

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended June 30, 2022

OR

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

For the transition period from to

Commission File Number 000-24435

MICROSTRATEGY INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

51-0323571

(I.R.S. Employer
Identification Number)

1850 Towers Crescent Plaza, Tysons Corner, VA

(Address of Principal Executive Offices)

22182

(Zip Code)

(703) 848-8600

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol	Name of Each Exchange on which Registered
Class A common stock, par value \$0.001 per share	MSTR	The Nasdaq Global Select Market

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of July 26, 2022, the registrant had 9,336,881 and 1,964,025 shares of class A common stock and class B common stock outstanding, respectively.

MICROSTRATEGY INCORPORATED

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MICROSTRATEGY INCORPORATED CONSOLIDATED BALANCE SHEETS (in thousands, except per share data)

	June 30, 2022 (unaudited)	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 69,386	\$ 63,356
Restricted cash	6,155	1,078
Accounts receivable, net	118,645	189,280
Prepaid expenses and other current assets	25,496	14,251
Total current assets	219,682	267,965
Digital assets	1,987,781	2,850,210
Property and equipment, net	34,580	36,587
Right-of-use assets	65,169	66,760
Deposits and other assets	17,786	15,820
Deferred tax assets, net	243,367	319,782
Total assets	\$ 2,568,365	\$ 3,557,124
Liabilities and Stockholders' (Deficit) Equity		
Current liabilities:		
Accounts payable, accrued expenses, and operating lease liabilities	\$ 35,960	\$ 46,084
Accrued compensation and employee benefits	47,773	54,548
Accrued interest	2,269	1,493
Deferred revenue and advance payments	188,098	209,860
Total current liabilities	274,100	311,985
Long-term debt, net	2,374,863	2,155,151
Deferred revenue and advance payments	8,497	8,089
Operating lease liabilities	72,162	76,608
Other long-term liabilities	25,706	26,224
Deferred tax liabilities	105	109
Total liabilities	2,755,433	2,578,166
Commitments and Contingencies		
Stockholders' (Deficit) Equity		
Preferred stock undesignated, \$0.001 par value; 5,000 shares authorized; no shares issued or outstanding	0	0
Class A common stock, \$0.001 par value; 330,000 shares authorized; 18,021 shares issued and 9,337 shares outstanding, and 18,006 shares issued and 9,322 shares outstanding, respectively	18	18
Class B convertible common stock, \$0.001 par value; 165,000 shares authorized; 1,964 shares issued and outstanding, and 1,964 shares issued and outstanding, respectively	2	2
Additional paid-in capital	1,760,288	1,727,143
Treasury stock, at cost; 8,684 shares	(782,104)	(782,104)
Accumulated other comprehensive loss	(13,665)	(7,543)
(Accumulated deficit) retained earnings	(1,151,607)	41,442
Total stockholders' (deficit) equity	(187,068)	978,958
Total liabilities and stockholders' (deficit) equity	\$ 2,568,365	\$ 3,557,124

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

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended June 30,	
	2022 (unaudited)	2021 (unaudited)
Revenues:		
Product licenses	\$ 20,129	\$ 22,151
Subscription services	14,017	10,342
Total product licenses and subscription services	34,146	32,493
Product support	66,521	71,027
Other services	21,406	21,831
Total revenues	122,073	125,351
Cost of revenues:		
Product licenses	431	419
Subscription services	5,498	3,810
Total product licenses and subscription services	5,929	4,229
Product support	5,127	4,862
Other services	14,148	13,947
Total cost of revenues	25,204	23,038
Gross profit	96,869	102,313
Operating expenses:		
Sales and marketing	36,862	40,321
Research and development	31,790	28,548
General and administrative	28,502	22,917
Digital asset impairment losses	917,838	424,774
Total operating expenses	1,014,992	516,560
Loss from operations	(918,123)	(414,247)
Interest expense, net	(13,187)	(4,401)
Other income (expense), net	5,120	(897)
Loss before income taxes	(926,190)	(419,545)
Provision for (benefit from) income taxes	136,108	(120,198)
Net loss	\$ (1,062,298)	\$ (299,347)
Basic loss per share (1)	\$ (94.01)	\$ (30.71)
Weighted average shares outstanding used in computing basic loss per share	11,300	9,746
Diluted loss per share (1)	\$ (94.01)	\$ (30.71)
Weighted average shares outstanding used in computing diluted loss per share	11,300	9,746

(1) Basic and fully diluted 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.

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Six Months Ended June 30,	
	2022 (unaudited)	2021 (unaudited)
Revenues:		
Product licenses	\$ 36,642	\$ 43,431
Subscription services	26,862	20,368
Total product licenses and subscription services	63,504	63,799
Product support	133,672	141,676
Other services	44,174	42,778
Total revenues	241,350	248,253
Cost of revenues:		
Product licenses	908	907
Subscription services	10,908	7,438
Total product licenses and subscription services	11,816	8,345
Product support	10,318	9,674
Other services	28,747	27,568
Total cost of revenues	50,881	45,587
Gross profit	190,469	202,666
Operating expenses:		
Sales and marketing	70,102	78,519
Research and development	65,313	58,031
General and administrative	55,208	44,646
Digital asset impairment losses	1,087,929	618,869
Total operating expenses	1,278,552	800,065
Loss from operations	(1,088,083)	(597,399)
Interest expense, net	(24,226)	(6,797)
Other income, net	7,345	367
Loss before income taxes	(1,104,964)	(603,829)
Provision for (benefit from) income taxes	88,085	(194,462)
Net loss	\$ (1,193,049)	\$ (409,367)
Basic loss per share (1)	\$ (105.64)	\$ (42.22)
Weighted average shares outstanding used in computing basic loss per share	11,294	9,697
Diluted loss per share (1)	\$ (105.64)	\$ (42.22)
Weighted average shares outstanding used in computing diluted loss per share	11,294	9,697

(1) Basic and fully diluted 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.

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Three Months Ended June 30,	
	2022	2021
	(unaudited)	(unaudited)
Net loss	\$ (1,062,298)	\$ (299,347)
Other comprehensive (loss) income, net of applicable taxes:		
Foreign currency translation adjustment	(4,113)	397
Total other comprehensive (loss) income	(4,113)	397
Comprehensive loss	<u>\$ (1,066,411)</u>	<u>\$ (298,950)</u>

	Six Months Ended June 30,	
	2022	2021
	(unaudited)	(unaudited)
Net loss	\$ (1,193,049)	\$ (409,367)
Other comprehensive loss, net of applicable taxes:		
Foreign currency translation adjustment	(6,122)	(1,439)
Total other comprehensive loss	(6,122)	(1,439)
Comprehensive loss	<u>\$ (1,199,171)</u>	<u>\$ (410,806)</u>

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

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY
(in thousands, unaudited)

		Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	(Accumulated Deficit) Retained Earnings
	Total	Shares	Amount	Shares	Amount		Shares	Amount		
Balance at January 1, 2021	<u>\$ 446,192</u>	<u>16,307</u>	<u>\$ 16</u>	<u>1,964</u>	<u>\$ 2</u>	<u>\$ 655,241</u>	<u>(8,684)</u>	<u>\$ (782,104)</u>	<u>\$ (3,885)</u>	<u>\$ 576,922</u>
Net loss	(110,020)	0	0	0	0	0	0	0	0	(110,020)
Other comprehensive loss	(1,836)	0	0	0	0	0	0	0	(1,836)	0
Issuance of class A common stock upon exercise of stock options	23,854	159	0	0	0	23,854	0	0	0	0
Share-based compensation expense	6,848	0	0	0	0	6,848	0	0	0	0
Balance at March 31, 2021	<u>\$ 365,038</u>	<u>16,466</u>	<u>\$ 16</u>	<u>1,964</u>	<u>\$ 2</u>	<u>\$ 685,943</u>	<u>(8,684)</u>	<u>\$ (782,104)</u>	<u>\$ (5,721)</u>	<u>\$ 466,902</u>
Net loss	(299,347)	0	0	0	0	0	0	0	0	(299,347)
Other comprehensive income	397	0	0	0	0	0	0	0	397	0
Issuance of class A common stock upon exercise of stock options	244	2	0	0	0	244	0	0	0	0
Share-based compensation expense	11,087	0	0	0	0	11,087	0	0	0	0
Balance at June 30, 2021	<u>\$ 77,419</u>	<u>16,468</u>	<u>\$ 16</u>	<u>1,964</u>	<u>\$ 2</u>	<u>\$ 697,274</u>	<u>(8,684)</u>	<u>\$ (782,104)</u>	<u>\$ (5,324)</u>	<u>\$ 167,555</u>
Net loss	(36,136)	0	0	0	0	0	0	0	0	(36,136)
Other comprehensive loss	(1,457)	0	0	0	0	0	0	0	(1,457)	0
Issuance of class A common stock upon exercise of stock options	7,282	50	0	0	0	7,282	0	0	0	0
Issuance of class A common stock under employee stock purchase plan	2,854	5	0	0	0	2,854	0	0	0	0
Issuance of class A common stock under public offerings, net of issuance costs	399,469	555	1	0	0	399,468	0	0	0	0
Share-based compensation expense	11,883	0	0	0	0	11,883	0	0	0	0
Balance at September 30, 2021	<u>\$ 461,314</u>	<u>17,078</u>	<u>\$ 17</u>	<u>1,964</u>	<u>\$ 2</u>	<u>\$ 1,118,761</u>	<u>(8,684)</u>	<u>\$ (782,104)</u>	<u>\$ (6,781)</u>	<u>\$ 131,419</u>
Net loss	(89,977)	0	0	0	0	0	0	0	0	(89,977)
Other comprehensive loss	(762)	0	0	0	0	0	0	0	(762)	0
Issuance of class A common stock upon exercise of stock options	9,271	58	0	0	0	9,271	0	0	0	0
Issuance of class A common stock upon vesting of restricted stock units, net of withholding taxes	(4,754)	11	0	0	0	(4,754)	0	0	0	0
Issuance of class A common stock under public offerings, net of issuance costs	590,994	859	1	0	0	590,993	0	0	0	0
Share-based compensation expense	12,872	0	0	0	0	12,872	0	0	0	0
Balance at December 31, 2021	<u>\$ 978,958</u>	<u>18,006</u>	<u>\$ 18</u>	<u>1,964</u>	<u>\$ 2</u>	<u>\$ 1,727,143</u>	<u>(8,684)</u>	<u>\$ (782,104)</u>	<u>\$ (7,543)</u>	<u>\$ 41,442</u>
Net loss	(130,751)	0	0	0	0	0	0	0	0	(130,751)
Other comprehensive loss	(2,009)	0	0	0	0	0	0	0	(2,009)	0
Issuance of class A common stock upon exercise of stock options	288	2	0	0	0	288	0	0	0	0
Issuance of class A common stock under employee stock purchase plan	2,805	7	0	0	0	2,805	0	0	0	0
Issuance of class A common stock upon vesting of restricted stock units, net of withholding taxes	(501)	3	0	0	0	(501)	0	0	0	0
Share-based compensation expense	14,209	0	0	0	0	14,209	0	0	0	0
Balance at March 31, 2022	<u>\$ 862,999</u>	<u>18,018</u>	<u>\$ 18</u>	<u>1,964</u>	<u>\$ 2</u>	<u>\$ 1,743,944</u>	<u>(8,684)</u>	<u>\$ (782,104)</u>	<u>\$ (9,552)</u>	<u>\$ (89,309)</u>
Net loss	(1,062,298)	0	0	0	0	0	0	0	0	(1,062,298)
Other comprehensive loss	(4,113)	0	0	0	0	0	0	0	(4,113)	0
Issuance of class A common stock upon exercise of stock options	423	3	0	0	0	423	0	0	0	0
Issuance of class A common stock upon vesting of restricted stock units, net of withholding taxes	(49)	0	0	0	0	(49)	0	0	0	0
Share-based compensation expense	15,970	0	0	0	0	15,970	0	0	0	0
Balance at June 30, 2022	<u>\$ (187,068)</u>	<u>18,021</u>	<u>\$ 18</u>	<u>1,964</u>	<u>\$ 2</u>	<u>\$ 1,760,288</u>	<u>(8,684)</u>	<u>\$ (782,104)</u>	<u>\$ (13,665)</u>	<u>\$ (1,151,607)</u>

