) various other analytics software providers, such as Qlik, Tableau Software, 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

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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 platform 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.

### **MicroStrategy Usher Competitors**

MicroStrategy Usher competes with technologies categorized as user authentication products, which are dominated by a few companies such as RSA, 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. MicroStrategy Usher also competes with companies with newer solutions, often involving mobile technology, including Telesign, Authentify, SecurEnvoy, Daon, and Entrust.

## **Restructuring**

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 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 \$11.6 million and \$3.2 million in the third and fourth quarters of 2014, respectively. See Note 8, Restructuring, to the Consolidated Financial Statements for further detail on the 2014 Restructuring Plan. We expect that the 2014 Restructuring Plan will deliver annualized pre-tax savings of approximately \$67.2 million, as compared to estimated annualized pre-restructuring expenses. In addition to the 2014 Restructuring Plan, we have implemented other internal cost-savings initiatives that we expect will deliver additional annualized pre-tax savings.

## **Employees**

As of December 31, 2014, we had a total of 2,470 employees, of whom 1,201 were based in the United States and 1,269 were based internationally. Of our 2,470 employees, 662 were engaged in sales and marketing, 645 in research and development, 819 in subscription, product support, consulting, and education services, and 344 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.



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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:

	<b>December 31, 2013</b>	<b>March 31, 2014</b>	<b>June 30, 2014</b>	<b>September 30, 2014</b>	<b>December 31, 2014</b>
Subscription services	39	47	59	61	57
Product support	164	149	142	144	138
Consulting	669	653	683	676	600
Education	36	40	43	35	24
Sales and marketing	825	861	920	827	662
Research and development	953	992	1,101	965	645
General and administrative	472	479	463	417	344
Total headcount	3,158	3,221	3,411	3,125	2,470

**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 detailed 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, 2014, our research and product development staff consisted of 645 employees.

**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).

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### **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 the impact of our recent restructuring activities;

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 the impact of our recent restructuring activities;

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;

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

changes in customer budgets.

*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 implemented substantially all of the 2014 Restructuring Plan that is designed to reduce our operating expenses, 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 additional 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.



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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, 2014, 2013, and 2012; however, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future.

As of December 31, 2014, option awards granted under our stock incentive plan are expected to result in our recognizing additional share-based compensation expense of approximately \$46.6 million over the remaining weighted average vesting period of approximately 3.2 years. If our revenues are not sufficient to offset these and other 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, 2014, we had \$21.1 million of deferred tax assets, net of a \$2.3 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**

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 presents 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 following the execution of the restructuring;

diversion of management attention from ongoing business activities; and

employment by our competitors of employees whose positions were eliminated in connection with the restructuring.

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

General 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.

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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.

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 as a result of the base erosion and profit shifting (BEPS) project being undertaken by the Organisation for Economic Co-operation and Development (OECD). The OECD, which represents a coalition of member countries, is contemplating changes to numerous long-standing tax principles. These contemplated changes, if finalized and adopted by countries, could increase tax uncertainty and may adversely affect our provision for income taxes. In the U.S., a number of proposals for broad reform of the 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 examinations in the U.S. and in Germany. 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 and use 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.

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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.

### **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 platform 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, SAP, Microsoft, and Oracle, that provide one or more products that directly compete with our products; (2) open source analytics vendors such as TIBCO JasperSoft and Pentaho; (3) various other analytics software providers, such as Qlik, Tableau Software, 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.

MicroStrategy Usher competes with technologies categorized as user authentication products, which are dominated by a few companies such as RSA, 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. MicroStrategy Usher also competes with companies with newer solutions, often involving mobile technology, including Telesign, Authentify, SecurEnvoy, Daon, and Entrust. To date, we have expended significant resources in the development and marketing of MicroStrategy 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 MicroStrategy Usher.

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### **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 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.

### **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 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



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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 MicroStrategy 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.

### **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 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, 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, or (vii) adversely affect our attrition rates or our ability to attract new customers, any of which could materially adversely affect our future operating results.

For example, as described in Item 9A. Controls and Procedures, we have concluded that our internal control over financial reporting was not effective as of December 31, 2014 because of a material weakness that resulted from a failure by a third-party service organization to provide an adequate Service Organization Control (SOC) 1 Type 2 report. If we are unable to address this material weakness with respect to future periods, any ineffectiveness of our internal controls could have a material adverse effect on our operating results, cause us to fail to meet our reporting obligations, cause management to devote significant resources to improving internal controls, or reduce the market's confidence in our financial statements, which could adversely affect the market price of our stock.

### **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, 2014, transactions by channel partners for which we recognized revenues accounted for 22.4% 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, our agreements with our channel partners limit 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 dates and 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.

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**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 \$223.7 million as of December 31, 2014. We offset our accounts receivable and deferred revenue for any unpaid items, which totaled \$104.4 million, resulting in net current and non-current deferred revenue and advance payments of \$119.3 million as of December 31, 2014. 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 products, subscription services, product support, or other services through 2019 totaling approximately \$136.4 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 41.1%, 40.4%, and 42.3% of our total revenues from continuing operations for the years ended December 31, 2014, 2013, and 2012, 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

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

Various corporate tax reform bills and other proposals 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, the reduction or elimination of certain corporate tax incentives, modifications to the existing regime for taxing overseas earnings, and measures to prevent base erosion and profit shifting. It is not clear whether, or to what extent, these proposals may be enacted. 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, 2014, 2013, and 2012, our top three product licenses transactions with recognized revenue totaled \$6.4 million, \$14.3 million, and \$13.5 million respectively, or 5.1%, 9.7%, and 9.2% 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,

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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.

**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 we incorporate into 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



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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.

### **If we are unable to recruit or retain skilled personnel, or if we lose the services of any of our key management personnel, 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 may adversely impact our ability to attract or retain key employees. Our future success also depends in large part on the continued service of key management personnel, particularly Michael J. Saylor, our Chairman of the Board of Directors and Chief Executive Officer. 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 upon our business, operating results, and financial condition. We may also have to expend resources and capital to correct these defects.

Our license 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 of personal data, or any failure by us to comply with such laws and regulations or our privacy policies, could materially adversely affect our business**

Aspects of our business, including our cloud services offerings and MicroStrategy Usher, involve processing, storing, and transmitting personal data, which is subject to our privacy policies and certain federal, state, and foreign laws and regulations relating to privacy and data protection. The amount of data that we store for our customers 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 and 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

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failure by us to comply with our 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.

Various federal, state, and foreign legislative or regulatory bodies may enact new or additional laws or regulations concerning privacy and data protection that could materially adversely impact our business. Complying with these varying requirements could cause us to incur substantial costs or require us to change our business practices, either of which could materially adversely affect our business and operating results. For example, 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 experience a security breach and unauthorized parties obtain access to our customers' 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' information and data as well as our own, including in our cloud services offerings, networks, and other systems. We have security measures in place to help protect our customers' data, our data, and our cloud services offerings, networks, and other systems against unauthorized access. However, there can be no assurance that these security measures will be effective against all security threats. Our security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, fraudulent inducement of employees or customers 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' data, our data, 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.

**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

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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 two separate parties who alleged that certain of our analytics products infringe their respective patents, and we have received indemnification requests from certain of our resellers and customers who were also named as defendants in connection with one of those matters. These matters are 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.

**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 20, 2015, holders of our class B common stock owned 2,035,184 shares of class B common stock, or 68.7% of the total voting power. Michael J. Saylor, our Chairman and Chief Executive Officer, beneficially owned 2,011,668 shares of class B common stock, or 67.9% of the total voting power, as of

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February 20, 2015. 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 will 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 Stock Incentive 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.

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.



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**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. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016. 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.

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**Item 2. Properties**

As of December 31, 2014, we were leasing approximately 233,000 square feet of office space at our corporate headquarters in Northern Virginia, including approximately 19,000 square feet of office space for which we gave written notice in August 2014 of our intent to terminate, 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 early February 2015. The corporate headquarters office lease includes tenant incentives and allowances that we may use for leasehold improvements. The term of the 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, 2014, we leased approximately 35,000 square feet of office space in the U.S., in addition to our corporate headquarters and approximately 212,000 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 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 October 2012, the case was stayed pending final judgment in a separate action involving the 502 Patent filed by DataTern in the Southern District of New York, in which MicroStrategy was not a party. Final judgment in that separate action was entered against DataTern in December 2012 (the New York Judgment ). DataTern appealed the New York Judgment to the United States Court of Appeals for the Federal Circuit (the Federal Circuit ). In February 2013, MicroStrategy and DataTern filed motions for summary judgment of non-infringement in light of the New York Judgment and the United States District Court for the District of Massachusetts entered summary judgment against DataTern. In March 2013, DataTern filed a notice of appeal with the Federal Circuit. In January 2014, the Federal Circuit stayed DataTern's appeal pending the disposition of DataTern's appeal of the New York Judgment. In May 2014, the Federal Circuit affirmed the New York Judgment in part and reversed it in part. After petitions for rehearing were denied regarding the New York Judgment, the Company and DataTern agreed that the stay in their appeal in the Federal Circuit should be lifted. The Federal Circuit held oral arguments in our appeal in November 2014. On December 19, 2014, the Federal Circuit issued an opinion vacating the District of Massachusetts summary judgment, stating that the claim construction on which the summary judgment was based was incorrect. On January 26, 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. We have received indemnification requests from certain of our resellers and customers who were sued by DataTern in the United States District Court for the District of Massachusetts in lawsuits alleging infringement of the 502 Patent. The outcome of these matters is not presently determinable.

In December 2011, Vasudevan Software, Inc. ( Vasudevan ) filed a complaint for patent infringement against the Company in the United States District Court for the Northern District of California. The complaint alleged that the Company's sale of MicroStrategy 9 and other MicroStrategy products infringes four patents allegedly owned by Vasudevan known as U.S. Patent Nos. 6,877,006, 7,167,864, 7,720,861, and 8,082,268, all entitled Multimedia Inspection Database System for Dynamic Runtime Evaluation. The complaint accused the Company of infringement, inducing others to infringe, and acts of contributory infringement with respect to the patents at issue and sought a permanent injunction, an unspecified amount of damages, and other relief as may be granted by the court. In October 2013, following a series of motions by the parties, the court dismissed the case, entered judgment of non-infringement based on a stipulation of non-infringement filed by Vasudevan, and also granted MicroStrategy's motion for summary judgment of invalidity, finding the four patents in the suit invalid. In November 2013, Vasudevan filed its Notice of Appeal with the United States Court of Appeals for the Federal Circuit. Also in November 2013, Vasudevan filed a motion that was unopposed by the Company to consolidate the appeal with Vasudevan's appeal of a related matter against TIBCO Software, which had also been dismissed by the District Court on summary judgment. In February 2014, in response to Vasudevan's motion, the Court entered an order that the cases be treated as companion cases. On September 12, 2014, the parties presented oral arguments before the Federal Circuit. The parties are currently awaiting the Federal Circuit's final decision in the case. The outcome of this matter on appeal 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 or NASDAQ Global Market, as applicable:

	<b>High</b>	<b>Low</b>
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
Year ended December 31, 2013		
First Quarter	\$ 114.81	\$ 91.60
Second Quarter	105.00	82.72
Third Quarter	108.88	87.12
Fourth Quarter	130.00	95.22

There is no established public trading market for our class B common stock. As of February 20, 2015, there were approximately 1,446 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 Item 12 below.

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) Total Number of Shares (or Units) Purchased</b>	<b>(b) Average Price Paid per Share (or Unit) (1)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the</b>
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**Plans or Programs (1)**

October 1, 2014				
October 31, 2014	0	N/A	0	\$454,708,615
November 1, 2014				
November 30, 2014	0	N/A	0	\$454,708,615
December 1, 2014				
December 31, 2014	0	N/A	0	\$454,708,615
Total:	0	N/A	0	\$454,708,615

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(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, 2014, 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, 2014, \$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, 2009 (the last trading day before the beginning of our fifth preceding fiscal year) to December 31, 2014 (the last trading day of the fiscal year ended December 31, 2014) 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, 2009 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, 2009, December 31, 2010, December 30, 2011, December 31, 2012, December 31, 2013, and December 31, 2014.

	12/31/09	12/31/10	12/30/11	12/31/12	12/31/13	12/31/14
MicroStrategy Incorporated	\$ 100.00	\$ 90.91	\$ 115.21	\$ 99.32	\$ 132.14	\$ 172.73
NASDAQ Composite Index	\$ 100.00	\$ 118.02	\$ 117.04	\$ 137.47	\$ 192.62	\$ 221.02
NASDAQ Computer Index	\$ 100.00	\$ 118.48	\$ 120.07	\$ 136.84	\$ 183.49	\$ 223.30

**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.

	2014	Years Ended December 31,			
		2013	2012	2011	2010
		(in thousands, except per share data)			
Statements of Operations Data					
Total revenues	\$ 579,830	\$ 575,888	\$ 565,724	\$ 537,168	\$ 436,088
Income from continuing operations, net of tax	\$ 5,035	\$ 26,550	\$ 22,473	\$ 21,807	\$ 46,430
Discontinued operations, net of tax	\$ 0	\$ 56,782	\$ (1,927)	\$ (3,867)	\$ (2,638)
Net income	\$ 5,035	\$ 83,332	\$ 20,546	\$ 17,940	\$ 43,792
Earnings (loss) per share (1)(2):					
Basic, from continuing operations	\$ 0.45	\$ 2.35	\$ 2.05	\$ 2.03	\$ 4.08
Basic, from discontinued operations	0.00	5.02	(0.18)	(0.36)	(0.23)
Basic earnings per share	\$ 0.45	\$ 7.37	\$ 1.87	\$ 1.67	\$ 3.85
Diluted, from continuing operations	\$ 0.44	\$ 2.35	\$ 2.01	\$ 1.97	\$ 3.94
Diluted, from discontinued operations	0.00	5.02	(0.17)	(0.35)	(0.22)
Diluted earnings per share	\$ 0.44	\$ 7.37	\$ 1.84	\$ 1.62	\$ 3.72

		As of December 31,			
	2014	2013	2012	2011	2010
		(in thousands)			
Balance Sheet Data					
Total assets, excluding held-for-sale	\$ 558,797	\$ 585,514	\$ 467,367	\$ 440,487	\$ 375,610
Long-term liabilities, excluding deferred revenue, advance payments, and held-for-sale	\$ 26,208	\$ 32,699	\$ 49,649	\$ 55,551	\$ 37,909
Total stockholders' equity	\$324,471	\$ 310,326	\$ 200,311	\$ 168,978	\$ 149,172

(1) Basic and fully diluted earnings 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-ready analytics, mobile, and security software platforms. MicroStrategy provides system-of-record reporting and interactive visualization capabilities offered on any device or in the cloud. The Company's mission is to provide enterprise analytics, mobility, and security platforms that are flexible, powerful, scalable, and user-friendly.

MicroStrategy Analytics empowers organizations to analyze vast amounts of data and securely distribute actionable business insight throughout an enterprise through two distinct offerings—MicroStrategy Analytics Platform and MicroStrategy Analytics Desktop. The MicroStrategy Analytics Platform delivers reports and dashboards, and enables users to conduct ad hoc analysis and share insights anywhere, anytime, via mobile devices or the 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. The MicroStrategy Analytics Platform is integrated with MicroStrategy Analytics Desktop, a standalone desktop tool designed to enable business users to analyze and understand their data. With MicroStrategy Analytics Desktop, 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 information-rich applications that deliver analytics combined with transactions, multimedia, and custom workflows to mobile devices. The powerful code-free platform approach is designed to reduce the costs of development and enable organizations to deploy powerful mobile business apps quickly and cost-effectively. 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 Usher is a mobile identity and security platform designed to make identity management simple, seamless, and secure. Built on an advanced mobile-centric enterprise platform, MicroStrategy Usher can dematerialize traditional forms of identity verification such as passwords and physical badges and replace them with a single mobile identity badge, stored on a smartphone, that is cryptographically linked to its owner's phone and dynamically linked to the enterprise's existing identity repositories. MicroStrategy Usher's enterprise mobile identity solution addresses some of the biggest challenges facing corporations today, including authentication, cybersecurity, access management, and resource authorization, while applying industry leading business intelligence and analytics to an enterprise's security infrastructure. Users can log into applications, unlock doors, validate each other's identities, and gain a holistic view of

network activity using only mobile identities, either through Bluetooth, QR codes, or time-limited PIN codes. MicroStrategy Usher can also be used as a powerful workforce management resource because it is designed to enable managers to gain a near real-time window into the activity of their distributed workforces, while providing powerful interactive features to manage or direct them. We currently offer MicroStrategy Usher as a subscription-based service.

MicroStrategy Secure Cloud is a platform for organizations that want to harness the power of enterprise analytics, mobility, and security applications via the cloud. MicroStrategy Secure Cloud brings together enterprise analytics, analytical databases, and ETL capabilities in a high performance integrated environment. MicroStrategy Secure Cloud offers on-demand access to the full breadth of

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the MicroStrategy Analytics Platform and MicroStrategy Mobile capabilities and is optimized for a variety of enterprise applications. Compared to traditional on-premises approaches, MicroStrategy Secure Cloud is architected to deliver best-of-breed MicroStrategy and Usher software via the cloud, with pre-configured, ready to go MicroStrategy servers, coupled with the required supporting infrastructure of metadata databases, relational databases, and big data storage.

The MicroStrategy Analytics Platform, MicroStrategy Mobile, and MicroStrategy Secure Cloud, together with related product and support services, continue to generate the vast majority of our revenue. During 2014, 2013, and 2012, we did not generate significant revenues from MicroStrategy 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.

The following tables set forth certain operating highlights (in thousands) for the years ended December 31, 2014, 2013, and 2012:

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Revenues</b>			
Product licenses	\$ 125,952	\$ 147,879	\$ 147,344
Subscription services	22,322	12,246	3,118
Total product licenses and subscription services	148,274	160,125	150,462
Product support	295,703	277,509	262,048
Other services	135,853	138,254	153,214
<b>Total revenues</b>	<b>579,830</b>	<b>575,888</b>	<b>565,724</b>
<b>Cost of revenues</b>			
Product licenses	6,957	6,606	5,819
Subscription services	17,560	15,636	6,621
Total product licenses and subscription services	24,517	22,242	12,440
Product support	14,241	16,617	15,532
Other services	96,452	99,710	113,104
<b>Total cost of revenues</b>	<b>135,210</b>	<b>138,569</b>	<b>141,076</b>

<b>Gross profit</b>	<b>444,620</b>	<b>437,319</b>	<b>424,648</b>
<b>Operating expenses</b>			
Sales and marketing	225,086	215,089	209,975
Research and development	103,355	98,056	88,190
General and administrative	96,343	104,734	93,384
Restructuring costs	14,732	0	0
<b>Total operating expenses</b>	<b>439,516</b>	<b>417,879</b>	<b>391,549</b>
<b>Income from continuing operations</b>	<b>\$ 5,104</b>	<b>\$ 19,440</b>	<b>\$ 33,099</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 market we compete with many different vendors, including 1) large software vendors (megavendors), such as IBM, SAP, Microsoft, and Oracle, that provide one or more products that directly compete with our products; 2) open source analytics vendors such as TIBCO JasperSoft and Pentaho; (3) various other analytics software providers, such as Qlik, Tableau Software, 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.

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Our success depends on the effectiveness with which we can differentiate our product from both the megavendors and the independent 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.

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 new and existing clients to realize the full potential of their analytical applications;

- integration with MicroStrategy Usher, through MicroStrategy 9s, which is a comprehensive, unified platform designed to help ensure the security of valuable information;

- 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;

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 security solutions;

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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. We had implemented substantially all of the plan by the end of the fourth quarter of 2014. The 2014 Restructuring Plan resulted in a pre-tax restructuring charge of \$14.7 million in 2014. See Note 8, Restructuring, to the Consolidated Financial Statements for further detail on the 2014 Restructuring Plan. We expect that the 2014 Restructuring Plan will deliver annualized pre-tax savings of approximately \$67.2 million, as compared to estimated annualized pre-restructuring expenses. In addition to the 2014 Restructuring Plan, we have implemented other internal cost-savings initiatives that we expect will deliver additional annualized pre-tax savings.

In January 2010, we entered into a lease for approximately 142,000 square feet of office space at a location in Northern Virginia that began serving as our corporate headquarters in October 2010. The lease granted an abatement of base rent until March 2011. In May 2010 and May 2011, we entered into amendments to the lease pursuant to which, in each instance, we leased an additional 24,000 square feet of office space, for a cumulative total of 48,000 square feet of additional office space, at the same location. The May 2010 amendment provided an abatement of base rent on the additional space until July 2011. The May 2011 amendment provided for an abatement of base rent on the additional space until February 2012. In April 2014, we entered into an amendment to the lease pursuant to which we leased an additional 43,000 square feet of office space at the same location (the April 2014 leased space). In August 2014, as part of the 2014 Restructuring Plan, we gave written notice of our intent to terminate the lease with respect to approximately 19,000 square feet of the April 2014 leased space effective February 2015. We never used the terminated lease space and it remained vacant until it was terminated in early February 2015. We have recognized and paid all related lease termination costs associated with this terminated lease space during 2014. The lease, as amended, includes tenant incentives and allowances that we may use for leasehold improvements. The term of the lease, as amended, expires in December 2020. Notwithstanding the rent abatements, we are recognizing lease expense on continuing operating leases ratably over the term of the lease.

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 amended 2013 Stock Incentive Plan (the 2013 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>2014</b>	<b>2013</b>	<b>2012</b>
Sales and marketing	\$ 335	\$ 0	\$ 0
Research and development	967	346	0
General and administrative	10,484	1,732	0
Total share-based compensation expense	\$ 11,786	\$ 2,078	\$ 0

As of December 31, 2014, we estimate that approximately \$46.6 million of additional share-based compensation expense for options granted under the 2013 Plan will be recognized over a remaining weighted average period of 3.2 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



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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>2014</b>	<b>2013</b>	<b>2012</b>
<b>Reconciliation of non-GAAP income from continuing operations:</b>			
Income from continuing operations	\$ 5,104	\$ 19,440	\$ 33,099
Share-based compensation expense	11,786	2,078	0
Restructuring costs	14,732	0	0
Non-GAAP income from continuing operations	\$ 31,622	\$ 21,518	\$ 33,099

**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.

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;

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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.

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 or similar rights. We offer price protection to certain government agencies as required by applicable laws and regulations. For example, transactions under our General Services Administration Federal Supply Schedule contract must comply with the Price Reductions clause. In addition, certain government

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agencies have the right to cancel contracts for convenience. During the last three fiscal years, amounts related to price protection or similar rights clauses and contracts cancelled for convenience were not significant.

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 collectibility 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 the MicroStrategy Analytics Platform 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**.

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 2014, 2013, and 2012, we did not generate significant revenues from MicroStrategy 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

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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.

***Restructuring Costs.*** In 2014, we committed to, and substantially implemented, a restructuring plan. In connection with this restructuring plan, we 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 our 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.

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 us. Costs to terminate the contract before the end of the term are recognized at fair value when we terminate 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 us (for example, remaining lease rental payments and executory costs) are recognized at fair value in the period in which we cease 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.



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

At each reporting date, we evaluate our 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.

***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.

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.

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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>2014</b>	<b>2013</b>	<b>2012</b>
International product licenses revenues	\$ (1,985)	\$ (1,089)	\$ (3,973)
International subscription services revenues	67	(3)	(4)
International product support revenues	(2,782)	(686)	(7,732)
International other services revenues	(1,078)	(859)	(4,089)
Cost of product support revenues	27	(146)	(216)
Cost of other services revenues	(665)	(109)	(3,906)
Sales and marketing expenses	(1,583)	(1,039)	(5,649)
Research and development expenses	278	627	270
General and administrative expenses	(536)	(264)	(1,241)

For example, if there had been no change to foreign currency exchange rates from 2013 to 2014, international product licenses revenues would have been \$59.1 million rather than \$57.1 million for the year ended December 31, 2014. If there had been no change to foreign currency exchange rates from 2013 to 2014, sales and marketing expenses would have been \$226.7 million rather than \$225.1 million for the year ended December 31, 2014.

**Table of Contents****Results of Operations****Comparison of the years ended December 31, 2014, 2013, and 2012****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
	2014	2013	2012	in 2014	in 2013
Product Licenses and Subscription Services Revenues:					
Product Licenses					
Domestic	\$ 68,836	\$ 87,109	\$ 80,508	-21.0%	8.2%
International	57,116	60,770	66,836	-6.0%	-9.1%
Total product licenses revenues	125,952	147,879	147,344	-14.8%	0.4%
Subscription Services					
Domestic	19,454	10,939	3,054	77.8%	258.2%
International	2,868	1,307	64	119.4%	1942.2%
Total subscription services revenues	22,322	12,246	3,118	82.3%	292.8%
Total product licenses and subscription services revenues	\$ 148,274	\$ 160,125	\$ 150,462	-7.4%	6.4%

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,		
	2014	2013	2012
Product Licenses Transactions with Recognized Licenses Revenue in the Applicable Period:			
More than \$1.0 million in licenses revenue recognized	14	18	19
Between \$0.5 million and \$1.0 million in licenses revenue recognized	29	32	31
Total	43	50	50

*Domestic:*

More than \$1.0 million in licenses revenue recognized	11	14	15
Between \$0.5 million and \$1.0 million in licenses revenue recognized	15	21	18
Total	26	35	33

*International:*

More than \$1.0 million in licenses revenue recognized	3	4	4
Between \$0.5 million and \$1.0 million in licenses revenue recognized	14	11	13
Total	17	15	17

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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 in				
	2014	2013	2012	in 2014	in 2013
<b>Product Licenses Revenue Recognized in the Applicable Period:</b>					
More than \$1.0 million in licenses revenue recognized	\$ 21,335	\$ 37,585	\$ 39,103	43.2%	3.9%
Between \$0.5 million and \$1.0 million in licenses revenue recognized	19,755	22,089	20,942	10.6%	5.5%
Less than \$0.5 million in licenses revenue recognized	84,862	88,205	87,299	3.8%	1.0%
<b>Total</b>	<b>125,952</b>	<b>147,879</b>	<b>147,344</b>	<b>14.8%</b>	<b>0.4%</b>
<b>Domestic:</b>					
More than \$1.0 million in licenses revenue recognized	16,231	30,710	25,709	47.1%	19.5%
Between \$0.5 million and \$1.0 million in licenses revenue recognized	10,596	14,505	12,172	26.9%	19.2%
Less than \$0.5 million in licenses revenue recognized	42,009	41,894	42,627	0.3%	1.7%
<b>Total</b>	<b>68,836</b>	<b>87,109</b>	<b>80,508</b>	<b>21.0%</b>	<b>8.2%</b>
<b>International:</b>					
More than \$1.0 million in licenses revenue recognized	5,104	6,875	13,394	25.8%	48.7%
Between \$0.5 million and \$1.0 million in licenses revenue recognized	9,159	7,584	8,770	20.8%	13.5%
Less than \$0.5 million in licenses revenue recognized	42,853	46,311	44,672	7.5%	3.7%
<b>Total</b>	<b>\$ 57,116</b>	<b>\$ 60,770</b>	<b>\$ 66,836</b>	<b>6.0%</b>	<b>9.1%</b>

Product licenses revenues decreased \$21.9 million during 2014, as compared to the prior year. Product licenses revenues increased \$0.5 million during 2013, as compared to the prior year. For the years ended December 31, 2014, 2013, and 2012, product licenses transactions with more than \$0.5 million in recognized revenue represented 32.6%, 40.4%, and 40.8%, respectively, of our product licenses revenues. During 2014, our top three product licenses transactions totaled \$6.4 million in recognized revenue, or 5.1% of total product licenses revenues, compared to \$14.3 million and \$13.5 million, or 9.7% and 9.2% of total product licenses revenues, during 2013 and 2012, 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 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.