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

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30,	
	2022	2021
	(unaudited)	(unaudited)
Operating activities:		
Net loss	\$ (1,193,049)	\$ (409,367)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,767	5,997
Reduction in carrying amount of right-of-use assets	3,990	4,204
Credit losses and sales allowances	606	365
Deferred taxes	76,109	(197,383)
Share-based compensation expense	29,688	18,807
Digital asset impairment losses	1,087,929	618,869
Amortization of issuance costs on long-term debt	4,297	2,977
Changes in operating assets and liabilities:		
Accounts receivable	9,281	11,197
Prepaid expenses and other current assets	(7,077)	(4,080)
Deposits and other assets	(6,578)	(1,071)
Accounts payable and accrued expenses	(10,216)	(8,940)
Accrued compensation and employee benefits	(9,802)	1,368
Accrued interest	776	1,307
Deferred revenue and advance payments	36,945	37,825
Operating lease liabilities	(4,835)	(5,147)
Other long-term liabilities	32	(253)
Net cash provided by operating activities	22,863	76,675
Investing activities:		
Purchases of digital assets	(225,500)	(1,615,606)
Purchases of property and equipment	(1,519)	(1,342)
Net cash used in investing activities	(227,019)	(1,616,948)
Financing activities:		
Proceeds from convertible senior notes	0	1,050,000
Issuance costs paid for convertible senior notes	0	(24,742)
Proceeds from senior secured notes	0	500,000
Issuance costs paid for senior secured notes	0	(11,269)
Proceeds from secured term loan, net of lender fees	204,693	0
Issuance costs paid for secured term loan, excluding lender fees	(107)	0
Proceeds from other long-term secured debt	11,100	0
Issuance costs paid for other long-term secured debt	(174)	0
Proceeds from exercise of stock options	711	24,098
Proceeds from sales under employee stock purchase plan	2,805	0
Payment of withholding tax on vesting of restricted stock units	(541)	0
Net cash provided by financing activities	218,487	1,538,087
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	(3,224)	(969)
Net increase (decrease) in cash, cash equivalents, and restricted cash	11,107	(3,155)
Cash, cash equivalents, and restricted cash, beginning of period	64,434	60,759
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 75,541</u>	<u>\$ 57,604</u>

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

MICROSTRATEGY INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying Consolidated Financial Statements of MicroStrategy Incorporated (“MicroStrategy” or the “Company”) are unaudited. In the opinion of management, all adjustments necessary for a fair statement of financial position and results of operations have been included. All such adjustments are of a normal recurring nature, unless otherwise disclosed. Interim results are not necessarily indicative of results for a full year.

Certain amounts in the prior year’s Consolidated Statements of Cash Flows have been reclassified to conform to current year presentation. In particular, accrued interest related to the Company’s long-term debt has been reclassified from “Accounts payable and accrued expenses” to “Accrued interest” within operating activities.

The balances presented in the Consolidated Statements of Stockholders’ Equity as of January 1, 2021 include the opening balance adjustments due to the adoption of Accounting Standards Update No. 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity* (“ASU 2020-06”), as described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

The Consolidated Financial Statements and Notes to Consolidated Financial Statements are presented as required by the United States Securities and Exchange Commission (“SEC”) and do not contain certain information included in the Company’s annual financial statements and notes. These financial statements should be read in conjunction with the Company’s audited financial statements and the notes thereto filed with the SEC in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021. There have been no significant changes in the Company’s accounting policies since December 31, 2021.

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. The Company is not aware of any subsequent event that would require recognition or disclosure.

(2) Digital Assets

The Company accounts for its digital assets, which are comprised solely of bitcoin, as indefinite-lived intangible assets in accordance with Accounting Standards Codification (“ASC”) 350, *Intangibles—Goodwill and Other*. The Company’s digital assets are initially recorded at cost. Subsequently, they are measured at cost, net of any impairment losses incurred since acquisition. Impairment losses are recognized as “Digital asset impairment losses” in the Company’s Consolidated Statement of Operations in the period in which the impairment occurs.

The following table summarizes the Company’s digital asset holdings (in thousands, except number of bitcoins), as of:

	June 30, 2022	December 31, 2021
Approximate number of bitcoins held	129,699	124,391
Digital assets carrying value	\$ 1,987,781	\$ 2,850,210
Cumulative digital asset impairment losses	\$ 1,989,248	\$ 901,319

The carrying value represents the lowest fair value (based on Level 1 inputs in the fair value hierarchy) of the bitcoins at any time since their acquisition. Therefore, these fair value measurements were made during the period from their acquisition through June 30, 2022 or December 31, 2021, respectively, and not as of June 30, 2022 or December 31, 2021, respectively.

The following table summarizes the Company’s digital asset purchases and digital asset impairment losses (in thousands, except number of bitcoins) for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Approximate number of bitcoins purchased	481	13,759	5,308	34,616
Digital asset purchases	\$ 10,000	\$ 529,231	\$ 225,500	\$ 1,615,606
Digital asset impairment losses	\$ 917,838	\$ 424,774	\$ 1,087,929	\$ 618,869

The Company did not sell any of its bitcoins during the three and six months ended June 30, 2022 and 2021, respectively.

As of June 30, 2022, approximately 14,589 of the bitcoins held by the Company serve as part of the collateral for the Company's 6.125% Senior Secured Notes due 2028 (the "2028 Secured Notes"), as further described in Note 4, Long-term Debt, to the Consolidated Financial Statements and in Note 8, Long-term Debt, to the Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2021. As of June 30, 2022, approximately 30,051 of the bitcoins held by the Company serve as part of the collateral for a \$205.0 million term loan (the "2025 Secured Term Loan") issued to MacroStrategy LLC ("MacroStrategy"), a wholly-owned subsidiary of the Company, by Silvergate Bank ("Silvergate"), as further described in Note 4, Long-term Debt, to the Consolidated Financial Statements.

(3) Contract Balances

The Company invoices its customers in accordance with billing schedules established in each contract. The Company's rights to consideration from customers are presented separately in the Company's Consolidated Balance Sheets depending on whether those rights are conditional or unconditional.

The Company presents unconditional rights to consideration from customers within "Accounts receivable, net" in its Consolidated Balance Sheets. All of the Company's contracts are generally non-cancellable and/or non-refundable, and therefore an unconditional right generally exists when the customer is billed or amounts are billable per the contract.

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

	June 30, 2022	December 31, 2021
Billed and billable	\$ 121,418	\$ 192,055
Less: allowance for credit losses	(2,773)	(2,775)
Accounts receivable, net	<u>\$ 118,645</u>	<u>\$ 189,280</u>

Changes in the allowance for credit losses were not material for the three and six months ended June 30, 2022. In estimating its allowance for credit losses as of June 30, 2022 and December 31, 2021, the Company continued to consider the impact from the pandemic caused by a novel strain of coronavirus ("COVID-19") on the Company's reserves.

Rights to consideration that are subject to a condition other than the passage of time are considered contract assets and presented within "Prepaid expenses and other current assets" in the Consolidated Balance Sheets since the rights to consideration are expected to become unconditional and transfer to accounts receivable within one year. Contract assets generally consist of accrued sales and usage-based royalty revenue. In these arrangements, consideration is not billed or billable until the royalty reporting is received, generally in the subsequent quarter, at which time the contract asset transfers to accounts receivable and a true-up adjustment is recorded to revenue. These true-up adjustments are generally not material. During the three and six months ended June 30, 2022 and 2021, there were no significant impairments to the Company's contract assets, nor were there any significant changes in the timing of the Company's contract assets being reclassified to accounts receivable. Contract assets included in "Prepaid expenses and other current assets" in the Consolidated Balance Sheets consisted of \$0.8 million and \$1.1 million in accrued sales and usage-based royalty revenue as of June 30, 2022 and December 31, 2021, respectively.

Contract liabilities are amounts received or due from customers in advance of the Company transferring the software or services to the customer. In the case of multi-year service contract arrangements, the Company generally does not invoice more than one year in advance of services and does not record deferred revenue for amounts that have not been invoiced. Revenue is subsequently recognized in the period(s) in which control of the software or services is transferred to the customer. The Company's contract liabilities are presented as either current or non-current "Deferred revenue and advance payments" in the Consolidated Balance Sheets, depending on whether the software or services are expected to be transferred to the customer within the next year.

The Company's "Accounts receivable, net" and "Deferred revenue and advance payments" balances in the Consolidated Balance Sheets include unpaid amounts related to contracts under which the Company has an enforceable right to invoice the customer for non-cancellable and/or non-refundable software and services. Changes in accounts receivable and changes in deferred revenue and advance payments are presented net of these unpaid amounts in "Operating activities" in the Consolidated Statements of Cash Flows.

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

	June 30, 2022	December 31, 2021
Current:		
Deferred product licenses revenue	\$ 754	\$ 993
Deferred subscription services revenue	40,295	35,589
Deferred product support revenue	143,524	166,477
Deferred other services revenue	3,525	6,801
Total current deferred revenue and advance payments	<u>\$ 188,098</u>	<u>\$ 209,860</u>
Non-current:		
Deferred product licenses revenue	\$ 0	\$ 68
Deferred subscription services revenue	2,639	1,064
Deferred product support revenue	5,272	6,203
Deferred other services revenue	586	754
Total non-current deferred revenue and advance payments	<u>\$ 8,497</u>	<u>\$ 8,089</u>

During the three and six months ended June 30, 2022, the Company recognized revenues of \$58.9 million and \$133.8 million, respectively, from amounts included in the total deferred revenue and advance payments balances at the beginning of 2022. During the three and six months ended June 30, 2021, the Company recognized revenues of \$55.7 million and \$125.9 million, respectively, from amounts included in the total deferred revenue and advance payments balances at the beginning of 2021. For the three and six months ended June 30, 2022 and 2021, there were no significant changes in the timing of revenue recognition on the Company's deferred balances.