Domestic product licenses revenues increased \$6.6 million during 2013, as compared to the prior year, primarily due to an increase in the 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.

million, partially offset by a decrease in the number of transactions with less than \$0.5 million in recognized revenue.

***International product licenses revenues.*** International product licenses revenues decreased \$3.7 million during 2014, as compared to the prior year, primarily due to a decrease in the number of transactions with less than \$0.5 million in recognized revenue and a decrease in the number and average deal size 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.

International product licenses revenues decreased \$6.1 million during 2013, as compared to the prior year, primarily due to a decrease in the 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, partially offset by an increase in the number of transactions with less than \$0.5 million in recognized revenue.

***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 \$10.1 million



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during 2014, 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. Subscription services revenues increased \$9.1 million during 2013, as compared to the prior year, primarily due to an increase in the number of new customers as our cloud services business has continued to grow.

**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
	2014	2013	2012	in 2014	in 2013
Product Support Revenues:					
Domestic	\$ 171,505	\$ 159,659	\$ 149,738	7.4%	6.6%
International	124,198	117,850	112,310	5.4%	4.9%
Total product support revenues	\$ 295,703	\$ 277,509	\$ 262,048	6.6%	5.9%

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 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. Product support revenues increased \$15.5 million during 2013, as compared to the prior year, primarily due to an increase in the number of product support contracts and an overall increase in renewal pricing on existing product support contracts.

**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
	2014	2013	2012	in 2014	in 2013
Other Services Revenues:					
Consulting					
Domestic	\$ 73,180	\$ 75,193	\$ 81,796	2.7%	8.1%
International	48,778	47,037	52,586	3.7%	10.6%
Total consulting revenues	121,958	122,230	134,382	0.2%	9.0%
Education	13,895	16,024	18,832	13.3%	14.9%
Total other services revenues	\$ 135,853	\$ 138,254	\$ 153,214	1.7%	9.8%

**Consulting revenues.** Consulting revenues are derived from helping customers plan and execute the deployment of our software. 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. Consulting revenues decreased during 2013, as compared to the prior year, primarily due to a decrease in billable hours that occurred following the completion of several major client implementations.

**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 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. Education revenues decreased during 2013, as compared to the prior year, primarily due to lower overall contract values, a decrease in private and custom courses delivered, and shifting demand from traditional classroom training to virtual training within our education pass program.

**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
	2014	2013	2012	in 2014	in 2013
<b>Cost of Revenues:</b>					
<b>Product licenses and subscription services:</b>					
Product licenses	\$ 6,957	\$ 6,606	\$ 5,819	5.3%	13.5%
Subscription services	17,560	15,636	6,621	12.3%	136.2%
<b>Total product licenses and subscription services</b>	<b>24,517</b>	<b>22,242</b>	<b>12,440</b>	<b>10.2%</b>	<b>78.8%</b>
Product support	14,241	16,617	15,532	14.3%	7.0%
<b>Other services:</b>					
Consulting	90,780	93,661	105,720	3.1%	11.4%
Education	5,672	6,049	7,384	6.2%	18.1%
<b>Total other services</b>	<b>96,452</b>	<b>99,710</b>	<b>113,104</b>	<b>3.3%</b>	<b>11.8%</b>
<b>Total cost of revenues</b>	<b>\$ 135,210</b>	<b>\$ 138,569</b>	<b>\$ 141,076</b>	<b>2.4%</b>	<b>1.8%</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, 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 \$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. We expect to amortize the remaining balance of our products' capitalized software development costs as of December 31, 2014 ratably over the applicable remaining amortization periods as follows:

<b>Capitalized Software Development Costs, Net, as of December 31, 2014 (in thousands)</b>	<b>Remaining Amortization Period (in months)</b>
----------------------------------------------------------------------------------------------------------------	----------------------------------------------------------

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MicroStrategy 9.3	\$	1,901	9
MicroStrategy 9.4		3,172	21
MicroStrategy 10		8,396	n/a

Total capitalized software development costs	\$	13,469
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During 2014, we also recorded \$8.4 million in capitalized software development costs associated with development efforts related to MicroStrategy 10. Upon this product becoming generally available, we will begin to amortize its costs over the estimated product life of 36 months.

All of the above software form part of the MicroStrategy Analytics Platform.

Cost of product licenses revenues increased \$0.8 million during 2013, as compared to the prior year, primarily due to a \$1.9 million increase in amortization of capitalized software development costs related to the release of MicroStrategy 9.3 in September 2012 and a \$0.5 million increase in amortization of capitalized software development costs related to the release of MicroStrategy 9.4 in October 2013, partially offset by a \$1.3 million decrease in amortization of capitalized software development costs related to MicroStrategy 9, which became fully amortized in March 2012, and a \$0.4 million decrease in amortization of capitalized software development costs related to MicroStrategy Mobile, which became fully amortized in June 2013.

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***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 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 subscription services revenues increased \$9.0 million during 2013, as compared to the prior year, due to a \$6.6 million increase in equipment depreciation and facility and other related support costs, a \$1.7 million increase in compensation and related costs due to an increase in staffing levels, and a \$0.7 million increase in consulting and advisory costs. Subscription services headcount increased 160.0% to 39 at December 31, 2013 from 15 at December 31, 2012.

***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 \$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 product support revenues increased \$1.1 million during 2013, as compared to the prior year, due to a \$0.9 million increase in compensation and related costs due to a change in staffing composition and a \$0.2 million increase in facility and other related support costs. Product support headcount decreased 9.9% to 164 at December 31, 2013 from 182 at December 31, 2012.

***Cost of consulting revenues.*** Cost of consulting revenues consists of personnel and related overhead costs. 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. The decrease in cost of consulting revenues during 2014 does not fully reflect the savings expected to be delivered from the 2014 Restructuring Plan that we substantially implemented in the third and fourth quarters of 2014. As noted in *Liquidity and Capital Resources*, as compared to estimated annualized pre-restructuring expenses, we expect to deliver approximately \$4.0 million in annualized cost savings in 2015 from reduced cost of consulting revenues as a result of the 2014 Restructuring Plan. Consulting headcount decreased 10.3% to 600 at December 31, 2014 from 669 at December 31, 2013.

Cost of consulting revenues decreased \$12.1 million during 2013, as compared to the prior year, due to an \$11.0 million decrease in compensation and related costs due to a decrease in staffing levels and a \$1.3 million decrease in travel and entertainment expenditures, partially offset by a \$0.1 million increase in facility and other related support costs and a \$0.1 million increase in subcontractor costs. Consulting headcount decreased 18.8% to 669 at December 31, 2013 from 824 at December 31, 2012.

***Cost of education revenues.*** Cost of education revenues consists of personnel and related overhead costs. 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. The decrease in cost of education revenues during 2014 does not fully reflect the savings expected to be delivered from the 2014 Restructuring Plan that we substantially implemented in the third and fourth quarters of 2014. As noted in *Liquidity*

and Capital Resources , as compared to estimated annualized pre-restructuring expenses, we expect to deliver approximately \$1.7 million in annualized cost savings in 2015 from reduced cost of education revenues as a result of the 2014 Restructuring Plan. Education headcount decreased 33.3% to 24 at December 31, 2014 from 36 at December 31, 2013.

Cost of education revenues decreased \$1.3 million during 2013, as compared to the prior year, primarily due to a \$0.8 million decrease in compensation and related costs associated with a decrease in staffing levels, a \$0.3 million decrease in travel and entertainment expenditures, and a \$0.3 million decrease in facility and other related support costs. Education headcount decreased 25.0% to 36 at December 31, 2013 from 48 at December 31, 2012.

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**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,

	Years Ended December 31,			% Change	% Change
	2014	2013	2012	in 2014	in 2013
Sales and marketing expenses:	\$ 225,086	\$ 215,089	\$ 209,975	4.6%	2.4%

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 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. The increase in sales and marketing expenses during 2014 does not fully reflect the savings expected to be delivered from the 2014 Restructuring Plan that we substantially implemented in the third and fourth quarters of 2014. As noted in *Liquidity and Capital Resources*, as compared to estimated annualized pre-restructuring expenses, we expect to deliver approximately \$25.6 million in annualized cost savings in 2015 from reduced sales and marketing expenses as a result of the 2014 Restructuring Plan. Sales and marketing headcount decreased 19.8% to 662 at December 31, 2014 from 825 at December 31, 2013. Having substantially implemented the 2014 Restructuring Plan, we do not expect to increase sales and marketing headcount significantly in the near term.

As a result of the grant of stock options under the 2013 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, 2014, we estimate that approximately \$6.1 million of additional share-based compensation expense will be recognized as sales and marketing expense over a remaining weighted average period of 3.8 years. See

Overview and Note 12, Share-based Compensation, to the Consolidated Financial Statements for further information regarding the 2013 Plan and related share-based compensation expense.

Sales and marketing expenses increased \$5.1 million during 2013, as compared to the prior year, due to a \$7.4 million increase in compensation, variable compensation, and related costs, a \$0.9 million increase in facility and other related support costs, a \$0.4 million increase in consulting and advisory costs, and a \$0.4 million increase in recruiting costs, partially offset by a \$2.7 million decrease in advertising costs and a \$1.3 million decrease in travel and entertainment expenditures. Sales and marketing headcount increased 13.8% to 825 at December 31, 2013 from 725 at December 31, 2012.

**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
	2014	2013	2012	in 2014	in 2013
General and administrative expenses	\$ 96,343	\$ 104,734	\$ 93,384	-8.0%	12.2%

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



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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 Plan. The decrease in general and administrative expenses during 2014 does not fully reflect the savings expected to be delivered from the 2014 Restructuring Plan that we substantially implemented in the third and fourth quarters of 2014. As noted in *Liquidity and Capital Resources*, as compared to estimated annualized pre-restructuring expenses, we expect to deliver approximately \$8.4 million in annualized cost savings in 2015 from reduced general and administrative expenses as a result of the 2014 Restructuring Plan. General and administrative headcount decreased 27.1% to 344 at December 31, 2014 from 472 at December 31, 2013. 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 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, 2014, we estimate that approximately \$39.2 million of additional share-based compensation expense will be recognized as general and administrative expense over a remaining weighted average period of 3.1 years. See *Overview* and Note 12, Share-based Compensation, to the Consolidated Financial Statements for further information regarding the 2013 Plan and related share-based compensation expense.

General and administrative expenses increased \$11.4 million during 2013, as compared to the prior year, primarily due to an \$11.7 million increase in compensation and related costs due to an increase in executive bonus accruals and an increase in staffing levels, a \$1.7 million increase in share-based compensation expense related to the grant of stock options under the 2013 Plan, a \$1.5 million increase in facility and other related support costs, a \$0.6 million increase in travel and entertainment expenditures, a \$0.6 million increase in non-income taxes, and a \$0.4 million decrease in the capitalization of internally developed software, partially offset by a \$3.9 million decrease in legal, consulting, and other advisory costs and a \$1.5 million decrease in other operating costs of our owned corporate aircraft. General and administrative headcount increased 10.3% to 472 at December 31, 2013 from 428 at December 31, 2012.

**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
	2014	2013	2012	in 2014	in 2013
Gross research and development expenses before capitalized software development costs	\$ 111,751	\$ 103,493	\$ 96,338	8.0%	7.4%
Capitalized software development costs	(8,396)	(5,437)	(8,148)	54.4%	33.3%
Total research and development expenses	\$ 103,355	\$ 98,056	\$ 88,190	5.4%	11.2%
Amortization of capitalized software development costs included in cost of product licenses revenues	\$ 5,222	\$ 5,502	\$ 4,819	5.1%	14.2%

Research and development expenses, before capitalization of software development costs, increased \$8.3 million, or 8.0%, 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 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 our MicroStrategy 10 software, as compared to \$5.4 million in software development costs that were capitalized in the prior year. The increase in research and development expenses, before capitalization of software development costs, during 2014 does not fully reflect the savings expected to be delivered from the 2014 Restructuring Plan that we substantially implemented in the third and fourth quarters of 2014. As noted in *Liquidity and Capital Resources*, as compared to estimated annualized pre-restructuring expenses, we expect to deliver approximately \$27.5 million in annualized cost savings in 2015 from reduced research and

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development expenses as a result of the 2014 Restructuring Plan. Research and development headcount decreased 32.3% to 645 at December 31, 2014 from 953 at December 31, 2013. Having substantially implemented the 2014 Restructuring Plan, we do not expect to increase research and development headcount significantly in the near term.

As a result of the grant of stock options under the 2013 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, 2014, we estimate that approximately \$1.3 million of additional share-based compensation expense will be recognized as research and development 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 Plan and related share-based compensation expense.

Research and development expenses, before capitalization of software development costs, increased \$7.2 million, or 7.4%, during 2013, as compared to the prior year, primarily due to a \$9.5 million increase in compensation and related costs due to an increase in staffing levels, a \$0.3 million increase in share-based compensation expense related to the grant of stock options under the 2013 Plan, and a \$0.3 million increase in recruiting costs, partially offset by a \$1.9 million decrease in facility and other related support costs that was primarily the result of a reclassification of such costs to cost of subscription services and a \$1.3 million decrease in consulting and advisory costs. During 2013, we capitalized \$5.4 million in costs associated with the development of our MicroStrategy 9.4 software, as compared to \$8.1 million in software development costs associated with the development of our MicroStrategy 9.3 software that were capitalized in the prior year. Research and development headcount increased 7.3% to 953 at December 31, 2013 from 888 at December 31, 2012.

During 2014, our research and development effort was focused on the following: 68.7% on the MicroStrategy Analytics Platform, MicroStrategy Mobile, MicroStrategy Secure Cloud, and internal information technology initiatives and 31.3% on other research and development, including MicroStrategy Usher.

During 2013, our research and development effort was focused on the following: 61.9% on the MicroStrategy Analytics Platform, MicroStrategy Mobile, MicroStrategy Secure Cloud, and internal information technology initiatives and 38.1% on other research and development, including MicroStrategy Usher.