The Company's remaining performance obligation represents all future revenue under contract and includes deferred revenue and advance payments and billable non-cancelable amounts that will be invoiced and recognized as revenue in future periods. The remaining performance obligation excludes contracts that are billed in arrears, such as certain time and materials contracts. The portions of multi-year contracts that will be invoiced in the future are not presented on the balance sheet within contract balances and are instead included in the following remaining performance obligation disclosure. As of June 30, 2022, the Company had an aggregate transaction price of \$273.9 million allocated to the remaining performance obligation related to product support, subscription services, product licenses, and other services contracts. The Company expects to recognize \$207.3 million within the next 12 months and the remainder thereafter.

(4) Long-term Debt

The net carrying value of the Company's long-term debt (in thousands) consisted of the following, as of:

	June 30, 2022	December 31, 2021
2025 Convertible Notes	\$ 639,380	\$ 637,882
2027 Convertible Notes	1,031,268	1,029,263
2028 Secured Notes	488,764	488,006
2025 Secured Term Loan	204,621	0
Other long-term secured debt	10,830	0
Total	<u>\$ 2,374,863</u>	<u>\$ 2,155,151</u>

Convertible Senior Notes

In December 2020, the Company issued \$650.0 million aggregate principal amount of 0.750% Convertible Senior Notes due 2025 (the "2025 Convertible Notes") in a private offering. The 2025 Convertible Notes are senior unsecured obligations of the Company and bear interest at a fixed rate of 0.750% per annum, payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2021. Holders of the 2025 Convertible Notes may receive additional interest under specified circumstances as outlined in the indenture relating to the issuance of the 2025 Convertible Notes. The 2025 Convertible Notes will mature on December 15, 2025, unless earlier converted, redeemed, or repurchased in accordance with their terms. The total net proceeds from the 2025 Convertible Notes offering, after deducting initial purchaser discounts and issuance costs, were approximately \$634.7 million.

In February 2021, the Company issued \$1.050 billion aggregate principal amount of 2027 Convertible Notes in a private offering. The 2027 Convertible Notes are senior unsecured obligations of the Company and do not bear regular interest. However, holders of the 2027 Convertible Notes may receive special interest under specified circumstances as outlined in the indenture relating to the issuance of the 2027 Convertible Notes. Any special interest is payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2021. The 2027 Convertible Notes will mature on February 15, 2027, unless earlier converted, redeemed, or repurchased in accordance with their terms. The total net proceeds from the 2027 Convertible Notes offering, after deducting initial purchaser discounts and issuance costs, were approximately \$1.026 billion.

The terms of the 2025 Convertible Notes and 2027 Convertible Notes (collectively, the “Convertible Notes”) are discussed more fully in Note 8, Long-term Debt, to the Consolidated Financial Statements of the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

There have been no adjustments to the initial conversion rates for each of the Convertible Notes as of June 30, 2022. As of June 30, 2022, the maximum number of shares into which the Convertible Notes could be potentially converted if the conversion features are triggered are 1,633,190 and 733,005 shares for the 2025 Convertible Notes and 2027 Convertible Notes, respectively.

During the six months ended June 30, 2022, the 2025 Convertible Notes were convertible at the option of the holders of the 2025 Convertible Notes during the first quarter of 2022 only. During the six months ended June 30, 2021, the 2025 Convertible Notes were convertible during the second quarter of 2021 only. During the six months ended June 30, 2022 and 2021, the 2027 Convertible Notes were not convertible at any time. No conversions of the Convertible Notes occurred during the six months ended June 30, 2022 or 2021. The Convertible Notes may be convertible in future periods if one or more of the conversion conditions is satisfied during future measurement periods.

As of June 30, 2022 and December 31, 2021, the net carrying value of the Convertible Notes was classified as a long-term liability in the “Long-term debt, net” line item in the Company’s Consolidated Balance Sheets.

The following is a summary of the Company’s convertible debt instruments as of June 30, 2022 (in thousands):

	Outstanding	Unamortized	Net Carrying	Fair Value	
	Principal Amount	Issuance Costs	Value	Amount	Leveling
2025 Convertible Notes	\$ 650,000	\$ (10,620)	\$ 639,380	\$ 393,166	Level 2
2027 Convertible Notes	1,050,000	(18,732)	1,031,268	497,175	Level 2
Total	<u>\$ 1,700,000</u>	<u>\$ (29,352)</u>	<u>\$ 1,670,648</u>	<u>\$ 890,341</u>	

The following is a summary of the Company’s convertible debt instruments as of December 31, 2021 (in thousands):

	Outstanding	Unamortized	Net Carrying	Fair Value	
	Principal Amount	Issuance Costs	Value	Amount	Leveling
2025 Convertible Notes	\$ 650,000	\$ (12,118)	\$ 637,882	\$ 1,056,679	Level 2
2027 Convertible Notes	1,050,000	(20,737)	1,029,263	774,375	Level 2
Total	<u>\$ 1,700,000</u>	<u>\$ (32,855)</u>	<u>\$ 1,667,145</u>	<u>\$ 1,831,054</u>	

The fair value of the Convertible Notes is determined using observable market data other than quoted prices, specifically the last traded price at the end of the reporting period of identical instruments in the over-the-counter market (Level 2).

For the three months ended June 30, 2022 and 2021, interest expense related to the Convertible Notes was as follows (in thousands):

	Three Months Ended June 30, 2022			Three Months Ended June 30, 2021		
	Contractual Interest Expense	Amortization of Issuance Costs	Total	Contractual Interest Expense	Amortization of Issuance Costs	Total
2025 Convertible Notes	\$ 1,219	\$ 750	\$ 1,969	\$ 1,219	\$ 741	\$ 1,960
2027 Convertible Notes	0	1,003	1,003	0	999	999
Total	<u>\$ 1,219</u>	<u>\$ 1,753</u>	<u>\$ 2,972</u>	<u>\$ 1,219</u>	<u>\$ 1,740</u>	<u>\$ 2,959</u>

For the six months ended June 30, 2022 and 2021, interest expense related to the Convertible Notes was as follows (in thousands):

	Six Months Ended June 30, 2022			Six Months Ended June 30, 2021		
	Contractual Interest Expense	Amortization of Issuance Costs	Total	Contractual Interest Expense	Amortization of Issuance Costs	Total
2025 Convertible Notes	\$ 2,438	\$ 1,498	\$ 3,936	\$ 2,438	\$ 1,480	\$ 3,918
2027 Convertible Notes	0	2,005	2,005	0	1,432	1,432
Total	<u>\$ 2,438</u>	<u>\$ 3,503</u>	<u>\$ 5,941</u>	<u>\$ 2,438</u>	<u>\$ 2,912</u>	<u>\$ 5,350</u>

For the three and six months ended June 30, 2022, the Company paid \$2.4 million in interest expense related to the 2025 Convertible Notes. For the three and six months ended June 30, 2021, the Company paid \$2.5 million in interest related to the 2025 Convertible Notes. The Company has not paid any special interest expense related to the 2027 Convertible Notes to date.

Senior Secured Notes

On June 14, 2021, the Company issued \$500.0 million aggregate principal amount of 2028 Secured Notes in a private offering. The 2028 Secured Notes bear interest at a fixed rate of 6.125% per annum, payable semiannually in arrears on June 15 and December 15 of each year, beginning on December 15, 2021. The 2028 Secured Notes have a stated maturity date of June 15, 2028, unless earlier redeemed or repurchased in accordance with their terms and subject to a springing maturity date of September 15, 2025 or November 16, 2026. The total net proceeds from the 2028 Secured Notes, after deducting initial purchaser discounts and issuance costs, were approximately \$487.2 million.

The 2028 Secured Notes include a springing maturity feature that will cause the stated maturity date to spring ahead to: (1) September 15, 2025 (the “First Springing Maturity Date”) unless on the First Springing Maturity Date (i) the Company has liquidity (as defined in the 2028 Secured Notes Indenture) in excess of 130% of the amount required to pay in full in cash the then outstanding aggregate principal amount of and accrued interest on the 2025 Convertible Notes or (ii) less than \$100,000,000 of the aggregate principal amount of the 2025 Convertible Notes remains outstanding, (2) November 16, 2026 (the “Second Springing Maturity Date”) unless on the Second Springing Maturity Date (i) the Company has liquidity in excess of 130% of the amount required to pay in full in cash the then outstanding aggregate principal amount of and accrued interest on the 2027 Convertible Notes or (ii) less than \$100,000,000 of the aggregate principal amount of the 2027 Convertible Notes remains outstanding, or (3) the date (such date, an “FCCR Springing Maturity Date”) that is 91 days prior to the maturity date of any FCCR Convertible Indebtedness (as defined in the indenture for the 2028 Secured Notes) unless on the FCCR Springing Maturity Date (i) the Company has liquidity in excess of 130% of the amount required to pay in full in cash the then outstanding aggregate principal amount of and accrued interest on such FCCR Convertible Indebtedness or (ii) less than \$100,000,000 of the aggregate principal amount of such FCCR Convertible Indebtedness remains outstanding.

The terms of the 2028 Secured Notes are discussed more fully in Note 8, Long-term Debt, to the Consolidated Financial Statements of the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

The 2028 Secured Notes are governed by an indenture containing certain covenants with which the Company must comply, including covenants with respect to limitations on (i) additional indebtedness, (ii) liens, (iii) certain payments and investments, (iv) the ability to merge or consolidate with another person, or sell or otherwise dispose of substantially all the Company’s assets, and (v) certain transactions with affiliates. The Company was in compliance with its debt covenants as of June 30, 2022.

As of June 30, 2022 and December 31, 2021, the net carrying value of the 2028 Secured Notes was classified as a long-term liability in the “Long-term debt, net” line item in the Company’s Consolidated Balance Sheets.

The following is a summary of the 2028 Secured Notes as of June 30, 2022 (in thousands):

	Outstanding Principal Amount	Unamortized Issuance Costs	Net Carrying Value	Fair Value Amount	Leveling
2028 Secured Notes	\$ 500,000	\$ (11,236)	\$ 488,764	\$ 394,375	Level 2

The following is a summary of the 2028 Secured Notes as of December 31, 2021 (in thousands):

	Outstanding Principal Amount	Unamortized Issuance Costs	Net Carrying Value	Fair Value Amount	Leveling
2028 Secured Notes	\$ 500,000	\$ (11,994)	\$ 488,006	\$ 502,530	Level 2

The fair value of the 2028 Secured Notes is determined using observable market data other than quoted prices, specifically the last traded price at the end of the reporting period of identical instruments in the over-the-counter market (Level 2).

For the three months ended June 30, 2022 and 2021, interest expense related to the 2028 Secured Notes was as follows (in thousands):

	Three Months Ended June 30, 2022			Three Months Ended June 30, 2021		
	Contractual Interest Expense	Amortization of Issuance Costs	Total	Contractual Interest Expense	Amortization of Issuance Costs	Total
2028 Secured Notes	\$ 7,656	\$ 382	\$ 8,038	\$ 1,361	\$ 65	\$ 1,426

For the six months ended June 30, 2022 and 2021, interest expense related to the 2028 Secured Notes was as follows (in thousands):

	Six Months Ended June 30, 2022			Six Months Ended June 30, 2021		
	Contractual Interest Expense	Amortization of Issuance Costs	Total	Contractual Interest Expense	Amortization of Issuance Costs	Total
2028 Secured Notes	\$ 15,312	\$ 758	\$ 16,070	\$ 1,361	\$ 65	\$ 1,426

For the three and six months ended June 30, 2022, the Company paid \$15.3 million in interest expense related to the 2028 Secured Notes. The Company did not pay any interest expense related to the 2028 Secured Notes during the three and six months ended June 30, 2021.

Secured Term Loan

On March 23, 2022, MacroStrategy LLC, a wholly-owned subsidiary of the Company, entered into a Credit and Security Agreement (the “Credit and Security Agreement”) with Silvergate pursuant to which Silvergate issued the \$205.0 million 2025 Secured Term Loan to MacroStrategy. The 2025 Secured Term Loan is a senior secured obligation of MacroStrategy and bears interest at a floating rate equal to the Secured Overnight Financing Rate 30 Day Average as published by the Federal Reserve Bank of New York’s website plus 3.70%, with a floor of 3.75%, and is payable monthly in arrears beginning May 2022. The 2025 Secured Term Loan will mature on March 23, 2025, unless earlier prepaid or repaid in accordance with the terms of the Credit and Security Agreement. The total net proceeds from the 2025 Secured Term Loan, after deducting lender fees and third-party costs, were approximately \$204.6 million.

Under the terms of the Credit and Security Agreement, the 2025 Secured Term Loan proceeds may be used (i) by MacroStrategy to purchase bitcoins, (ii) by MacroStrategy to pay fees, interest, and expenses related to the 2025 Secured Term Loan transaction, or (iii) for MacroStrategy’s or the Company’s general corporate purposes. The 2025 Secured Term Loan may be prepaid at any time, subject to prepayment premiums of 0.50% and 0.25% of the 2025 Secured Term Loan amount prepaid for prepayments during years one and two of the 2025 Secured Term Loan term, respectively.

In accordance with the terms of the Credit and Security Agreement, the 2025 Secured Term Loan was collateralized at closing by bitcoin with a value of approximately \$820.0 million placed in a collateral account with a custodian mutually authorized by Silvergate and MacroStrategy (the “Bitcoin Collateral Account”). While the 2025 Secured Term Loan is outstanding, MacroStrategy is required to maintain a Loan to collateral value ratio (“LTV Ratio”) of 50% or less (the “Maximum LTV Ratio”), which would amount to at least \$410.0 million worth of bitcoin being required to be held in such account assuming the full \$205.0 million of 2025 Secured Term Loan principal remains outstanding. If the price of bitcoin drops such that the LTV Ratio exceeds 50%, MacroStrategy is required to either deposit additional bitcoin in the Bitcoin Collateral Account or prepay a portion of the 2025 Secured Term Loan such that the LTV Ratio is reduced to 25% or less (or 35% or less, provided that in such case the interest rate on the 2025 Secured Term Loan will be increased by 25 basis points until such time as the LTV Ratio is reduced to 25% or less). In June 2022, as the price of bitcoin declined causing the LTV Ratio to increase, MacroStrategy deposited 10,585 additional bitcoins into the account securing the borrowing under the Credit and Security Agreement to help ensure that the LTV Ratio remained below the Maximum LTV Ratio. If at any time the LTV Ratio is less than 25% as a result of excess collateral in the Bitcoin Collateral Account, MacroStrategy is entitled to a return of such excess collateral so long as the LTV Ratio would not exceed 25% after giving effect to such return.

Separate and apart from the requirements associated with the LTV Ratio, MacroStrategy established a \$5.0 million cash reserve account (the “Reserve Account”) with Silvergate to serve as additional collateral for the 2025 Secured Term Loan. MacroStrategy is required to maintain at least \$5.0 million in the Reserve Account until the last six months of the 2025 Secured Term Loan term, at which time funds in the Reserve Account may be used to make interest payments on the 2025 Secured Term Loan at MacroStrategy’s request, with the amount required to be held in the Reserve Account correspondingly reduced to the extent such payments are made. The collateral for the 2025 Secured Term Loan does not extend beyond assets in the Bitcoin Collateral Account and the Reserve Account. As of June 30, 2022, the Reserve Account is presented within “Restricted cash” in the Company’s Consolidated Balance Sheet and the Bitcoin Collateral Account is presented within “Digital assets” in the Company’s Consolidated Balance Sheet as further described in Note 2, Digital Assets, to the Consolidated Financial Statements.

The 2025 Secured Term Loan is not guaranteed by any party. The Credit and Security Agreement contains customary affirmative and negative covenants for credit facilities of this type, including, among others, limitations on MacroStrategy with respect to the sale of collateral and the incurrence of liens on the collateral. The Credit and Security Agreement does not restrict MacroStrategy from incurring additional debt, permits additional liens so long as such liens are not on the assets serving as collateral for the 2025 Secured Term Loan, and permits MacroStrategy to sell assets so long as they are not serving as collateral for the 2025 Secured Term Loan. There are no restrictions in the Credit and Security Agreement on utilizing bitcoin that is not in the Bitcoin Collateral Account. The Credit and Security Agreement has customary change-of-control provisions, providing Silvergate with a right to accelerate the 2025 Secured Term Loan in full in connection with a change of control of the Company, including the sale of all or substantially all of the Company’s or MacroStrategy’s assets. The Credit and Security Agreement also contains customary events of default with customary grace periods, as applicable. Upon an event of default, Silvergate has the right to accelerate the 2025 Secured Term Loan in full, increase the interest accrual rate by an additional 2%, and liquidate the collateral to pay the 2025 Secured Term Loan.

MacroStrategy was in compliance with its debt covenants as of June 30, 2022.

The Company incurred approximately \$0.4 million in lender fees and third-party costs (“issuance costs”) associated with the 2025 Secured Term Loan. The Company accounts for these issuance costs as a reduction to the principal amount of the 2025 Secured Term Loan and amortizes the issuance costs to interest expense over the contractual term of the 2025 Secured Term Loan at an effective interest rate of 3.87%. As of June 30, 2022, the net carrying value of the 2025 Secured Term Loan was classified as a long-term liability in the “Long-term debt, net” line item in the Company’s Consolidated Balance Sheets.

The following is a summary of the 2025 Secured Term Loan as of June 30, 2022 (in thousands):

	Outstanding Principal Amount	Unamortized Issuance Costs	Net Carrying Value	Fair Value Amount	Fair Value Leveling
2025 Secured Term Loan	\$ 205,000	\$ (379)	\$ 204,621	\$ 205,000	Level 3

The principal or par value of the 2025 Secured Term Loan approximates its fair value as of June 30, 2022. The fair value of the 2025 Secured Term Loan is determined using unobservable inputs provided by the lender, specifically hypothetical lending terms attainable as of the end of the reporting period, which are comparable to the loan's original terms (Level 3).

For the three and six months ended June 30, 2022, interest expense related to the 2025 Secured Term Loan was as follows (in thousands):

	Three Months Ended June 30, 2022			Six Months Ended June 30, 2022		
	Contractual Interest Expense	Amortization of Issuance Costs	Total	Contractual Interest Expense	Amortization of Issuance Costs	Total
2025 Secured Term Loan	\$ 2,207	\$ 33	\$ 2,240	\$ 2,383	\$ 36	\$ 2,419

The Company paid \$1.6 million in interest expense related to the 2025 Secured Term Loan during the three and six months ended June 30, 2022.

Other long-term secured debt

In June 2022, the Company, through a wholly-owned subsidiary, entered into a secured term loan agreement in the amount of \$11.1 million, bearing interest at an annual rate of 5.2%, and maturing in June 2027. The loan is secured by certain non-bitcoin assets of the Company that are not otherwise serving as collateral for any of the Company's other indebtedness.

Maturities

The following table shows the maturities of the Company's debt instruments as of June 30, 2022 (in thousands). The principal payments related to the 2028 Secured Notes are included in the table below based on the First Springing Maturity Date of September 15, 2025, as if the springing maturity feature discussed above were triggered. The Company's expectation is that the springing maturity feature of the 2028 Secured Notes will not be triggered.

Payments due by period ended June 30,	2025 Convertible Notes	2027 Convertible Notes	2028 Secured Notes	2025 Secured Term Loan	Other long-term secured debt	Total
2023	\$ 0	\$ 0	\$ 0	\$ 0	\$ 499	\$ 499
2024	0	0	0	0	525	525
2025	0	0	0	205,000	555	205,555
2026	650,000	0	500,000	0	584	1,150,584
2027	0	1,050,000	0	0	8,937	1,058,937
Thereafter	0	0	0	0	0	0
Total	<u>\$ 650,000</u>	<u>\$ 1,050,000</u>	<u>\$ 500,000</u>	<u>\$ 205,000</u>	<u>\$ 11,100</u>	<u>\$ 2,416,100</u>

(5) 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 assumes indemnity obligations for intellectual property infringement, as well as other obligations from time to time depending on arrangements negotiated with customers and other third parties. 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 June 30, 2022 or December 31, 2021.

(b) Contingencies

Following an internal review initiated in 2018, the Company believes that its Brazilian subsidiary failed or likely failed to comply with local procurement regulations in conducting business with certain Brazilian government entities.

On February 6, 2020, the Company learned that a Brazilian court authorized the Brazilian Federal Police to use certain investigative measures in its investigation into alleged corruption and procurement fraud involving certain government officials, pertaining to a particular transaction. Pursuant to this court authorization, numerous entities and individuals across Brazil were subject to the freezing of assets and other measures, including former resellers and former employees of the Company's Brazilian subsidiary. On February 6, 2020, the bank accounts of the Company's Brazilian subsidiary were also frozen up to an amount of BRL 10.0 million. On May 22, 2020, these bank accounts of the Company's Brazilian subsidiary were unfrozen based on a court decision that found the evidence provided to support the alleged illicit origin of the relevant funds was insufficient. On October 19, 2021, an appeals court upheld the decision to unfreeze the accounts (which had remained unfrozen while the appeal was pending). This decision is final. The transaction at issue is part of the basis of the previously reported failure or likely failure of the Brazilian subsidiary to comply with local procurement regulations. The Company is not aware of any allegations that any former employee or the Company made any payments to Brazilian

government officials. The Brazilian Federal Police expanded the investigation to include other possible cases of procurement fraud involving Brazilian government entities. Criminal penalties may be imposed against individuals; however, neither employees of the Company's Brazilian subsidiary nor the subsidiary itself have been targets of the Federal Police investigation.