***Restructuring costs.*** In the third quarter of 2014, we adopted the 2014 Restructuring Plan, which included a workforce reduction of 777 employees. Restructuring costs consist primarily of employee severance and related benefit costs, contract termination costs, and other related costs associated with our restructuring activities. Total restructuring costs were \$14.7 million for the year ended December 31, 2014, as compared to no such costs in the same period in the prior year, due to the implementation of the 2014 Restructuring Plan in the third and fourth quarters of 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.

**Other Income (Expense), Net**

Other income (expense), net is comprised primarily of realized and unrealized gains and losses on our foreign currency forward contracts, foreign currency transaction gains and losses, and proceeds from litigation settlements. 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 \$1.7 million in net unrealized gains from foreign currency forward contracts, offset by \$0.6 million in net realized 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. During 2012, other expense, net, of \$1.0 million was comprised primarily of \$2.0 million in foreign currency transaction net losses, arising mainly from the revaluation of U.S. dollar denominated cash balances held at international locations.

**Table of Contents****Provision for Income Taxes**

During 2014, we recorded a provision for income taxes from continuing operations of \$6.0 million that resulted in an effective tax rate from continuing operations of 54.4%, as compared to a benefit from income taxes from continuing operations of \$9.8 million that resulted in an effective tax rate of negative 58.5% during 2013. The change in the Company's effective tax rate from continuing operations in 2014, as compared to the prior year, was primarily due to the increase in the valuation allowance in 2014 and the release of liability for certain unrecognized tax benefits in 2013.

As of December 31, 2014, we had U.S. federal net operating loss ( NOL ) carryforwards of \$14.7 million and foreign NOL carryforwards of \$3.4 million. As of December 31, 2014, U.S. and foreign NOL carryforwards, other temporary differences and carryforwards, and credits resulted in deferred tax assets, net of valuation allowances and deferred tax liabilities, of \$17.0 million. As of December 31, 2014, we had a valuation allowance of \$2.3 million primarily related to certain foreign tax credit carryforwards and foreign NOL carryforwards that, in our present estimation, more likely than not will not be realized.

Although we have substantially implemented all of the 2014 Restructuring Plan, if we are unable to sustain or increase profitability after we have fully implemented the restructuring plan, we may not be able to realize these tax assets. If we are unable to achieve profitability in the near future, particularly relating to our U.S. operations, we may be required to increase the valuation allowance against our deferred tax assets. 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 repatriated Subpart F deemed dividends of \$1.3 million, \$1.0 million and \$2.5 million in 2014, 2013, and 2012, respectively, with no additional tax. As of December 31, 2014 and December 31, 2013, the amount of cash and cash equivalents and short-term investments held by U.S. entities was \$139.1 million and \$160.5 million, respectively, and by non-U.S. entities was \$206.4 million and \$196.9 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 \$201.7 million at December 31, 2014. 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.

During 2012, we recorded a provision for income taxes from continuing operations of \$9.7 million, resulting in an effective tax rate of 30.2%. The change in our effective tax rate from continuing operations in 2013, as compared to 2012, was primarily due to the release of liabilities for unrecognized tax benefits as the statute of limitations on certain previously filed tax returns expired in the third quarter of 2013, a favorable settlement of a German tax examination in the second quarter of 2013, and the 2012 U.S. research and development tax credit, which was retroactively reinstated by the American Taxpayer Relief Act of 2012 signed into law on January 2, 2013 and recorded as a tax benefit in the first quarter of 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. The following table summarizes the gain from the sale of discontinued operations, net of tax, and loss from discontinued operations, net of tax, (in thousands) and percentage changes for the periods indicated:

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		<b>Years Ended December 31,</b>		<b>% Change</b>	<b>% Change</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>in 2014</b>	<b>in 2013</b>
Gain on sale of discontinued operations, net of tax	\$ 0	\$ 57,377	\$ 0	n/a	n/a
Loss from discontinued operations, net of tax	\$ 0	\$ 595	\$ 1,927	n/a	-69.1%

**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>2014</b>	<b>December 31, 2013</b>	<b>2012</b>
<b>Current:</b>			
Deferred product licenses revenue	\$ 10,927	\$ 14,538	\$ 12,252
Deferred subscription services revenue	16,018	10,923	7,087
Deferred product support revenue	168,833	167,771	145,343
Deferred other services revenue	10,564	17,056	15,132
Gross current deferred revenue and advance payments	206,342	210,288	179,814
Less: unpaid deferred revenue	(97,929)	(96,632)	(78,565)
Net current deferred revenue and advance payments	\$ 108,413	\$ 113,656	\$ 101,249
<b>Non-current:</b>			
Deferred product licenses revenue	\$ 8,012	\$ 4,401	\$ 3,280
Deferred subscription services revenue	750	1,161	1,028
Deferred product support revenue	7,505	5,877	8,205
Deferred other services revenue	1,047	1,175	852
Gross non-current deferred revenue and advance payments	17,314	12,614	13,365
Less: unpaid deferred revenue	(6,496)	(3,644)	(4,542)
Net non-current deferred revenue and advance payments	\$ 10,818	\$ 8,970	\$ 8,823
<b>Total current and non-current:</b>			
Deferred product licenses revenue	\$ 18,939	\$ 18,939	\$ 15,532
Deferred subscription services revenue	16,768	12,084	8,115
Deferred product support revenue	176,338	173,648	153,548

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Deferred other services revenue	11,611	18,231	15,984
Gross current and non-current deferred revenue and advance payments	223,656	222,902	193,179
Less: unpaid deferred revenue	(104,425)	(100,276)	(83,107)
Net current and non-current deferred revenue and advance payments	\$ 119,231	\$ 122,626	\$ 110,072

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 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. Total gross deferred revenue and advance payments increased \$29.7 million in 2013, as compared to the prior year, primarily due to more timely renewals of product support at year-end and an increase in deferred revenue from new product licenses, subscription services, product support, and other services contracts.

We expect to recognize approximately \$206.3 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.



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As of December 31, 2014, 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 2019 totaling approximately \$136.4 million. As of December 31, 2013, the future minimum commitments by our customers to purchase products, subscription services, product support, or other services through 2018 totaled approximately \$119.7 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, 2014, total accrued restructuring costs were \$2.3 million, most of which are expected to be paid in the first quarter of 2015. 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 is expected to deliver annualized pre-tax savings of approximately \$67.2 million, as compared to estimated annualized pre-restructuring expenses, primarily as a result of reduced employee compensation and rent expense across the following line items within the Consolidated Statements of Operations (in thousands):

	<b>Estimated Annual Pre-Tax Savings</b>
Cost of other services	\$ 5,700
Sales and marketing	25,600
Research and development	27,500
General and administrative	8,400
<b>Total estimated annual pre-tax savings from restructuring</b>	<b>\$ 67,200</b>

In our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014, we estimated that total annual pre-tax savings from the 2014 Restructuring Plan would be \$73.4 million. As of December 31, 2014, we have revised our total estimated annual pre-tax savings from the 2014 Restructuring Plan to be \$67.2 million. The \$6.2 million decrease in total estimated annual pre-tax savings is primarily due to a change in business strategy and other developments.

In addition to the 2014 Restructuring Plan, we have implemented other internal cost-saving initiatives that we expect will deliver additional annualized pre-tax savings.

As of December 31, 2014 and December 31, 2013, the amount of cash and cash equivalents and short-term investments held by U.S. entities was \$139.1 million and \$160.5 million, respectively, and by non-U.S. entities was

\$206.4 million and \$196.9 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 \$201.7 million at December 31, 2014. 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, restructuring activities, and contractual obligations for at least the next 12 months.

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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
	2014	2013	2012	in 2014	in 2013
Net cash provided by operating activities from continuing operations	\$ 14,600	\$ 30,598	\$ 52,163	-52.3%	-41.3%
Net cash used in investing activities from continuing operations	\$ (82,110)	\$ (154,066)	\$ (34,338)	-46.7%	348.7%
Net cash (used in) provided by financing activities from continuing operations	\$ (1,470)	\$ 21,637	\$ 9,759	-106.8%	121.7%

**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 \$14.6 million, \$30.6 million, and \$52.2 million during 2014, 2013, and 2012, respectively. The decrease in net cash provided by operating activities during 2014, as compared to the prior year, was due to a \$42.3 million change 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. The decrease in net cash provided by operating activities during 2013, as compared to the prior year, was primarily due to a \$37.1 million decrease from changes in non-cash items, partially offset by an \$11.5 million change in operating assets and liabilities and a \$4.1 million increase in income from continuing operations, net of tax. Non-cash items primarily consist of depreciation and amortization, bad debt expense, unrealized net gains on foreign currency forward contracts, the non-cash portion of restructuring costs, deferred taxes, release of liabilities for unrecognized tax benefits, share-based compensation expense, and excess tax benefits from share-based compensation arrangements.

**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, plant and equipment, capitalized software development costs, and receipts of insurance proceeds related to our owned corporate aircraft. Net cash used in investing activities was \$82.1 million, \$154.1 million, and \$34.3 million during 2014, 2013, and 2012, respectively. 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. The increase in net cash used in investing activities from continuing operations during 2013, as compared to the prior year, was due to a \$224.1 million increase in purchases of short-term investments, a \$3.2 million decrease in the amount of insurance proceeds received related to our owned corporate aircraft, which was damaged in the first quarter of 2010 and subsequently repaired and returned to service in the second quarter of 2012, and a \$0.7 million increase in restricted cash, partially offset by an \$87.0 million increase in proceeds from the redemption of U.S. Treasury securities, an \$18.6 million decrease in purchases of property and equipment, and a \$2.7 million decrease in capitalized software development costs.

***Net Cash (Used in) Provided by Financing Activities from Continuing Operations.*** The changes in net cash (used in) provided by financing activities from continuing operations primarily relate to the exercise of employee stock options, excess tax benefits from share-based compensation arrangements, and payments on capital lease and other financing arrangements. Net cash used in financing activities from continuing operations was \$1.5 million during 2014. Net cash provided by financing activities from continuing operations was \$21.6 million and \$9.8 million during 2013 and 2012, respectively. 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. The increase in net cash provided by financing activities from continuing operations during 2013, as compared to the prior year, was due to a \$23.6 million increase in excess tax benefits, generated primarily from stock option exercises in prior years, that

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were recognized in 2013 due to the taxable gain arising from the sale of Angel.com, partially offset by a \$9.9 million decrease in proceeds from the exercise of employee stock options and a \$1.8 million increase in payments on capital lease obligations and other financing arrangements.

**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, 2014, 2013, and 2012, 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, 2014:

	Payments due by period ended December 31,				
	Total	2015	2016-2017	2018-2019	Thereafter
<i>Contractual Obligations:</i>					
Operating leases	\$ 117,100	\$ 24,627	\$ 39,011	\$ 33,533	\$ 19,929
Capital leases and other financing arrangements	1,720	1,563	139	18	0
Total	\$ 118,820	\$ 26,190	\$ 39,150	\$ 33,551	\$ 19,929

**Unrecognized Tax Benefits.** As of December 31, 2014, we had \$2.5 million of total gross unrecognized tax benefits, including interest accrued. The unrecognized tax benefits have been netted against deferred tax assets upon adoption of Accounting Standards Update No. 2013-11, *Income Taxes (Topic 740)*, and are 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 2015.

**Off-Balance Sheet Arrangements.** As of December 31, 2014, 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 July 2013, the FASB issued Accounting Standards Update No. 2013-11, *Income Taxes (Topic 740)* (ASU 2013-11), which requires the financial statement presentation of an unrecognized tax benefit in a particular jurisdiction, or a

portion thereof, as a reduction to a deferred tax asset for a net operating loss ( NOL ) carryforward, a similar tax loss, or a tax credit carryforward, unless the uncertain tax position is not available to reduce, or would not be used to reduce, the NOL or carryforward under the tax law in the same jurisdiction; otherwise, the unrecognized tax benefit should be presented as a gross liability and should not be combined with a deferred tax asset. We adopted ASU 2013-11 on January 1, 2014. As a result, liabilities for unrecognized tax benefits of \$1.3 million were netted against deferred tax assets, as of December 31, 2014. The adoption of this guidance did not have a material effect on our consolidated results of operations or cash flows.

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

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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. ASU 2014-09 is effective for interim and annual periods beginning January 1, 2017. Early adoption is not permitted. 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 ). We are currently evaluating the impact of this guidance on our consolidated financial position, results of operations, and cash flows.

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**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, 2014, we held approximately \$198.5 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 41.1%, 40.4%, and 42.3% of our total revenues from continuing operations for the years ended December 31, 2014, 2013, and 2012, 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's 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. In addition, beginning in the second quarter of 2013, we entered into foreign currency forward contracts to hedge certain risks associated with foreign currency exchange exposure. 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 held. 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, 2014 and 2013, 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 0.4%, respectively. The decrease in exposure to an adverse change in foreign currency rates as of December 31, 2014 was due to a strengthening of the U.S. dollar and a decrease of cash balances in our non-U.S. dollar based bank accounts as compared to the prior year. Our foreign currency forward contracts further decrease the negative impact that a 10% adverse change in foreign currency exchange rates would have on our aggregate reported cash and cash equivalents and short-term investments from 0.3% to 0.1% as of December 31, 2014. If average exchange rates during the year ended December 31, 2014 had changed unfavorably by 10%, our revenues for the year ended December 31, 2014 would have decreased by 3.7%.



During the year ended December 31, 2014, our revenues decreased 1.0% as a result of a 1.5% 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**

The Company utilizes a cloud-based professional service automation system provided by a third-party service organization, Changepoint, in the Company's consulting and education business lines. This system is used to track billable time used to invoice customers, as well as to track and process internal business travel and entertainment expenses. The Company's contract with the third-party service organization requires that the third-party service organization provide to the Company, on an annual basis, a Service Organization Control (SOC) 1 Type 2 report in accordance with the AICPA Attestation Standards, Section 801, *Reporting on Controls at a Service Organization*, addressing the suitability of the design and operating effectiveness of controls relating to the cloud-based system and business processing activities performed by the service organization on the Company's behalf. The third-party service organization provided such reports in the past. The Company relies upon this report, among other things, in assessing the effectiveness of its internal control over financial reporting. The third-party service organization did not provide an adequate SOC 1 Type 2 report for the year ended December 31, 2014. As a result, the Company did not have evidence of the design and operating effectiveness of the automated transaction level controls to track billable time and expenses and internal business travel and entertainment expenses, and related general information technology controls intended to prevent unauthorized system access and inappropriate change management for the cloud-based system at the third-party service organization, and accordingly, the Company has concluded that there is a material weakness in the Company's internal control over financial reporting at December 31, 2014.