The Company has also learned that Brazil's Federal Comptroller General filed an administrative action against the Company's Brazilian subsidiary with respect to the alleged procurement violations. These matters remain the subject of investigation by Brazilian authorities. The Company is taking measures to attempt to resolve these matters.

While the Company believes that it is probable that the resolution of these Brazilian matters will result in a loss, the amount or range of loss is not reasonably estimable at this time. Given the stage of these matters, the outcome may result in a material impact on the Company's earnings and financial results for the period in which any such liability is accrued. However, the Company believes that the outcome of these matters will not have a material effect on the Company's financial position.

On November 4, 2020, a complaint was filed against the Company in the U.S. District Court for the Eastern District of Virginia by a patent assertion entity called Daedalus Blue, LLC ("Daedalus"). In its complaint, Daedalus alleges that the Company has infringed U.S. Patent Nos. 8,341,172 (the "'172 Patent") and 9,032,076 (the "'076 Patent") based on specific functionality in the MicroStrategy platform. The '172 Patent relates to a method for providing aggregate data access in response to a query, whereas the '076 Patent relates to a role-based access control system.

On March 1, 2021, Daedalus provided its formal infringement contentions which included additional accused functionality as part of its infringement allegations from the complaint, materially expanding the scope of its case. The Company has filed a motion to dismiss the complaint with prejudice, asking the court to rule that the asserted claims are invalid as being directed to patent ineligible matter. This matter is in the latter stage of factual discovery. The court conducted a claim construction hearing on July 15, 2021. The court appointed a special master on October 28, 2021 and directed the special master to submit a Report and Recommendation as to the issue of claim construction and the pending motion to dismiss by February 1, 2022. On January 21, 2022, the special master issued two separate Reports and Recommendations. The first Report and Recommendation recommended constructions of certain patent claim terms and the second Report and Recommendation recommended, without reaching the merits, dismissing the Company's motion to dismiss without prejudice to re-filing after discovery ends. The parties filed their respective objections to the special master's Reports and Recommendations on February 4, 2022, and their oppositions to the other party's objections on February 18, 2022. On March 9, 2022, the court issued an order overruling all parties' objections and adopting the special master's Reports and Recommendations in full. As per court order, the parties submitted a joint proposed schedule, which the court adopted on April 7, 2022, providing new deadlines for the close of fact discovery, expert reports, expert discovery, and dispositive motions. Fact discovery reopened on April 18, 2022 and closed on June 1, 2022. The case has proceeded to expert discovery and the parties exchanged their opening expert reports on issues for which they bear the burden of proof on July 1, 2022 and exchanged their rebuttal expert reports on July 29, 2022. The outcome of this matter is not presently determinable.

The Company is also involved in various legal proceedings arising in the normal course of business. Although the outcomes of these legal proceedings are inherently difficult to predict, management does not expect the resolution of these legal proceedings to have a material adverse effect on the Company's 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.

(6) 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, 2023 (the "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 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.

During the three and six months ended June 30, 2022 and 2021, the Company did not repurchase any shares of its class A common stock pursuant to the Share Repurchase Program. As of June 30, 2022, the Company had repurchased an aggregate of 5,674,226 shares of its class A common stock at an average price per share of \$104.13 and an aggregate cost of \$590.9 million pursuant to the Share Repurchase Program. As of June 30, 2022, \$209.1 million of the Company's class A common stock remained available for repurchase pursuant to the Share Repurchase Program. The average price per share and aggregate cost amounts disclosed above include broker commissions.

(7) Income Taxes

The Company computes its year-to-date provision for (benefit from) income taxes by applying the estimated annual effective tax rate to year-to-date pretax income or loss and adjusts the provision for (benefit from) income taxes for discrete tax items recorded in the period. The estimated effective tax rate is subject to fluctuation based on the level and mix of earnings and losses by tax jurisdiction, foreign tax rate differentials, and the relative impact of permanent book to tax differences. Each quarter, a cumulative adjustment is recorded for any fluctuations in the estimated annual effective tax rate as compared to the prior quarter. As a result of these factors, and due to potential changes in the Company's period-to-period results, fluctuations in the Company's effective tax rate and respective tax provisions or benefits may occur. For the six months ended June 30, 2022, the Company recorded a provision for income taxes of \$88.1 million on a pretax loss of \$1.105 billion, which resulted in an effective tax rate of (8.0)%. For the six months ended June 30, 2021, the Company recorded a benefit from income taxes of \$194.5 million on a pretax loss of \$603.8 million, which resulted in an effective tax rate of 32.2%. The change in the effective tax rate, as compared to the same period in the prior year, is primarily due to the establishment of a valuation allowance on the Company's deferred tax asset related to the impairment on its bitcoin holdings, attributable to the decrease in the market value of bitcoin as of June 30, 2022.

As of June 30, 2022, the Company had a valuation allowance of \$391.3 million primarily related to the Company's deferred tax asset related to the impairment on its bitcoin holdings that, in the Company's present estimation, more likely than not will not be realized. If the market value of bitcoin continues to decline or the Company is unable to regain profitability in future periods, the Company may be required to increase further the valuation allowance against its deferred tax assets, which could result in a charge that would materially adversely affect net income (loss) in the period in which the charge is incurred. To the extent the market value of bitcoin rises, the Company may decrease the valuation allowance against its deferred tax asset. The Company will continue to regularly assess the realizability of deferred tax assets.

The Company records liabilities related to its uncertain tax positions. As of June 30, 2022 and December 31, 2021, the Company had gross unrecognized tax benefits of \$6.2 million, of which \$2.1 million was recorded in "Other long-term liabilities" and \$4.1 million was recorded in "Deferred tax assets, net" in the Company's Consolidated Balance Sheets.

(8) Share-based Compensation

2013 Stock Incentive Plan

The Company's 2013 Stock Incentive Plan (as amended, the "2013 Equity Plan") authorizes the issuance of various types of share-based awards to the Company's employees, officers, directors, and other eligible participants. As of June 30, 2022, a total of 2,750,000 shares of the Company's class A common stock were authorized for issuance under the 2013 Equity Plan. As of June 30, 2022, there were 179,462 shares of class A common stock reserved and available for future issuance under the 2013 Equity Plan.

Stock option awards

As of June 30, 2022, there were options to purchase 1,489,404 shares of class A common stock outstanding under the 2013 Equity Plan.

The following table summarizes the Company's stock option activity (in thousands, except per share data and years) for the three months ended June 30, 2022:

	Shares	Stock Options Outstanding		
		Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Years)
Balance as of April 1, 2022	1,466	\$ 296.80		
Granted	35	\$ 235.87		
Exercised	(3)	\$ 135.54	\$ 251	
Forfeited/Expired	(9)	\$ 527.71		
Balance as of June 30, 2022	1,489	\$ 294.42		
Exercisable as of June 30, 2022	720	\$ 185.18	\$ 22,425	3.8
Expected to vest as of June 30, 2022	769	\$ 396.66	\$ 3,395	8.8
Total	1,489	\$ 294.42	\$ 25,820	6.4

Stock options outstanding as of June 30, 2022 are comprised of the following range of exercise prices per share (in thousands, except per share data and years):

Stock Options Outstanding at June 30, 2022			
Range of Exercise Prices per Share	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)
\$121.43 - \$200.00	885	\$ 136.93	4.5
\$200.01 - \$300.00	20	\$ 264.69	9.9
\$400.01 - \$500.00	324	\$ 408.64	9.6
\$600.01 - \$691.23	260	\$ 691.23	8.6
Total	1,489	\$ 294.42	6.4

An aggregate of 26,250 stock options with an aggregate grant date fair value of \$2.3 million vested during the three months ended June 30, 2022. The weighted average grant date fair value of stock option awards using the Black-Scholes valuation model was \$152.69 and \$252.81 for each share subject to a stock option granted during the three months ended June 30, 2022 and 2021, respectively, based on the following assumptions:

	Three months ended June 30,	
	2022	2021
Expected term of options in years	6.3	6.3
Expected volatility	69.2% - 69.5%	56.8%
Risk-free interest rate	2.8% - 2.9%	1.1%
Expected dividend yield	0.0%	0.0%

For the three and six months ended June 30, 2022, the Company recognized approximately \$12.3 million and \$22.7 million, respectively, in share-based compensation expense from stock options granted under the 2013 Equity Plan. For the three and six months ended June 30, 2021, the Company recognized approximately \$8.8 million and \$14.1 million, respectively, in share-based compensation expense from stock options granted under the 2013 Equity Plan. As of June 30, 2022, there was approximately \$145.2 million of total unrecognized share-based compensation expense related to unvested stock options. As of June 30, 2022, the Company expects to recognize this remaining share-based compensation expense over a weighted average vesting period of approximately 3.1 years.

Share-settled restricted stock units

As of June 30, 2022, there were 131,953 share-settled restricted stock units outstanding under the 2013 Equity Plan. The following table summarizes the Company's share-settled restricted stock unit activity (in thousands) for the periods indicated:

	Share-Settled Restricted Stock Units Outstanding	
	Units	Aggregate Intrinsic Value
Balance as of April 1, 2022	108	
Granted	28	
Vested	0	\$ 134
Forfeited	(4)	
Balance as of June 30, 2022	132	
Expected to vest as of June 30, 2022	132	\$ 21,680

During the three months ended June 30, 2022, 367 share-settled restricted stock units having an aggregate grant date fair value of \$0.2 million vested, and 134 shares were withheld to satisfy tax obligations, resulting in 233 issued shares. The weighted average grant date fair value of share-settled restricted stock units granted during the three months ended June 30, 2022 and 2021 was \$222.66 and \$616.88, respectively, based on the fair value of the Company's class A common stock. For the three and six months ended June 30, 2022, the Company recognized approximately \$3.2 million and \$6.4 million, respectively, in share-based compensation expense from share-settled restricted stock units granted under the 2013 Equity Plan. For the three and six months ended June 30, 2021, the Company recognized approximately \$1.4 million and \$2.6 million, respectively, in share-based compensation expense from share-settled restricted stock units granted under the 2013 Equity Plan. As of June 30, 2022, there was approximately \$45.2 million of total unrecognized share-

based compensation expense related to unvested share-settled restricted stock units. As of June 30, 2022, the Company expects to recognize this remaining share-based compensation expense over a weighted average vesting period of approximately 3.1 years.