**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 not effective at the reasonable assurance level because of a material weakness related to the control activities performed by the third-party service organization described above. Although the Company has not received an adequate SOC 1 Type 2 report from the third-party service organization, management believes, based on substantive testing performed, that the financial statements included in this annual report fairly present in all material respects our financial condition, results of operations, and cash flows for the periods presented.

**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, 2014. In making this assessment, our management used the criteria set forth in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, our management has identified the following deficiency in internal control that we have deemed to be a material weakness in our internal control over financial reporting as of December 31, 2014:

The Company had a failure of the operating effectiveness of a monitoring control designed to ensure that the Company obtains evidence of the design and operating effectiveness of the automated transaction level controls related to a third-party service organization's cloud-based professional services automation system used to track billable time and expenses and internal business travel and entertainment expenses (information), and the related general information technology controls intended to prevent unauthorized system access and inappropriate change management to the cloud-based professional services automation system and information contained within.

Although no adjustment was required to our consolidated financial statements, management concluded that there is a reasonable possibility that a material misstatement could occur in consulting revenue and travel and entertainment expenses in the consolidated financial statements if the control deficiency was not remediated. Accordingly, management concluded that there is a material weakness in the Company's internal control over financial reporting and that the Company did not maintain effective internal control over financial reporting as of December 31, 2014.

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

#### **Planned Remediation of Material Weakness**

This cloud-based professional services automation system is used by the Company to track billable time used to invoice customers within the Company's consulting business line, as well as to track and process the Company's internal business travel and entertainment expenses. The Company relies upon a SOC 1 Type 2 report from the service organization, in assessing the effectiveness of its internal control over financial reporting as it relates to the design and operating effectiveness of the automated transaction level controls and the related general information technology controls described above. The Company was unable to obtain an adequate SOC 1 Type 2 report from the service

organization for the year ended December 31, 2014. To address this issue, the Company intends to implement alternative controls and additional testing procedures in the interim and to demand that the third-party service organization provide an adequate, contractually required SOC 1 Type 2 report with respect to future periods, as well as to consider transitioning off of the cloud-based system provided by the third-party service organization.

#### **Changes in Internal Control Over Financial Reporting**

Other than the identification of the material weakness described above, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended December 31, 2014 (due to either ongoing or restructuring activities) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management plans to transition to the revised COSO 2013 Framework in 2015.

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**Item 9B. Other Information**

None.

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**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, 2014 (the 2015 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 2015 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 2015 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 2015 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 2015 Proxy Statement.

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**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

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

	<b>Page</b>
1. Consolidated Financial Statements	
<u>Reports of Independent Registered Public Accounting Firms</u>	70
Consolidated Financial Statements:	
<u>Balance Sheets</u>	73
<u>Statements of Operations</u>	74
<u>Statements of Comprehensive Income</u>	75
<u>Statements of Stockholders' Equity</u>	76
<u>Statements of Cash Flows</u>	77
<u>Notes to Consolidated Financial Statements</u>	78
2. Consolidated Financial Statement Schedule	
<u>Schedule II – Valuation and Qualifying Accounts</u>	105
3. <u>Exhibits</u>	106

(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.

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**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, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* 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.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness relating to ineffective monitoring controls over the activities performed by a third-party service provider on the Company's behalf regarding billable time and expenses and internal business travel and entertainment expenses (information) and the Company's failure to design and operate effective transaction-level controls including the related general information technology controls intended to prevent unauthorized system access and inappropriate change management to the service provider's cloud-based professional services automation system and information contained within, has been identified and included in management's assessment under the heading Management's Report on Internal Control Over Financial Reporting, included under Item 9A.



We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company and subsidiaries as of December 31, 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the year then ended. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2014 consolidated financial statements, and this report does not affect our report dated February 26, 2015, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG LLP

McLean, Virginia  
February 26, 2015

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**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, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended. 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, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, 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, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2015, expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

McLean, Virginia  
February 26, 2015

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders

MicroStrategy Incorporated

We have audited the accompanying consolidated statements of operations, comprehensive income, stockholders equity, and cash flows of MicroStrategy Incorporated (a Delaware corporation) and subsidiaries (the Company) for the year ended December 31, 2012. Our audit of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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 the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of MicroStrategy Incorporated and subsidiaries for the year ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. 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.

/s/ Grant Thornton LLP

McLean, Virginia

February 13, 2013 (except Note 16, as to which the date is February 12, 2014)

**Table of Contents****MICROSTRATEGY INCORPORATED****CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share data)

	December 31, 2014	December 31, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 146,919	\$ 220,171
Restricted cash	661	583
Short-term investments	198,547	137,198
Accounts receivable, net	78,633	86,181
Prepaid expenses and other current assets	17,669	14,260
Deferred tax assets, net	19,936	21,555
<b>Total current assets</b>	<b>462,365</b>	<b>479,948</b>
Property and equipment, net	77,852	85,445
Capitalized software development costs, net	13,469	10,295
Deposits and other assets	3,951	6,622
Deferred tax assets, net	1,160	3,204
<b>Total assets</b>	<b>\$ 558,797</b>	<b>\$ 585,514</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 35,458	\$ 39,946
Accrued compensation and employee benefits	50,588	79,495
Accrued restructuring costs	2,284	0
Deferred revenue and advance payments	108,413	113,656
Deferred tax liabilities	557	422
<b>Total current liabilities</b>	<b>197,300</b>	<b>233,519</b>
Deferred revenue and advance payments	10,818	8,970
Other long-term liabilities	22,679	25,511
Deferred tax liabilities	3,529	7,188
<b>Total liabilities</b>	<b>234,326</b>	<b>275,188</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred stock undesignated, \$0.001 par value; 5,000 shares authorized; no shares issued or outstanding	0	0

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Class A common stock, \$0.001 par value; 330,000 shares authorized; 15,660 shares issued and 9,255 shares outstanding, and 15,478 shares issued and 9,073 shares outstanding, respectively	16	15
Class B convertible common stock, \$0.001 par value; 165,000 shares authorized; 2,055 shares issued and outstanding, and 2,227 shares issued and outstanding, respectively	2	2
Additional paid-in capital	506,727	494,086
Treasury stock, at cost; 6,405 shares	(475,184)	(475,184)
Accumulated other comprehensive loss	(4,363)	(831)
Retained earnings	297,273	292,238
<b>Total stockholders' equity</b>	<b>324,471</b>	<b>310,326</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 558,797</b>	<b>\$ 585,514</b>

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

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**MICROSTRATEGY INCORPORATED**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>			
Product licenses	\$ 125,952	\$ 147,879	\$ 147,344
Subscription services	22,322	12,246	3,118
Total product licenses and subscription services	148,274	160,125	150,462
Product support	295,703	277,509	262,048
Other services	135,853	138,254	153,214
<b>Total revenues</b>	<b>579,830</b>	<b>575,888</b>	<b>565,724</b>
<b>Cost of revenues:</b>			
Product licenses	6,957	6,606	5,819
Subscription services	17,560	15,636	6,621
Total product licenses and subscription services	24,517	22,242	12,440
Product support	14,241	16,617	15,532
Other services	96,452	99,710	113,104
<b>Total cost of revenues</b>	<b>135,210</b>	<b>138,569</b>	<b>141,076</b>
<b>Gross profit</b>	<b>444,620</b>	<b>437,319</b>	<b>424,648</b>
<b>Operating expenses:</b>			
Sales and marketing	225,086	215,089	209,975
Research and development	103,355	98,056	88,190
General and administrative	96,343	104,734	93,384
Restructuring costs	14,732	0	0
<b>Total operating expenses</b>	<b>439,516</b>	<b>417,879</b>	<b>391,549</b>
<b>Income from continuing operations</b>	<b>5,104</b>	<b>19,440</b>	<b>33,099</b>
Interest income, net	162	497	143
Other income (expense), net	5,785	(3,186)	(1,035)
<b>Income from continuing operations before income taxes</b>	<b>11,051</b>	<b>16,751</b>	<b>32,207</b>
Provision for (benefit from) income taxes	6,016	(9,799)	9,734

<b>Income from continuing operations, net of tax</b>	5,035	26,550	22,473
<b>Discontinued operations:</b>			
Gain from sale of discontinued operations, net of tax provision (\$0, \$37,548, and \$0, respectively)	0	57,377	0
Loss from discontinued operations, net of tax benefit (\$0, \$391, and \$1,049, respectively)	0	(595)	(1,927)
<b>Discontinued operations, net of tax</b>	0	56,782	(1,927)
<b>Net income</b>	\$ 5,035	\$ 83,332	\$ 20,546
<b>Basic earnings (loss) per share (1):</b>			
From continuing operations	\$ 0.45	\$ 2.35	\$ 2.05
From discontinued operations	0.00	5.02	(0.18)
Basic earnings per share	\$ 0.45	\$ 7.37	\$ 1.87
Weighted average shares outstanding used in computing basic earnings (loss) per share	11,301	11,300	10,995
<b>Diluted earnings (loss) per share (1):</b>			
From continuing operations	\$ 0.44	\$ 2.35	\$ 2.01
From discontinued operations	0.00	5.02	(0.17)
Diluted earnings per share	\$ 0.44	\$ 7.37	\$ 1.84
Weighted average shares outstanding used in computing diluted earnings (loss) per share	11,356	11,301	11,174

(1) Basic and fully diluted earnings (loss) per share for class A and class B common stock are the same.  
The accompanying notes are an integral part of these Consolidated Financial Statements.

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**MICROSTRATEGY INCORPORATED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

	Years Ended December 31,		
	2014	2013	2012
<b>Net income</b>	\$ 5,035	\$ 83,332	\$ 20,546
Other comprehensive (loss) income, net of applicable taxes:			
Foreign currency translation adjustment	(3,585)	684	535
Unrealized gain on short-term investments	53	0	2
<b>Total other comprehensive (loss) income</b>	<b>(3,532)</b>	<b>684</b>	<b>537</b>
<b>Comprehensive income</b>	<b>\$ 1,503</b>	<b>\$ 84,016</b>	<b>\$ 21,083</b>

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



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**MICROSTRATEGY INCORPORATED**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(in thousands)

	Accumulated									
		Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in	Treasury Stock	Other Comprehensive Income		Retained Earnings
	Total	Shares	Amount	Shares	Amount	Capital	Shares	Amount	(Loss)	
Balance at January 1, 2012	\$ 168,978	14,810	\$ 15	2,378	\$ 2	\$ 457,837	(6,405)	\$ (475,184)	\$ (2,052)	\$ 188,360
Net income	20,546	0	0	0	0	0	0	0	0	20,546
Other comprehensive income	537	0	0	0	0	0	0	0	537	0
Conversion of class B to class A common stock	0	151	0	(151)	0	0	0	0	0	0
Issuance of class A common stock under stock option plans	10,250	501	0	0	0	10,250	0	0	0	0
Balance at December 31, 2012	\$ 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	23,580	0	0	0	0	23,580	0	0	0	0

exercises

Share-based compensation expense	2,078	0	0	0	0	2,078	0	0	0	0
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**Balance at  
December 31,  
2013**

\$ 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
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Other

comprehensive

loss	(3,532)	0	0	0	0	0	0	0	(3,532)	0
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Conversion of  
class B to class

A common

stock	0	172	0	(172)	0	0	0	0	0	0
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Issuance of

class A

common stock

under stock

option plans

	856	10	1	0	0	855	0	0	0	0
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Share-based

compensation expense	11,786	0	0	0	0	11,786	0	0	0	0
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**Balance at  
December 31,  
2014**

\$ 324,471    15,660    \$ 16    2,055    \$ 2    \$ 506,727    (6,405)    \$ (475,184)    \$ (4,363)    \$ 297,273

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

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

(in thousands)

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Operating activities:</b>			
Net income	\$ 5,035	\$ 83,332	\$ 20,546
Plus: (Income) loss from discontinued operations, net of tax	0	(56,782)	1,927
Income from continuing operations, net of tax	5,035	26,550	22,473
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	25,295	26,399	22,454
Bad debt expense	2,969	2,281	2,361
Unrealized net gain on foreign currency forward contracts	(1,682)	0	0
Non-cash portion of restructuring costs	199	0	0
Deferred taxes	(1,526)	(3,319)	1,967
Release of liabilities for unrecognized tax benefits	0	(14,643)	(472)
Share-based compensation expense	11,786	2,078	0
Excess tax benefits from share-based compensation arrangements	0	(23,580)	0
Changes in operating assets and liabilities:			
Accounts receivable	(276)	676	526
Prepaid expenses and other current assets	(2,713)	(565)	305
Deposits and other assets	909	794	175
Accounts payable and accrued expenses	(1,701)	(4,786)	3,763
Accrued compensation and employee benefits	(26,875)	8,176	4,578
Accrued restructuring	2,379	0	0
Deferred revenue and advance payments	731	13,465	(3,967)
Other long-term liabilities	70	(2,928)	(2,000)
Net cash provided by operating activities from continuing operations	14,600	30,598	52,163
Net cash used in operating activities from discontinued operations	0	(664)	(2,279)
Net cash provided by operating activities	14,600	29,934	49,884
<b>Investing activities:</b>			
Proceeds from redemption of short-term investments	308,900	87,000	0
Purchases of property and equipment	(12,400)	(11,043)	(29,621)
Purchases of short-term investments	(370,050)	(224,103)	0
Capitalized software development costs	(8,396)	(5,437)	(8,148)
Insurance proceeds	0	0	3,206
(Increase) decrease in restricted cash	(164)	(483)	225

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Net cash used in investing activities from continuing operations	(82,110)	(154,066)	(34,338)
Net cash provided by (used in) investing activities from discontinued operations	0	99,136	(1,495)
Net cash used in investing activities	(82,110)	(54,930)	(35,833)

**Financing activities:**

Proceeds from sale of class A common stock under exercise of employee stock options	856	341	10,250
Excess tax benefits from share-based compensation arrangements	0	23,580	0
Payments on capital lease obligations and other financing arrangements	(2,326)	(2,284)	(491)
Net cash (used in) provided by financing activities from continuing operations	(1,470)	21,637	9,759
Net cash provided by financing activities from discontinued operations	0	0	0

Net cash (used in) provided by financing activities	(1,470)	21,637	9,759
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	(4,272)	(863)	949

<b>Net (decrease) increase in cash and cash equivalents</b>	(73,252)	(4,222)	24,759
<b>Cash and cash equivalents (including held-for-sale of \$0, \$1,350, and \$5,300, respectively), beginning of year</b>	220,171	224,393	199,634

<b>Cash and cash equivalents (including held-for-sale of \$0, \$0, and \$1,350, respectively), end of year</b>	\$ 146,919	\$ 220,171	\$ 224,393
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**Supplemental disclosure of cash flow information:**

Cash paid during the year for interest	\$ 74	\$ 78	\$ 31
Cash paid during the year for income taxes, net of tax refunds	\$ 5,529	\$ 12,941	\$ 6,463

**Supplemental disclosure of noncash investing and financing activities:**

Assets acquired under capital lease obligations and other financing arrangements	\$ 70	\$ 3,793	\$ 2,505
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The accompanying notes are an integral part of these Consolidated Financial Statements.