Other stock-based awards and cash-settled restricted stock units

From time to time the Company has granted “other stock-based awards” and “cash-settled restricted stock units” under the 2013 Equity Plan. Other stock-based awards are similar to stock options, and cash-settled restricted stock units are similar to the Company’s share-settled restricted stock units, except in each case these awards are settled in cash only and not in shares of the Company’s class A common stock. Due to their required cash settlement feature, these awards are classified as liabilities in the Company’s Consolidated Balance Sheets and the fair value of the awards is remeasured each quarterly reporting period. For the three and six months ended June 30, 2022, the Company recognized a reduction of approximately \$0.7 million and \$0.5 million, respectively, in share-based compensation expense from other stock-based awards and cash-settled restricted stock units. For the three months ended June 30, 2021, the Company recognized an insignificant amount of share-based compensation expense from other stock-based awards and cash-settled restricted stock units. For the six months ended June 30, 2021, the Company recognized \$0.9 million in share-based compensation expense from other stock-based awards and cash-settled restricted stock units. As of June 30, 2022, there was approximately \$0.4 million of total unrecognized share-based compensation expense related to other stock-based awards and cash-settled restricted stock units. As of June 30, 2022, the Company expects to recognize this remaining share-based compensation expense over a weighted average vesting period of approximately 2.7 years, subject to additional fair value adjustments through the earlier of settlement or expiration.

2021 ESPP

The Company also maintains the 2021 Employee Stock Purchase Plan (the “2021 ESPP”). The purpose of the 2021 ESPP is to provide eligible employees of the Company and certain of its subsidiaries with opportunities to purchase shares of the Company’s class A common stock, commencing at such time and on such dates as the Board of Directors of the Company shall determine. The first offering period under the 2021 ESPP commenced on February 16, 2021 and ended on August 15, 2021. After this first offering period, the Board of Directors of the Company determined to provide subsequent 6-month offering periods commencing on each March 1 and September 1 for the remaining term of the 2021 ESPP. An aggregate of 100,000 shares of the Company’s class A common stock has been authorized for issuance under the 2021 ESPP. During the three months ended June 30, 2022, no shares of class A common stock were issued in connection with the 2021 ESPP. As of June 30, 2022, 87,938 shares of the Company’s class A common stock remained available for issuance under the 2021 ESPP.

For the three and six months ended June 30, 2022, the Company recognized approximately \$0.5 million and \$1.1 million, respectively, in share-based compensation expense related to the 2021 ESPP. For the three and six months ended June 30, 2021, the Company recognized approximately \$0.8 million and \$1.2 million, respectively, in share-based compensation expense related to the 2021 ESPP. As of June 30, 2022, there was approximately \$0.3 million of total unrecognized share-based compensation expense related to the 2021 ESPP. As of June 30, 2022, the Company expects to recognize this remaining share-based compensation expense over a period of approximately 0.2 years.

Tax Benefits Related to Equity Plans

For the three and six months ended June 30, 2022 and 2021, tax (benefit) expense related to the Company’s equity plans was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Tax (benefit) expense related to:				
Share-based compensation expense	\$ (3,343)	\$ (1,992)	\$ (6,240)	\$ (3,277)
Exercises of stock options and vesting of share-settled restricted stock units	57	(153)	110	(22,277)
Total tax benefit related to the Company's equity plans	<u>\$ (3,286)</u>	<u>\$ (2,145)</u>	<u>\$ (6,130)</u>	<u>\$ (25,554)</u>

(9) Basic and Diluted Loss per Share

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 10 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 common stock and for 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 June 30, 2022 and December 31, 2021, there were no shares of preferred stock issued or outstanding.

Potential common shares are included in the diluted earnings per share calculation when dilutive. Potential common shares consisting of class A common stock issuable upon the exercise of outstanding stock options, the vesting of restricted stock units, and in connection

with the 2021 ESPP are computed using the treasury stock method. Potential common shares consisting of class A common stock issuable upon conversion of the Convertible Notes are computed using the if-converted method. In computing diluted earnings per share, the Company first calculates the earnings per incremental share (“EPIS”) for each class of potential common shares and ranks the classes from the most dilutive (i.e., lowest EPIS) to the least dilutive (i.e., highest EPIS). Basic earnings per share is then adjusted for the effect of each class of shares, in sequence and cumulatively, until a particular class no longer produces further dilution.

For the three and six months ended June 30, 2022 and 2021, the following weighted average shares of potential class A common stock were excluded from the diluted loss per share calculation because their impact would have been anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Stock Options	1,474	1,275	1,393	1,243
Restricted Stock Units	116	88	111	85
Employee Stock Purchase Plan	5	5	4	4
2025 Convertible Notes	1,633	1,633	1,633	1,633
2027 Convertible Notes	733	733	733	535
Total	3,961	3,734	3,874	3,500

(10) Segment Information

The Company manages its business in one reportable operating segment. The Company’s one reportable operating segment is engaged in the design, development, marketing, and sales of its software platform through licensing arrangements and cloud subscriptions and related services. The following table presents total revenues, gross profit, and long-lived assets (in thousands) according to geographic region. Long-lived assets are comprised of right-of-use assets and property and equipment, net.

Geographic regions:	Domestic	EMEA	Other Regions	Consolidated
Three months ended June 30, 2022				
Total revenues	\$ 75,024	\$ 35,578	\$ 11,471	\$ 122,073
Gross profit	\$ 61,366	\$ 27,335	\$ 8,168	\$ 96,869
Three months ended June 30, 2021				
Total revenues	\$ 68,770	\$ 41,834	\$ 14,747	\$ 125,351
Gross profit	\$ 57,028	\$ 33,706	\$ 11,579	\$ 102,313
Six months ended June 30, 2022				
Total revenues	\$ 143,431	\$ 74,866	\$ 23,053	\$ 241,350
Gross profit	\$ 116,071	\$ 58,037	\$ 16,361	\$ 190,469
Six months ended June 30, 2021				
Total revenues	\$ 138,977	\$ 81,651	\$ 27,625	\$ 248,253
Gross profit	\$ 115,959	\$ 65,675	\$ 21,032	\$ 202,666
As of June 30, 2022				
Long-lived assets	\$ 88,126	\$ 6,992	\$ 4,631	\$ 99,749
As of December 31, 2021				
Long-lived assets	\$ 89,817	\$ 7,874	\$ 5,656	\$ 103,347

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 three and six months ended June 30, 2022 and the six months ended June 30, 2021, no individual foreign country accounted for 10% or more of total consolidated revenues. For the three months ended June 30, 2021, no individual foreign country other than Germany accounted for 10% or more of total consolidated revenues.

For the three and six months ended June 30, 2022 and 2021, no individual customer accounted for 10% or more of total consolidated revenues.

As of June 30, 2022 and December 31, 2021, no individual foreign country accounted for 10% or more of total consolidated assets.

(11) Related Party Transaction

In June 2021, Michael J. Saylor, the Company's Chairman of the Board of Directors & Chief Executive Officer, entered into an indemnification agreement (the "Original Agreement") with the Company for an initial term of 90 days and subject to successive 90-day term extensions at the election of the Company. All term extensions were exercised, most recently in February 2022 for a final 90-day period that began in March 2022. Pursuant to the Original Agreement, Mr. Saylor provided during the term of the agreement, from his personal funds, indemnity coverage to the Company for the benefit of the directors and officers ("D&Os") of the Company and its subsidiaries in the event such coverage was not indemnifiable by the Company, up to a total of \$40 million. In return, the Company paid Mr. Saylor \$388,945 for each of the initial and successive 90-day terms.

On June 12, 2022, Mr. Saylor and the Company entered into a renewed indemnification agreement (the "Renewed Agreement") for an initial term of 90 days, which became effective upon the expiration of the final 90-day extension of the Original Agreement. In return, the Company paid Mr. Saylor a one-time fee of \$388,945 for the initial 90-day term (the "Renewal Payment").

On June 24, 2022, the Company bound D&O liability insurance policies (the "Commercial Policies") with several third-party carriers for \$30 million in coverage. Concurrently, Mr. Saylor and the Company also entered into (i) an indemnification agreement (the "Excess Agreement") for Mr. Saylor to provide \$10 million in excess indemnity coverage payable only after the exhaustion of the Commercial Policies, and (ii) an indemnification agreement (the "Tail Agreement") for Mr. Saylor to provide \$40 million in indemnity coverage for claims made at any time based on actions or omissions occurring prior to the inception date of the Commercial Policies. The Company paid Mr. Saylor \$600,000 for a one-year term under the Excess Agreement, and \$150,000 for a 90-day term under the Tail Agreement. At the option of the Company, the Company may elect to extend the term under the Tail Agreement for up to a total of twenty-three additional 90-day periods, for \$150,000 per additional 90-day term.

Under the Excess Agreement and Tail Agreement, Mr. Saylor will provide, during the term of each agreement, from his personal funds, indemnity coverage to the Company for the benefit of the D&Os of the Company and its subsidiaries in the event such coverage is not provided by the Commercial Policies or indemnifiable by the Company. The Excess Agreement and the Tail Agreement expressly supersede the Original Agreement and the Renewed Agreement. Mr. Saylor refunded the Company \$337,086, which is the pro rata portion of the Renewal Payment, in connection with the release of his obligations under the Renewed Agreement.

Prior to entering into the Original Agreement, Renewed Agreement, Excess Agreement, and Tail Agreement with Mr. Saylor, the Company obtained and considered market quotes for D&O liability insurance policies. The Company determined that the policies considered at such times would have provided insufficient coverage and would have required substantial premiums to the extent coverage were available, and that obtaining indemnification coverage provided by Mr. Saylor was appropriate and in the best interest of the Company.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Information

This Quarterly Report on Form 10-Q (this “Quarterly Report”) 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 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 “Part II. 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.

Business Overview

MicroStrategy® pursues two corporate strategies in the operation of its business. One strategy is to acquire and hold bitcoin and the other strategy is to grow our enterprise analytics software business. We believe that undertaking these two, interdependent corporate strategies serves as a key differentiator for our business, as our bitcoin acquisition strategy has raised our profile with potential software customers while our enterprise analytics software business has provided stable cash flows that allow us to acquire and hold bitcoin for the long-term.

Our bitcoin acquisition strategy involves acquiring bitcoin with our liquid assets that exceed working capital requirements, and from time to time, subject to market conditions, issuing debt or equity securities or engaging in other capital raising transactions with the objective of using the proceeds to purchase bitcoin. As part of our bitcoin acquisition strategy, we also periodically engage in activities to educate the market regarding bitcoin. We view our bitcoin holdings as long-term holdings, and we do not plan to engage in regular trading of bitcoin and have not hedged or otherwise entered into derivative contracts with respect to our bitcoin holdings, though we may sell bitcoin in future periods as needed to generate cash for treasury management and other general corporate purposes. We may consider entering into additional capital raising transactions that may be collateralized by our bitcoin holdings and may consider strategies to create income streams or otherwise generate funds using our bitcoin holdings, including lending bitcoin to creditworthy counterparties. We have not set any specific target for the amount of bitcoin we seek to hold, and we will continue to monitor market conditions in determining whether to engage in additional financings to purchase additional bitcoin.