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**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Organization**

MicroStrategy is a leading worldwide provider of enterprise-ready analytics, mobile, and security software platforms. MicroStrategy provides system-of-record reporting and interactive visualization capabilities offered on any device or in the cloud. The Company's mission is to provide enterprise analytics, mobility, and security platforms that are flexible, powerful, scalable, and user-friendly.

MicroStrategy Analytics empowers organizations to analyze vast amounts of data and securely distribute actionable business insight throughout an enterprise through two distinct offerings – MicroStrategy Analytics Platform and MicroStrategy Analytics Desktop. The MicroStrategy Analytics Platform delivers reports and dashboards, and enables users to conduct ad hoc analysis and share insights anywhere, anytime, via mobile devices or the 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. The MicroStrategy Analytics Platform is integrated with MicroStrategy Analytics Desktop, a standalone desktop tool designed to enable business users to analyze and understand their data. With MicroStrategy Analytics Desktop, 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 information-rich applications that deliver analytics combined with transactions, multimedia, and custom workflows, to mobile devices. The powerful code-free platform approach is designed to reduce the costs of development and enable organizations to deploy powerful mobile business apps quickly and cost-effectively. 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 Usher is a mobile identity and security platform designed to make identity management simple, seamless, and secure. Built on an advanced mobile-centric enterprise platform, MicroStrategy Usher can dematerialize traditional forms of identity verification such as passwords and physical badges and replace them with a single mobile identity badge, stored on a smartphone, that is cryptographically linked to its owner's phone and dynamically linked to the enterprise's existing identity repositories. MicroStrategy Usher's enterprise mobile identity solution addresses some of the biggest challenges facing corporations today, including authentication, cybersecurity, access management, and resource authorization, while applying industry leading business intelligence and analytics to an enterprise's security infrastructure. Users can log into applications, unlock doors, validate each other's identities, and gain a holistic view of network activity using only mobile identities, either through Bluetooth, QR codes, or time-limited PIN codes. MicroStrategy Usher can also be used as a powerful workforce management resource because it is designed to enable managers to gain a near real-time window into the activity of their distributed workforces, while providing powerful interactive features to manage or direct them. We currently offer MicroStrategy Usher as a subscription-based service.

MicroStrategy Secure Cloud is a platform for organizations that want to harness the power of enterprise analytics, mobility, and security applications via the cloud. MicroStrategy Secure Cloud brings together enterprise analytics,

analytical databases, and ETL capabilities in a high performance integrated environment. MicroStrategy Secure Cloud offers on-demand access to the full breadth of the MicroStrategy Analytics Platform and MicroStrategy Mobile capabilities and is optimized for a variety of enterprise applications. Compared to traditional on-premises approaches, MicroStrategy Secure Cloud is architected to deliver best-of-breed MicroStrategy and Usher software via the cloud, with pre-configured, ready to go MicroStrategy servers, coupled with the required supporting infrastructure of metadata databases, relational databases, and big data storage.

The MicroStrategy Analytics Platform, MicroStrategy Mobile, and MicroStrategy Secure Cloud together with related product and support services, continue to generate the vast majority of our revenue. During 2014, 2013, and 2012, we did not generate significant revenues from MicroStrategy Usher.

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**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(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.

Certain amounts in the prior years' Consolidated Financial Statements and Notes to Consolidated Financial Statements have also been reclassified to conform to current year presentation. Revenues and cost of revenues have been reclassified in the Consolidated Statements of Operations to reflect the separate components of total product licenses and subscription services.

***(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.

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.



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**MICROSTRATEGY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 uses 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.

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**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. The costs of the repairs associated with the Company's owned aircraft, which was returned to service in the second quarter of 2012, did not constitute 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 \$13.5 million and \$10.3 million as of December 31, 2014 and 2013, respectively. Amortization expense related to software development costs was \$5.2 million, \$5.5 million, and \$4.8 million for the years ended December 31, 2014, 2013, and 2012, respectively, and is included in cost of product licenses and subscription services revenues. During the years ended December 31, 2014, 2013, and 2012, the Company capitalized software development costs of \$8.4 million, \$5.4 million, and \$8.1 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

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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.

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. 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, 2014, 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 2019 totaling approximately \$136.4 million. As of December 31, 2013, the future minimum commitments by the Company's customers to purchase products, subscription services, product support, or other services through 2018 totaled approximately \$119.7 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.

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***(I) 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.



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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 or similar rights. The Company offers price protection to certain government agencies as required by applicable laws and regulations. For example, 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, amounts related to price protection or similar rights clauses and contracts cancelled for convenience were not significant.

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 collectibility 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 the MicroStrategy Analytics Platform 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.

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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 2014, 2013, and 2012, the Company did not generate significant revenues from MicroStrategy 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 \$3.0 million, \$1.9 million, and \$4.1 million for the years ended December 31, 2014, 2013, and 2012, respectively. As of December 31, 2014 and 2013, the Company had no prepaid advertising costs.

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

In September 2013, the Board of Directors approved the Company's 2013 Stock Incentive 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. In April 2014, the Company's stockholders approved the 2013 Stock Incentive Plan at the Company's annual meeting. In April 2014, following the Company's annual meeting, the Board of Directors authorized, subject to stockholder approval, an amendment to the 2013 Plan to increase the total number of shares of the Company's class A common stock authorized for issuance under the 2013 Plan from 600,000 to 1,500,000 shares (Amendment No. 1). Also in April 2014, the Compensation Committee of the Board of Directors (the Compensation Committee) authorized, subject to stockholder approval, an additional amendment to the 2013 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, beginning in 2015 (Amendment No. 2). 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 Stock Incentive 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.

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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, 2014 and 2013, there were no shares of preferred stock outstanding.

***(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. 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.

Transaction gains and losses arising from transactions denominated in foreign currencies resulted in net gains of \$5.3 million in 2014, and net losses of \$3.3 million, and \$2.0 million in 2013 and 2012, respectively, and are included in Other income (expense), net in the accompanying Consolidated Statements of Operations.

As of December 31, 2014, 2013, and 2012, the cumulative foreign currency translation balances were \$(4.4) million, \$(0.8) million, and \$(1.5) 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, 2014, 2013, and 2012.

***(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, 2014 and 2013, no individual customer accounted for 10% or more of net accounts receivable and for the years ended December 31, 2014, 2013, and 2012, no individual customer accounted for 10% or more of revenue.

**(3) Recent Accounting Standards**

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, Income Taxes (Topic 740) ( ASU 2013-11 ), which requires the financial statement presentation of an unrecognized tax benefit in a particular jurisdiction, or a portion thereof, as a reduction to a deferred tax asset for a net operating loss ( NOL ) carryforward, a similar tax loss, or a tax credit carryforward, unless the uncertain tax position is not available to reduce, or would not be used to reduce, the NOL or carryforward under the tax law in the same jurisdiction; otherwise, the unrecognized tax benefit should be presented as a gross liability and should not be combined with a deferred tax asset. The Company adopted ASU 2013-11 on January 1, 2014. As a result, liabilities for unrecognized tax benefits of \$1.3 million were netted against deferred tax assets, as of December 31, 2014. The adoption of this guidance did not have a material effect on the Company's consolidated results of operations or cash flows.

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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. ASU 2014-09 is effective for interim and annual periods beginning January 1, 2017. Early adoption is not permitted. 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.

**(4) Fair Value Measurements**

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:

		<b>December 31, 2014</b>			
		<b>Fair Value Measurements</b>			
		<b>Using Input Types</b>			
		<b>Level</b>			
	<b>Line Item</b>	<b>Level 1</b>	<b>2</b>	<b>Level 3</b>	<b>Total</b>
<b>Non-hedging derivative assets:</b>					
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 0	\$ 1,647	\$ 0	\$ 1,647
<b>Non-hedging derivative liabilities:</b>					
Foreign currency forward contracts	Accounts payable and accrued expenses	\$ 0	\$ 6	\$ 0	\$ 6
		<b>December 31, 2013</b>			
		<b>Fair Value Measurements</b>			
		<b>Using Input Types</b>			
	<b>Line Item</b>	<b>Level 1</b>			
			<b>Total</b>		

			Level 2		Level 3		
<b>Non-hedging derivative assets:</b>							
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 0	\$	5	\$	0	\$ 5

<b>Non-hedging derivative liabilities:</b>							
Foreign currency forward contracts	Accounts payable and accrued expenses	\$ 0	\$	46	\$	0	\$ 46

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. All foreign currency forward contracts outstanding as of December 31, 2014 were for durations of twelve months or less and consisted of the following sale contracts (in thousands):



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

		<b>Notional Value</b>	<b>Notional Value</b>	<b>Fair Value</b>
	<b>Local Currency</b>		<b>U.S. Dollar</b>	<b>Gain (Loss)</b>
				<b>U.S.</b>
				<b>Dollar</b>
<b>Forward contracts to sell:</b>				
Australian Dollar	AUD	985	\$ 900	\$ 103
Brazilian Real	BRL	3,184	1,300	157
British Pound	GBP	950	1,600	122
Canadian Dollar	CAD	757	700	49
Chinese Renminbi	CNY	10,664	1,700	(5)
Euro	EUR	3,534	4,800	515
Indian Rupee	INR	19,347	300	3
Japanese Yen	JPY	131,508	1,300	201
Korean Won	KRW	881,552	850	53
Mexican Peso	MXN	4,001	300	32
Polish Zloty	PLN	4,980	1,600	203
Russian Rouble	RUB	7,323	200	86
Singapore Dollar	SGD	500	400	23
South African Rand	ZAR	6,769	600	32
Swedish Krona	SEK	1,698	250	33
Swiss Franc	CHF	268	300	30
Turkish New Lira	TRY	230	100	5
United Arab Emirates Dirham	AED	738	200	(1)
			\$ 17,400	\$ 1,641

Changes in the fair value of our foreign currency forward contracts during 2014, 2013, and 2012 were as follows (in thousands):

<b>Gain (Loss) on Derivative Instruments Recognized in Income</b>				
		<b>Years Ended December 31,</b>		
		<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Location</b>				
<b>Non-hedging derivative instruments:</b>				
Unrealized gain (loss) on foreign currency forward contracts	Other income (expense), net	\$ 1,682	\$ (41)	\$ 0
Realized loss on foreign currency forward contracts	Other (expense) income, net	\$ (562)	\$ (629)	\$ 0

There were no transfers among the levels within the fair value hierarchy during the years ended December 31, 2014, 2013, and 2012. As of December 31, 2014 and December 31, 2013, 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, 2014 were \$198.5 million, \$198.5 million, and \$198.5 million, respectively. The amortized cost, carrying value, and fair value of held-to-maturity investments at December 31, 2013 were \$137.2 million, \$137.2 million, and \$137.2 million, respectively. The gross unrecognized holding gains and

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losses were not material for 2014, 2013, or 2012. No other-than-temporary impairments related to these investments have been recognized in accumulated other comprehensive loss as of December 31, 2014 and December 31, 2013. As of December 31, 2014 and December 31, 2013, the Company's available-for-sale investments were not material.

**(6) Accounts Receivable**

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

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Billed and billable	\$ 187,470	\$ 190,446
Less: unpaid deferred revenue	(104,425)	(100,276)
Accounts receivable, gross	83,045	90,170
Less: allowance for doubtful accounts	(4,412)	(3,989)
Account receivable, net	\$ 78,633	\$ 86,181

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>2014</b>	<b>2013</b>
Transportation equipment	\$ 48,906	\$ 48,917
Computer equipment and purchased software	72,602	66,713
Furniture and equipment	11,477	11,647
Leasehold improvements	28,500	29,116
Internally developed software	9,408	8,393

Property and equipment, gross	170,893	164,786
Less: accumulated depreciation and amortization	(93,041)	(79,341)
Property and equipment, net	\$ 77,852	\$ 85,445

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, 2014, the net asset value of the aircraft and aircraft-related equipment was \$41.5 million, net of \$7.1 million of accumulated depreciation. As of December 31, 2013, the net asset value of the aircraft and aircraft-related equipment was \$43.0 million, net of \$5.6 million of accumulated depreciation.

Included in computer equipment at December 31, 2014 and December 31, 2013 is \$2.9 million and \$2.9 million, respectively, acquired under capital lease arrangements. At December 31, 2014 and December 31, 2013, accumulated amortization relating to computer equipment under capital lease arrangements totaled \$2.5 million and \$1.7 million, respectively.