We believe that bitcoin is attractive because it can serve as a store of value, supported by a robust and public open-source architecture, that is untethered to sovereign monetary policy and can therefore serve as a hedge against inflation in the long term. We also believe that bitcoin offers additional opportunity for appreciation in value with increasing adoption due to its limited supply. We believe that our bitcoin acquisition strategy is complementary to our enterprise analytics software business, as we believe that our bitcoin and related activities in support of the bitcoin network enhance awareness of our brand and can provide opportunities to secure new customers for our analytics software offerings. We are also exploring opportunities to apply bitcoin-related technologies such as blockchain analytics into our software offerings.

Our Bitcoin Acquisition Strategy

In September 2020, our Board of Directors adopted a Treasury Reserve Policy (as amended to date, the “Treasury Reserve Policy”) that updated our treasury management and capital allocation strategies, under which our treasury reserve assets will consist of:

- cash and cash equivalents and short-term investments (“Cash Assets”) held by us that exceed working capital requirements; and
- bitcoin held by us, with bitcoin serving as the primary treasury reserve asset on an ongoing basis, subject to market conditions and anticipated needs of the business for Cash Assets.

In the first quarter of 2021, we adopted, in addition to and in conjunction with our Treasury Reserve Policy, a corporate strategy of acquiring and holding bitcoin. Pursuant to this corporate strategy, and from time to time, subject to market conditions, we issue debt or equity securities or engage in other capital raising transactions with the objective of using the proceeds to purchase bitcoin.

During 2021 and 2022, we used the proceeds of the following capital raising transactions to purchase bitcoin. The transactions are further described below under “—Liquidity and Capital Resources— Long-term Debt” and under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Open Market Sale Agreement” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021:

- \$1.050 billion aggregate principal amount of the 2027 Convertible Notes issued in February 2021;
- \$500.0 million aggregate principal amount of the 2028 Secured Notes issued in June 2021;

- 1,413,767 shares of class A common stock issued during the second half of 2021, for aggregate gross proceeds of \$1.0 billion pursuant to an Open Market Sale Agreement (the “Open Market Sale Agreement”) with Jefferies LLC, as agent; and
- \$205.0 million aggregate principal amount of the 2025 Secured Term Loan issued in March 2022.

As of June 30, 2022, we held an aggregate of approximately 129,699 bitcoins, with 14,589 bitcoins held directly by MicroStrategy Incorporated and 115,110 bitcoins held by MacroStrategy LLC, a wholly-owned subsidiary of MicroStrategy. The approximately 14,589 bitcoins held directly by MicroStrategy Incorporated serve as part of the collateral securing our 2028 Secured Notes, and approximately 30,051 of the 115,110 bitcoins held by MacroStrategy serve as part of the collateral securing our 2025 Secured Term Loan.

The following table presents a rollforward of our bitcoin holdings, including additional information related to our bitcoin purchases and digital asset impairment losses within the respective periods. We have not sold any of our bitcoin as of the date of this Quarterly Report.

	Source of Capital Used to Purchase Bitcoin	Digital Asset Original Cost Basis (in thousands)	Digital Asset Impairment Losses (in thousands)	Digital Asset Carrying Value (in thousands)	Approximate Number of Bitcoins Held	Approximate Average Purchase Price Per Bitcoin
Balance at December 31, 2020		\$ 1,125,000	\$ (70,698)	\$ 1,054,302	70,469	\$ 15,964
Digital asset purchases	(a)	1,086,375		1,086,375	20,857	52,087
Digital asset impairment losses			(194,095)	(194,095)		
Balance at March 31, 2021		\$ 2,211,375	\$ (264,793)	\$ 1,946,582	91,326	\$ 24,214
Digital asset purchases	(b)	529,231		529,231	13,759	38,464
Digital asset impairment losses			(424,774)	(424,774)		
Balance at June 30, 2021		\$ 2,740,606	\$ (689,567)	\$ 2,051,039	105,085	\$ 26,080
Digital asset purchases	(c)	419,865		419,865	8,957	46,876
Digital asset impairment losses			(65,165)	(65,165)		
Balance at September 30, 2021		\$ 3,160,471	\$ (754,732)	\$ 2,405,739	114,042	\$ 27,713
Digital asset purchases	(d)	591,058		591,058	10,349	57,113
Digital asset impairment losses			(146,587)	(146,587)		
Balance at December 31, 2021		\$ 3,751,529	\$ (901,319)	\$ 2,850,210	124,391	\$ 30,159
Digital asset purchases	(e)	215,500		215,500	4,827	44,645
Digital asset impairment losses			(170,091)	(170,091)		
Balance at March 31, 2022		\$ 3,967,029	\$ (1,071,410)	\$ 2,895,619	129,218	\$ 30,700
Digital asset purchases	(f)	10,000		10,000	481	20,790
Digital asset impairment losses			(917,838)	(917,838)		
Balance at June 30, 2022		\$ 3,977,029	\$ (1,989,248)	\$ 1,987,781	129,699	\$ 30,664

- (a) In the first quarter of 2021, we purchased bitcoin using \$1.026 billion in net proceeds from our issuance of the 2027 Convertible Notes and excess cash.
- (b) In the second quarter of 2021, we purchased bitcoin using \$487.2 million in net proceeds from our issuance of the 2028 Secured Notes and excess cash.
- (c) In the third quarter of 2021, we purchased bitcoin using \$399.5 million in net proceeds from our sale of 555,179 shares of class A common stock offered under the Open Market Sale Agreement and excess cash.
- (d) In the fourth quarter of 2021, we purchased bitcoin using \$591.0 million in net proceeds from our sale of 858,588 shares of class A common stock offered under the Open Market Sale Agreement and excess cash.
- (e) In the first quarter of 2022, we purchased bitcoin using \$190.5 million of the net proceeds from the issuance of the 2025 Secured Term Loan and excess cash.
- (f) In the second quarter of 2022, we purchased bitcoin using excess cash.

The following table shows the approximate number of bitcoins held at the end of each respective period, as well as market value calculations of our bitcoin holdings based on the lowest, highest, and ending market prices of one bitcoin on the Coinbase exchange (our principal market for bitcoin) for each respective quarter, as further defined below:

	Approximate Number of Bitcoins Held at End of Quarter	Lowest Market Price Per Bitcoin During Quarter (a)	Market Value of Bitcoin Held at End of Quarter Using Lowest Market Price (in thousands) (b)	Highest Market Price Per Bitcoin During Quarter (c)	Market Value of Bitcoin Held at End of Quarter Using Highest Market Price (in thousands) (d)	Market Price Per Bitcoin at End of Quarter (e)	Market Value of Bitcoin Held at End of Quarter Using Ending Market Price (in thousands) (f)
December 31, 2020	70,469	\$ 10,363.76	\$ 730,324	\$ 29,321.90	\$ 2,066,285	\$ 29,181.00	\$ 2,056,356
March 31, 2021	91,326	\$ 27,678.00	\$ 2,527,721	\$ 61,788.45	\$ 5,642,892	\$ 58,601.28	\$ 5,351,820
June 30, 2021	105,085	\$ 28,800.00	\$ 3,026,448	\$ 64,899.00	\$ 6,819,911	\$ 34,763.47	\$ 3,653,119
September 30, 2021	114,042	\$ 29,301.56	\$ 3,341,609	\$ 52,944.96	\$ 6,037,949	\$ 43,534.56	\$ 4,964,768
December 31, 2021	124,391	\$ 42,333.00	\$ 5,265,844	\$ 69,000.00	\$ 8,582,979	\$ 45,879.97	\$ 5,707,055
March 31, 2022	129,218	\$ 32,933.33	\$ 4,255,579	\$ 48,240.00	\$ 6,233,476	\$ 45,602.79	\$ 5,892,701
June 30, 2022	129,699	\$ 17,567.45	\$ 2,278,481	\$ 47,469.40	\$ 6,156,734	\$ 18,895.02	\$ 2,450,665

- (a) The "Lowest Market Price Per Bitcoin During Quarter" represents the lowest market price for one bitcoin reported on the Coinbase exchange during the respective quarter, without regard to when we purchased any of our bitcoin.
- (b) The "Market Value of Bitcoin Held at End of Quarter Using Lowest Market Price" represents a mathematical calculation consisting of the lowest market price for one bitcoin reported on the Coinbase exchange during the respective quarter multiplied by the number of bitcoins we held at the end of the applicable period.
- (c) The "Highest Market Price Per Bitcoin During Quarter" represents the highest market price for one bitcoin reported on the Coinbase exchange during the respective quarter, without regard to when we purchased any of our bitcoin.
- (d) The "Market Value of Bitcoin Held at End of Quarter Using Highest Market Price" represents a mathematical calculation consisting of the highest market price for one bitcoin reported on the Coinbase exchange during the respective quarter multiplied by the number of bitcoins we held at the end of the applicable period.
- (e) The "Market Price Per Bitcoin at End of Quarter" represents the market price of one bitcoin on the Coinbase exchange at 4:00 p.m. Eastern Time on the last day of the respective quarter.
- (f) The "Market Value of Bitcoin Held at End of Quarter Using Ending Market Price" represents a mathematical calculation consisting of the market price of one bitcoin on the Coinbase exchange at 4:00 p.m. Eastern Time on the last day of the respective quarter multiplied by the number of bitcoins we held at the end of the applicable period.

The amounts reported as "Market Value" in the above table represent only a mathematical calculation consisting of the price for one bitcoin reported on the Coinbase exchange (our principal market for bitcoin) in each scenario defined above multiplied by the number of bitcoins we held at the end of the applicable period. The Securities and Exchange Commission has previously stated that there has not been a demonstration that (i) bitcoin and bitcoin markets are inherently resistant to manipulation or that the spot price of bitcoin may not be subject to fraud and manipulation; and (ii) adequate surveillance-sharing agreements with bitcoin-related markets are in place, as bitcoin-related markets are either not significant, not regulated, or both. Accordingly, the Market Value amounts reported above may not accurately represent fair market value, and the actual fair market value of our bitcoin may be different from such amounts and such deviation may be material. Moreover, (i) the bitcoin market historically has been characterized by significant volatility in price, limited liquidity and trading volumes compared to sovereign currencies markets, relative anonymity, a developing regulatory landscape, potential susceptibility to market abuse and manipulation, and various other risks that are, or may be, inherent in its entirely electronic, virtual form and decentralized network and (ii) we may not be able to sell our bitcoins at the Market Value amounts indicated above, at the market price as reported on the Coinbase exchange (our principal market for bitcoin) on the date of sale, or at all.