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Depreciation and amortization expense related to property and equipment, including assets under capital leases, was \$20.1 million, \$21.0 million, and \$17.7 million for the years ended December 31, 2014, 2013, and 2012, respectively.

**(8) Restructuring**

In September 2014, the Company committed to a restructuring plan (the 2014 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 has 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 year ended December 31, 2014, total costs incurred through December 31, 2014 and total costs expected to be incurred:

	<b>Year Ended December 31, 2014</b>	<b>Total Costs Incurred To Date</b>	<b>Total Expected Plan Costs</b>
Severance and related employee benefits	\$ 13,162	\$ 13,162	\$ 13,162
Contract termination costs	1,159	1,159	1,159
Other costs	411	411	692
<b>Total restructuring costs</b>	<b>\$ 14,732</b>	<b>\$ 14,732</b>	<b>\$ 15,013</b>

In the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014, the Company estimated that total expected costs of the 2014 Restructuring Plan would be \$18.4 million. As of December 31, 2014, the Company has revised its total expected costs of the 2014 Restructuring Plan to be \$15.0 million. The \$3.4 million decrease in total expected plan costs is primarily due to a \$3.1 million decrease in total expected severance and related employee benefit costs, which was primarily due to a change in business strategy and other developments.

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

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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 year ended December 31, 2014:

	Balance as of				Adjustments		Balance
	January 1,	Costs	Cash	Non-cash	and	as of	
	2014	Incurred	Payments	Settlements	Other	December 31,	
						2014	
Current:							
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	
Total current accrued restructuring costs	\$ 0	\$ 14,732	\$ (12,008)	\$ (441)	\$ 1	\$ 2,284	

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## 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>2014</b>	<b>2013</b>
<b>Current:</b>		
Deferred product licenses revenue	\$ 10,927	\$ 14,538
Deferred subscription services revenue	16,018	10,923
Deferred product support revenue	168,833	167,771
Deferred other services revenue	10,564	17,056
Gross current deferred revenue and advance payments	206,342	210,288
Less: unpaid deferred revenue	(97,929)	(96,632)
Net current deferred revenue and advance payments	\$ 108,413	\$ 113,656
<b>Non-current:</b>		
Deferred product licenses revenue	\$ 8,012	\$ 4,401
Deferred subscription services revenue	750	1,161
Deferred product support revenue	7,505	5,877
Deferred other services revenue	1,047	1,175
Gross non-current deferred revenue and advance payments	17,314	12,614
Less: unpaid deferred revenue	(6,496)	(3,644)
Net non-current deferred revenue and advance payments	\$ 10,818	\$ 8,970

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, 2014 or December 31, 2013.

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, including approximately 19,000 square feet of office space for which it gave written notice in August 2014 of its intent to terminate, 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 early February 2015. The term of the lease expires in December 2020. At December 31, 2014 and December 31, 2013, deferred rent of \$18.9 million and \$20.1 million, respectively, is included in other long-term liabilities and \$3.0 million and \$2.8 million, respectively, is included in current accrued expenses.



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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, 2014:

<b>Year</b>	<b>Operating Leases Amount</b>	<b>Capital Leases and Other Financing Amount</b>
2015	\$ 24,627	\$ 1,563
2016	21,150	121
2017	17,861	18
2018	17,270	18
2019	16,263	0
Thereafter	19,929	0
	<b>\$ 117,100</b>	<b>\$ 1,720</b>

Total rental expenses under operating lease agreements for the years ended December 31, 2014, 2013, and 2012 were \$30.4 million, \$28.3 million, and \$26.4 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 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 October 2012, the case was stayed pending final judgment in a separate action involving the 502 Patent filed by DataTern in the Southern District of New York, in which MicroStrategy was not a party. Final judgment in that separate action was entered against DataTern in December 2012 (the New York Judgment ). DataTern appealed the New York Judgment to the United States Court of Appeals for the Federal Circuit (the Federal Circuit ). In February 2013, MicroStrategy and DataTern filed motions for summary judgment of non-infringement in light of the New York Judgment and the United States District Court for the District of Massachusetts entered summary judgment against DataTern. In March 2013, DataTern filed a notice of appeal with the Federal Circuit. In January 2014, the Federal Circuit stayed DataTern's appeal pending the disposition of DataTern's appeal of the New York Judgment. In May 2014, the Federal Circuit affirmed the New York Judgment in part and reversed it in part. After petitions for rehearing were denied regarding the New York Judgment, the Company and DataTern agreed that the stay in their appeal in the Federal Circuit should be lifted. The Federal Circuit

held oral arguments in MicroStrategy's appeal in November 2014. On December 19, 2014, the Federal Circuit issued an opinion vacating the District of Massachusetts' summary judgment, stating that the claim construction on which the summary judgment was based was incorrect. On January 26, 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. The Company has received indemnification requests from certain of its resellers and customers who were sued by DataTern in the United States District Court for the District of Massachusetts 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.

In December 2011, Vasudevan Software, Inc. ( "Vasudevan" ) filed a complaint for patent infringement against the Company in the United States District Court for the Northern District of California. The complaint alleged that the Company's sale of MicroStrategy 9 and other MicroStrategy products infringes four patents allegedly owned by Vasudevan known as U.S. Patent Nos. 6,877,006, 7,167,864, 7,720,861, and 8,082,268, all entitled "Multimedia Inspection Database System for Dynamic Runtime Evaluation." The complaint accused the Company of infringement, inducing others to infringe, and acts of contributory infringement with respect to the patents at issue and sought a permanent injunction, an unspecified amount of damages, and other relief as may be granted by the

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court. In October 2013, following a series of motions by the parties, the court dismissed the case, entered judgment of non-infringement based on a stipulation of non-infringement filed by Vasudevan, and also granted MicroStrategy's motion for summary judgment of invalidity, finding the four patents in the suit invalid. In November 2013, Vasudevan filed its Notice of Appeal with the United States Court of Appeals for the Federal Circuit. Also in November 2013, Vasudevan filed a motion that was unopposed by the Company to consolidate the appeal with Vasudevan's appeal of a related matter against TIBCO Software, which had also been dismissed by the District Court on summary judgment. In February 2014, in response to Vasudevan's motion, the Court entered an order that the cases be treated as companion cases. On September 12, 2014, the parties presented oral arguments before the Federal Circuit. The parties are currently awaiting the Federal Circuit's final decision in the case. The outcome of this matter on appeal is not presently determinable, and the Company cannot make a reasonable estimate of the possible loss or range of loss with respect to this matter at this time. Accordingly, no estimated liability for this matter 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.

**(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>2014</b>	<b>2013</b>	<b>2012</b>
U.S.	\$ (5,389)	\$ (6,158)	\$ 587
Foreign	16,440	22,909	31,620
<b>Total</b>	<b>\$ 11,051</b>	<b>\$ 16,751</b>	<b>\$ 32,207</b>

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

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Current:			
Federal	\$ (306)	\$ (12,404)	\$ 533
State	(1)	172	68
Foreign	7,638	5,994	7,269
	\$ 7,331	\$ (6,238)	\$ 7,870
Deferred:			
Federal	\$ (2,132)	\$ (3,417)	\$ 995
State	(1,038)	267	1,310
Foreign	1,855	(411)	(441)
	\$ (1,315)	\$ (3,561)	\$ 1,864
Total provision (benefit)	\$ 6,016	\$ (9,799)	\$ 9,734

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The benefit from or provision for 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>2014</b>	<b>2013</b>	<b>2012</b>
Income tax expense at federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal tax effect	-4.3%	2.0%	3.0%
Foreign earnings taxed at different rates	2.9%	-18.3%	-21.5%
Withholding tax	14.3%	9.7%	6.3%
Foreign tax credit	-9.6%	-5.4%	-3.4%
Other international components	0.8%	3.4%	1.9%
Change in valuation allowance	21.1%	-0.8%	0.1%
Deferred tax adjustments and rate changes	-4.9%	-2.8%	0.6%
Meals and entertainment	5.9%	4.5%	2.9%
Non-deductible officers compensation	2.0%	7.1%	2.1%
Personal use of corporate aircraft	2.5%	2.5%	2.6%
Subpart F income	4.0%	2.4%	1.2%
Research and development tax credit	-13.7%	-12.6%	0.7%
Other permanent differences	-1.6%	0.8%	0.6%
Release of unrecognized tax benefits	0.0%	-86.0%	-1.9%
<b>Total</b>	<b>54.4%</b>	<b>-58.5%</b>	<b>30.2%</b>

The 2013 research and development tax credit rate of negative 12.6% is comprised of U.S. research and development tax credits generated in 2013 and 2012. The 2012 U.S. research and development tax credit was retroactively reinstated by the American Taxpayer Relief Act of 2012 signed into law on January 2, 2013 and recorded as a tax benefit in the first quarter of 2013.

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>2014</b>	<b>2013</b>	<b>2012</b>
U.S.	64.5%	249.7%	495.1%
Foreign	57.7%	24.4%	21.6%
<b>Combined</b>	<b>54.4%</b>	<b>-58.5%</b>	<b>30.2%</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 repatriated Subpart F deemed dividends to the U.S. of \$1.3 million, \$1.0 million and \$2.5 million in 2014, 2013, and 2012, respectively, with no additional tax incurred. As of December 31, 2014 and December 31, 2013, the amount of cash and cash equivalents and short-term investments held by U.S. entities was \$139.1 million and \$160.5 million, respectively, and by non-U.S. entities was \$206.4 million and \$196.9 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 \$201.7 million at December 31, 2014. 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.

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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>2014</b>	<b>2013</b>
Deferred tax assets, net:		
Net operating loss carryforwards	\$ 6,911	\$ 981
Tax credits	10,402	8,723
Intangible assets	59	1,317
Deferred revenue adjustment	1,989	2,746
Accrued compensation	11,452	17,465
Share-based compensation expense	5,485	714
Deferred rent	3,428	3,709
Other	3,425	2,197
	43,151	37,852
Valuation allowance	(2,311)	(77)
Deferred tax assets, net of valuation allowance	40,840	37,775
Deferred tax liabilities:		
Prepaid expenses and other	1,044	1,084
Property and equipment	17,149	15,751
Capitalized software development costs	5,637	3,791
Total deferred tax liabilities	23,830	20,626
Total net deferred tax asset	\$ 17,010	\$ 17,149
Reported as:		
Current deferred tax assets, net	\$ 19,936	\$ 21,555
Non-current deferred tax assets, net	1,160	3,204
Current deferred tax liabilities	(557)	(422)
Non-current deferred tax liabilities	(3,529)	(7,188)
Total net deferred tax asset	\$ 17,010	\$ 17,149

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, 2014, the Company had unrecognized tax benefits of \$2.5 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, 2014	\$ 2,312
Increase related to positions taken in prior period	938
Increase related to positions taken in current period	270
Decrease related to expiration of statute of limitations	(60)
Unrecognized tax benefits at December 31, 2014	3,460
Accrued interest	292
Netting of deferred tax assets and unrecognized tax benefits	(1,273)
Unrecognized tax benefits recorded in other long-term liabilities at December 31, 2014	\$ 2,479



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If recognized, \$1.7 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, 2014, the Company recognized an immaterial amount of accrued interest. During the years ended December 31, 2013 and 2012, the Company (released) recognized approximately (\$1.0) million and \$0.4 million, respectively, 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, 2014 and December 31, 2013, respectively.

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 examination by the Internal Revenue Service.

The Company's major foreign tax jurisdictions and the tax years that remain subject to examination are Germany for tax years 2009 forward, Poland and China for tax years 2010 forward, Spain for tax years 2011 forward, and the United Kingdom for tax years 2013 forward. The Company settled tax examinations in Germany for tax years 2005 through 2008 and Spain for tax years 2009 through 2010 in the second quarter and fourth quarter of 2013, respectively. 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 \$14.7 million and \$0.0 million of U.S. net operating loss carryforwards as of December 31, 2014 and 2013, respectively. The Company had \$3.4 million and \$4.4 million of foreign net operating loss carryforwards as of December 31, 2014 and 2013, respectively. The Company had domestic research and development tax credit, foreign tax credit, and alternative minimum tax credit carryforward tax assets totaling \$10.5 million and \$8.7 million at December 31, 2014 and 2013, 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 \$2.3 million and \$0.1 million at December 31, 2014 and 2013, respectively, primarily relate to certain foreign net operating loss carryforward and 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 methodologies, 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 net operating loss carryforward tax assets, 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. If the Company is unable to achieve profitability in future periods, particularly relating to the U.S. operations, it may not be able to realize these tax assets. 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 achieve 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.

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Section 382 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 §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.

**(12) Share-based Compensation**

In September 2013, the Board of Directors approved the Company's 2013 Stock Incentive Plan (the "2013 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 2013 Plan. In April 2014, the Company's stockholders approved the 2013 Plan at the Company's annual meeting.

In April 2014, following the Company's annual meeting, the Board of Directors authorized, subject to stockholder approval, an amendment to the 2013 Plan to increase the total number of shares of the Company's class A common stock authorized for issuance under the 2013 Plan from 600,000 to 1,500,000 shares ("Amendment No. 1"). Also in April 2014, the Compensation Committee of the Board of Directors (the "Compensation Committee") authorized, subject to stockholder approval, an additional amendment to the 2013 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, beginning in 2015 ("Amendment No. 2"). The Company considers stockholder approval of both amendments to the 2013 Plan to be perfunctory since the Company's Chairman and Chief Executive Officer holds a majority of the total voting power of all the Company's outstanding voting stock.

During 2014, the Compensation Committee approved, in each case subject to stockholder approval of Amendment No. 1, the grant of stock options to purchase an aggregate of 745,000 shares of class A common stock to certain Company employees, officers, and directors pursuant to the 2013 Plan. These awards, and any additional awards granted prior to stockholder approval of Amendment No. 1, will be terminated or forfeited if stockholder approval is not obtained within 12 months of the date of grant of the awards, and no awards may be exercised or settled prior to such stockholder approval. However, the Company expects to obtain stockholder approval of both amendments to the 2013 Plan at the Company's annual meeting of stockholders in 2015. In the event stockholder approval for Amendment No. 1 is not obtained within 12 months of the grant date of any option awards, the cumulative share-based compensation expense associated with those stock option awards would be reversed. As of December 31, 2014, there were options to purchase 1,200,800 shares of class A common stock outstanding under the 2013 Plan (including options to purchase 685,000 shares of class A common stock that are subject to stockholder approval of Amendment No. 1). As of December 31, 2014, there were 290,000 remaining shares of class A common stock authorized for future issuance under the 2013 Plan, subject to stockholder approval of Amendment No. 1.

Shares issued under the 2013 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 Plan's effective date. Stock options that are granted under the 2013 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 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 optionholders 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

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term for stock options granted under the 2013 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.

Prior to the adoption of the 2013 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, 2014, 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, 2012	517	\$ 20.31		
Granted	0	0		
Exercised	(501)	20.30	\$ 51,564	
Forfeited/Expired	0	0		
Balance as of December 31, 2012	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		

Exercisable as of December 31, 2014	141	\$	92.84	\$	9,794	7.7
Expected to vest as of December 31, 2014	1,060	\$	114.29		51,001	9.1
Total	1,201	\$	111.77	\$	60,795	9.0

Stock options outstanding as of December 31, 2014 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, 2014</b>			
<b>Range of Exercise Prices per Share</b>	<b>Shares</b>	<b>Weighted Average</b>	<b>Weighted Average</b>
		<b>Exercise Price</b>	<b>Remaining Contractual Term</b>
		<b>Per Share</b>	<b>(Years)</b>
\$92.84 - \$120.00	596	\$ 96.34	8.5
\$120.01 - \$150.00	520	\$ 121.43	9.3
\$150.01 - \$160.88	85	\$ 160.88	9.8
Total	1,201	\$ 111.77	9.0

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

An aggregate of 150,000 stock options with an aggregate fair value of \$6.3 million vested during the year ended December 31, 2014. No stock options vested during the years ended December 31, 2013 and, 2012. The Company expects all unvested and outstanding options at December 31, 2014 to fully vest in future years in accordance with their vesting schedules and therefore share-based compensation expense has not been adjusted for any expected forfeitures. The weighted average grant date fair value of stock option awards using the Black-Scholes option pricing model was \$55.84 and \$42.03 for each share subject to a stock option granted during the years ended December 31, 2014 and December 31, 2013, respectively, based on the following assumptions:

	<b>Years Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Expected term of options in years	6.3	6.3
Expected volatility	41.5 - 42.5%	42.8%
Risk-free interest rate	2.1 - 2.3%	2.5%
Expected dividend yield	0.0%	0.0%

No stock options were granted during the year ended December 31, 2012. The Company recognized approximately \$11.8 million and \$2.1 million in share-based compensation expense for the years ended December 31, 2014 and December 31, 2013, respectively, from stock options granted under the 2013 Plan. The Company recognized no share-based compensation expense for the years ended December 31, 2014, 2013, and 2012 from stock options granted under the Other Stock Incentive Plans as all such options fully vested in prior years. As of December 31, 2014, there was approximately \$46.6 million of total unrecognized share-based compensation expense related to unvested stock options. The Company expects to recognize this remaining share-based compensation expense over a weighted-average vesting period of approximately 3.2 years. Such amounts do not include the impact from the grants of stock options in February 2015 to purchase an aggregate of 200,000 shares of class A common stock. See Note 19, Subsequent Events, for further detail.

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 \$23.6 million during the year ended December 31, 2013. No windfall tax benefit was realized from the exercise of stock options during the years ended December 31, 2014 and 2012.

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 years ended December 31, 2013 and 2012 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.



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

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Numerator:</b>			
<b>Income (loss) from:</b>			
Continuing operations, net of tax	\$ 5,035	\$ 26,550	\$ 22,473
Discontinued operations, net of tax	0	56,782	(1,927)
<b>Net income</b>	<b>\$ 5,035</b>	<b>\$ 83,332</b>	<b>\$ 20,546</b>
<b>Denominator:</b>			
Weighted average common shares of class A common stock	9,246	9,073	8,768
Weighted average common shares of class B common stock	2,055	2,227	2,227
Total weighted average common stock shares outstanding	11,301	11,300	10,995
Effect of dilutive securities:			
Employee stock options	55	1	179
<b>Adjusted weighted average shares</b>	<b>11,356</b>	<b>11,301</b>	<b>11,174</b>
<b>Earnings per share:</b>			
<b>Basic earnings (loss) per share</b>			
From continuing operations	\$ 0.45	\$ 2.35	\$ 2.05
From discontinued operations	0	5.02	(0.18)
<b>Basic earnings per share</b>	<b>\$ 0.45</b>	<b>\$ 7.37</b>	<b>\$ 1.87</b>
<b>Diluted earnings (loss) per share:</b>			
From continuing operations	\$ 0.44	\$ 2.35	\$ 2.01
From discontinued operations	0	5.02	(0.17)
<b>Diluted earnings per share</b>	<b>\$ 0.44</b>	<b>\$ 7.37</b>	<b>\$ 1.84</b>

For the year ended December 31, 2014, stock options issued under the 2013 Plan to purchase an aggregate of 735,000 shares of class A common stock were excluded from the diluted earnings per share computation because the effect of

their inclusion would have been anti-dilutive. For the year ended December 31, 2013, stock options issued under the 2013 Plan to purchase an aggregate of 600,000 shares of class A common stock were excluded from the diluted earnings per share computation because the effect of their inclusion would have been anti-dilutive. No options to purchase shares of common stock were excluded from the diluted earnings per share computation for the year ended December 31, 2012.

#### **(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, 2014, 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, 2014, 2013, and 2012, 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,

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

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 \$2.9 million, \$2.7 million, and \$2.6 million during the years ended December 31, 2014, 2013, and 2012, respectively.

**(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.

The following table summarizes the revenues and pre-tax loss generated by the Angel.com business during the years ended December 31, 2013 and 2012, respectively, in addition to the pre-tax gain on the sale of Angel.com recorded by the Company during the year ended December 31, 2013 (in thousands):

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Angel.com revenues	\$ 0	\$ 6,320	\$ 28,882
Angel.com pre-tax loss	\$ 0	\$ 986	\$ 2,976
MicroStrategy pre-tax gain on sale	\$ 0	\$ 94,925	\$ 0

**(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 software through licensing arrangements and cloud-based subscriptions and related services. It includes the MicroStrategy Analytics Platform, MicroStrategy Mobile, and MicroStrategy Secure Cloud. The Company has also included MicroStrategy Usher as part of the one operating segment for each of the years ended December 31, 2014, 2013, and 2012 because this platform did not generate material revenues during these periods. 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:



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<b>Geographic regions:</b>	<b>Domestic</b>	<b>EMEA</b>	<b>Other Regions</b>	<b>Consolidated</b>
<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>Year ended December 31, 2012</b>				
Total revenues	\$ 326,333	\$ 177,543	\$ 61,848	\$ 565,724
Gross profit	\$ 241,440	\$ 133,986	\$ 49,222	\$ 424,648
<b>As of December 31, 2014</b>				
Long-lived assets	\$ 85,504	\$ 5,690	\$ 4,078	\$ 95,272
<b>As of December 31, 2013</b>				
Long-lived assets	\$ 89,342	\$ 7,111	\$ 5,909	\$ 102,362

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, 2014, 2013, and 2012, no individual foreign country accounted for 10% or more of total consolidated revenues from continuing operations.

For the years ended December 31, 2014, 2013, and 2012, no individual customer accounted for 10% or more of total consolidated revenues from continuing operations.

As of December 31, 2014 and 2013, no individual foreign country accounted for 10% or more of total consolidated assets.

**(18) Selected Quarterly Financial Data (Unaudited)**

The following tables contain unaudited Statement of Operations information for each quarter of 2014 and 2013. 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 income from continuing operations. The operating results for any quarter are not necessarily indicative of results for any future period.

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	<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
(Loss) income from continuing operations, net of tax	\$ (6,482)	\$ (10,337)	\$ (845)	\$ 22,699	\$ 5,035
Discontinued operations, net of tax	0	0	0	0	0
Net (loss) income	\$ (6,482)	\$ (10,337)	\$ (845)	\$ 22,699	\$ 5,035
(Loss) earnings per share: <sup>(1)</sup>					
Basic, from continuing operations	\$ (0.57)	\$ (0.91)	\$ (0.07)	\$ 2.01	\$ 0.45
Basic, from discontinued operations	0	0	0	0	0
Basic (loss) earnings per share	\$ (0.57)	\$ (0.91)	\$ (0.07)	\$ 2.01	\$ 0.45
Diluted, from continuing operations	\$ (0.57)	\$ (0.91)	\$ (0.07)	\$ 1.99	\$ 0.44
Diluted, from discontinued operations	0	0	0	0	0
Diluted (loss) earnings per share	\$ (0.57)	\$ (0.91)	\$ (0.07)	\$ 1.99	\$ 0.44

	<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>2013</b>					
Revenues	\$ 130,183	\$ 137,905	\$ 141,919	\$ 165,881	\$ 575,888
Gross profit	\$ 94,282	\$ 101,459	\$ 108,666	\$ 132,912	\$ 437,319
(Loss) income from continuing operations, net of tax	\$ (5,191)	\$ (1,553)	\$ 17,146	\$ 16,148	\$ 26,550
Discontinued operations, net of tax	56,782	0	0	0	56,782
Net income (loss)	\$ 51,591	\$ (1,553)	\$ 17,146	\$ 16,148	\$ 83,332
Earnings (loss) per share: <sup>(1)</sup>					
Basic, from continuing operations	\$ (0.46)	\$ (0.14)	\$ 1.52	\$ 1.43	\$ 2.35
Basic, from discontinued operations	5.03	0	0	0	5.02

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Basic earnings (loss) per share	\$	4.57	\$	(0.14)	\$	1.52	\$	1.43	\$	7.37
Diluted, from continuing operations	\$	(0.46)	\$	(0.14)	\$	1.52	\$	1.43	\$	2.35
Diluted, from discontinued operations		5.03		0		0		0		5.02
Diluted earnings (loss) per share	\$	4.57	\$	(0.14)	\$	1.52	\$	1.43	\$	7.37

(1) 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 February 2015, the Compensation Committee of the Board of Directors approved, subject to stockholder approval of Amendment No. 1 to the 2013 Plan, the grant of stock options to purchase an aggregate of 200,000 shares of class A common stock to certain Company employees and officers pursuant to the 2013 Plan. The fair value of these stock options is approximately \$13.6 million, to be recognized as share-based compensation expense over a four year vesting period.

These awards will be terminated or forfeited if stockholder approval of Amendment No. 1 is not obtained within 12 months of the date of grant of the awards, and no awards may be exercised or settled prior to such stockholder approval. However, the Company expects to obtain stockholder approval of Amendment No. 1 to the 2013 Plan at the Company's annual meeting of stockholders in 2015. The 2013 Plan is described in further detail in Note 12, Share-based Compensation, to the Consolidated Financial Statements.

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**

**and Chief Executive Officer**

Date: February 26, 2015

*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 and Chief Executive Officer (Principal Executive Officer)	February 26, 2015
/s/ DOUGLAS K. THEDE <b>Douglas K. Thede</b>	Senior Executive Vice President & Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2015
/s/ ROBERT H. EPSTEIN <b>Robert H. Epstein</b>	Director	February 26, 2015
/s/ STEPHEN X. GRAHAM <b>Stephen X. Graham</b>	Director	February 26, 2015
/s/ JARROD M. PATTEN <b>Jarrold M. Patten</b>	Director	February 26, 2015
/s/ CARL J. RICKERTSEN <b>Carl J. Rickertsen</b>	Director	February 26, 2015





Table of Contents**SCHEDULE II****VALUATION AND QUALIFYING ACCOUNTS****For the years ended December 31, 2014, 2013, and 2012****(in thousands)**

	<b>Balance at the beginning of the period</b>	<b>Additions (1)</b>	<b>Deductions</b>	<b>Balance at the end of the period</b>
<b>Allowance for doubtful accounts:</b>				
December 31, 2014	\$ 3,989	2,969	(2,546)	\$ 4,412
December 31, 2013	\$ 4,366	2,281	(2,658)	\$ 3,989
December 31, 2012	\$ 5,628	2,361	(3,623)	\$ 4,366
<b>Deferred tax valuation allowance:</b>				
December 31, 2014	\$ 77	2,234	0	\$ 2,311
December 31, 2013	\$ 231	77	(231)	\$ 77
December 31, 2012	\$ 736	7	(512)	\$ 231

*(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	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).
10.5	Summary of Perquisites and Associated Other Compensation Arrangements for Named Executive Officers.
10.6	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).
10.7	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).
10.8	Material Terms for Payment of Certain Executive Incentive Compensation (filed as Exhibit 10.10 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (File No. 000-24435) and incorporated by reference herein).
10.9	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).
10.10	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).

- 10.11 Summary of 2014 Cash Bonus Arrangements for Michael J. Saylor, 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 7, 2014 under the headings "2014 CEO Bonus Formula" and "2014 President Bonus Formulas" and incorporated by reference herein).

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10.12	Summary of 2014 Cash Bonus Arrangements for Douglas K. Thede and Peng Xiao (set forth in Item 5.02 of the registrant's Current Report on Form 8-K (File No. 000-24435) filed on April 10, 2014 under the heading "2014 Cash Bonus Targets for Chief Financial Officer and Chief Technology Officer and incorporated by reference herein).
10.13	Summary of Changes in Salary and Cash Bonus for Michael J. Saylor (set forth in Item 5.02 of the registrant's Current Report on Form 8-K (File No. 000-24435) filed on September 8, 2014 and incorporated by reference herein).
10.14	General Release of Claims, dated as of November 21, 2014, by and between the Company and Marcus Starke.
10.15	Agreement, dated as of December 17, 2014, by and between the Company and Peng Xiao.
10.16	Summary of Cash Bonus Arrangement with Timothy E. Lang.
21.1	Subsidiaries of the registrant.
23.1	Consent of KPMG LLP.
23.2	Consent of Grant Thornton 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.