Our digital asset impairment losses have significantly contributed to our operating expenses and net loss. For the three months ended June 30, 2022, digital asset impairment losses of \$917.8 million represented 90.4% of our operating expenses, contributing to our net loss of \$1.062 billion for the three months ended June 30, 2022, compared to digital asset impairment losses of \$424.8 million in the three months ended June 30, 2021, representing 82.2% of our operating expenses and contributing to our net loss of \$299.3 million for the three months ended June 30, 2021. For the six months ended June 30, 2022, digital asset impairment losses of \$1.088 billion represented 85.1% of our operating expenses, contributing to our net loss of \$1.193 billion for the six months ended June 30, 2022, compared to digital asset impairment losses of \$618.9 million in the six months ended June 30, 2021, representing 77.4% of our operating expenses and contributing to our net loss of \$409.4 million for the six months ended June 30, 2021.

As of August 1, 2022, we held approximately 129,699 bitcoins that were acquired at an aggregate purchase price of \$3.977 billion and an average purchase price of approximately \$30,664 per bitcoin, inclusive of fees and expenses. As of August 1, 2022, at 4:00 p.m. Eastern Time, the market price of one bitcoin reported on the Coinbase exchange was \$22,964.22.

Our Enterprise Analytics Software Strategy

As a global leader in enterprise analytics software and services, our vision is to enable Intelligence Everywhere. Our core offering, the MicroStrategy platform, helps achieve this vision for our enterprise customers around the world. It delivers actionable intelligence and modern analytics on an open, comprehensive enterprise platform. The MicroStrategy platform empowers our customers to quickly build and deploy high-performance, governed, and secure applications that can scale across their enterprises.

Our core product offering is our software platform. In 2021, we moved to a monthly release cadence to enable the same functionality, security, and stability enhancements that we have historically delivered for our platform in annual releases, without the friction of a single, annual release. Our platform features the following:

- **Pervasive, Modern Analytics:** MicroStrategy delivers insights across multiple clients and devices to users via our HyperIntelligence® products, visualization and reporting capabilities, mobility features, and custom applications developed on our platform.
 - o *Data Visualization and Reporting* – Dossier®, our dashboarding and data-visualization tool, provides users with the formatting, layout, and input controls needed to quickly build low-code/no-code analytics applications, from infographic-style reports to high-impact productivity applications.
 - o *Transformational Mobility* – Our platform empowers the mobile workforce to make decisions and take action from any location. It delivers more ways to quickly deploy mobile productivity apps for a variety of business functions and roles on any standard smartphone or tablet.
 - o *HyperIntelligence* – Our platform offers the potential to radically improve business processes by enhancing the websites, applications, and mobile devices people use every day with contextual intelligence, next-action suggestions, and workflows.
 - o *Custom Applications* – Our platform enables users to create highly customized web and mobile applications that leverage the full breadth of the MicroStrategy platform to deliver intuitive BI apps for teams, departments, and organizations.
- **Open, Federated Architecture:** MicroStrategy embraces an agile approach to development and innovation, addressing our strategy of seeking to offer the most open analytics platform on the market.
 - o *Federated Analytics* – Our platform provides analysts and data scientists with seamless access to trusted, governed data directly within their favorite tools. The MicroStrategy platform integrates with popular business apps, including Microsoft Excel, Power BI, and Tableau to provide users with the flexibility to leverage trusted data from MicroStrategy directly within the client applications to which they are accustomed. The MicroStrategy platform also provides out-of-the-box integrations to popular data-science tools like Jupyter and RStudio, allowing users to develop predictive, machine learning-enhanced data models on top of the secure and trusted foundation offered by the MicroStrategy platform.
 - o *APIs and Gateways* – Our gateways, application programming interfaces (“APIs”), and connectors enable the MicroStrategy platform to integrate with the most popular enterprise platforms and tools. We certify more than 200 connectors to popular data sources both locally stored and in the cloud, and we offer a comprehensive set of Representational State Transfer (“REST”) APIs that makes it easy to embed the platform in packaged and custom applications, workflows, and devices.
 - o *Multiple Deployment Options* – We also believe that customers should have the choice of where to deploy their analytics platform without compromising functionality. Our fully featured platform can be deployed in three ways: on premises, the customer’s cloud environment, or the MicroStrategy Cloud™ Environment (“MCE”). MCE is a cloud subscription service that allows customers to deploy the platform on Amazon Web Services (“AWS”) or Microsoft Azure environments, fully managed and hosted by us.
- **Enterprise Platform:** Our platform is designed to securely scale analytics at high data volumes. The MicroStrategy platform has the tools and functionality that enable organizations to deliver secure, high-performance applications at scale.
 - o *Enterprise Semantic Graph™* – The engine of our platform is our proprietary Enterprise Semantic Graph, which provides a structured view of a company’s data assets by organizing them into understandable business terms. Our Enterprise Semantic Graph also enriches metadata content with real-time location intelligence and content and system usage telemetry. This feature allows users to have a consistent and secure view of data across the enterprise—effectively delivering what we refer to as a *single version of truth*.
 - o *Scalability* – Our platform powers some of the largest business intelligence deployments in the world. The platform is designed to scale efficiently to hundreds of thousands of users, with millions of personalized queries, across hundreds of applications, built on top of the largest datasets.

- o *Security* – Our platform includes a comprehensive set of features that provides superior administration, security, and architecture, including role-based access to both row and column data. This level of data security gives our customers that are subject to the most stringent data security requirements, including financial institutions, healthcare providers, and government agencies, the confidence they need to deploy our platform across their enterprise.

Our customers include leading global organizations from a wide range of industries, including retail, consulting, technology, manufacturing, banking, insurance, finance, healthcare, telecommunications, as well as the public sector.

To stand apart in a highly competitive market, we depend on the effectiveness with which we can differentiate our offerings from those of large software vendors that provide products across multiple lines of business, including one or more products that directly compete with our offerings, and other potential competitors across analytics implementation projects of varying sizes.

Impact of COVID-19 on Our Software Strategy

The COVID-19 pandemic has resulted, and may continue to result, in significant economic disruption despite progress made in the development and distribution of vaccines. It has continued to disrupt supply chains and has adversely impacted global commercial activity. Although many jurisdictions, including the United States, have substantially lifted COVID-19 travel restrictions, some restrictions do remain. Considerable uncertainty continues to surround COVID-19, the evolution of its variants, its potential long-term economic effects, as well as the effectiveness of any responses taken by government authorities and businesses and of various efforts to inoculate the global population and develop effective treatments.

Significant uncertainty continues to exist concerning the impact of the COVID-19 pandemic on our customers' and prospects' business and operations in future periods. Although our total revenues for the three and six months ended June 30, 2022 and 2021 were not materially impacted by COVID-19, our revenues may be negatively impacted in future periods until the effects of the pandemic and the efforts to address it have fully subsided and the current macroeconomic environment has substantially recovered. The uncertainty related to COVID-19 may also result in increased volatility in the financial projections we use as the basis for estimates and assumptions used in our financial statements.

We adapted our operations to meet the challenges of the pandemic, including establishing flexible working arrangements for our employees, reducing business travel, and shifting certain of our customer, employee, and industry events to virtual formats.

Effects of the COVID-19 pandemic that may negatively impact our business in future periods include, but are not limited to: limitations on the ability of our customers to conduct their business, purchase our products and services, and make timely payments; curtailed consumer spending; deferred purchasing decisions; delayed consulting services implementations; decreases in product licenses revenues driven by channel partners, and compliance costs and business disruptions associated with certain government requirements and recommendations adopted in response to the pandemic. We will continue to actively monitor the nature and extent of the impact to our business, operating results, and financial condition.

Operating Highlights

The following table sets forth certain operating highlights (in thousands) for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenues				
Product licenses	\$ 20,129	\$ 22,151	\$ 36,642	\$ 43,431
Subscription services	14,017	10,342	26,862	20,368
Total product licenses and subscription services	34,146	32,493	63,504	63,799
Product support	66,521	71,027	133,672	141,676
Other services	21,406	21,831	44,174	42,778
Total revenues	122,073	125,351	241,350	248,253
Cost of revenues				
Product licenses	431	419	908	907
Subscription services	5,498	3,810	10,908	7,438
Total product licenses and subscription services	5,929	4,229	11,816	8,345
Product support	5,127	4,862	10,318	9,674
Other services	14,148	13,947	28,747	27,568
Total cost of revenues	25,204	23,038	50,881	45,587
Gross profit	96,869	102,313	190,469	202,666
Operating expenses				
Sales and marketing	36,862	40,321	70,102	78,519
Research and development	31,790	28,548	65,313	58,031
General and administrative	28,502	22,917	55,208	44,646
Digital asset impairment losses	917,838	424,774	1,087,929	618,869
Total operating expenses	1,014,992	516,560	1,278,552	800,065
Loss from operations	\$ (918,123)	\$ (414,247)	\$ (1,088,083)	\$ (597,399)

We have incurred and may continue to incur significant impairment losses on our digital assets and we may recognize gains upon sale of our digital assets in the future, which would be presented net of any impairment losses within operating expenses. In addition, we base our internal operating expense forecasts on expected revenue trends and strategic objectives in our enterprise analytics software business. Many of our expenses, such as office leases and certain personnel costs, are relatively fixed. Accordingly, any decrease in the price of bitcoin during any quarter, any sales by us of our bitcoin at prices above their then current carrying costs or any shortfall in revenue in our software business 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.

Employees

As of June 30, 2022, we had a total of 2,158 employees, of whom 779 were based in the United States and 1,379 were based internationally. The following table summarizes employee headcount as of the dates indicated:

	June 30, 2022	December 31, 2021	June 30, 2021
Subscription services	83	72	56
Product support	164	174	160
Consulting	428	413	388
Education	36	36	38
Sales and marketing	457	470	470
Research and development	728	699	663
General and administrative	262	257	259
Total headcount	<u>2,158</u>	<u>2,121</u>	<u>2,034</u>

Share-based Compensation Expense

As discussed in Note 8, Share-based Compensation, to the Consolidated Financial Statements, we have outstanding stock options to purchase shares of our class A common stock, restricted stock units, each of which represents a right to receive a share of our class A common stock upon the satisfaction of applicable vesting requirements, and certain other stock-based awards under our 2013 Equity Plan, as well as opportunities for eligible employees to purchase shares of our class A common stock under our 2021 ESPP. Share-based compensation expense (in thousands) from these awards was recognized in the following cost of revenues and operating expense line items in our Consolidated Statements of Operations for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cost of subscription services revenues	\$ 34	\$ 40	\$ 141	\$ 89
Cost of product support revenues	522	293	972	442
Cost of consulting revenues	439	105	815	184
Cost of education revenues	54	22	106	32
Sales and marketing	4,444	3,255	8,727	5,639
Research and development	3,126	2,523	6,440	4,590
General and administrative	6,675	4,858	12,487	7,831
Total share-based compensation expense	<u>\$ 15,294</u>	<u>\$ 11,096</u>	<u>\$ 29,688</u>	<u>\$ 18,807</u>

The \$4.2 million and \$10.9 million increases in share-based compensation expense during the three and six months ended June 30, 2022, respectively, as compared to the same periods in the prior year, are primarily due to the continued expansion of our equity award programs worldwide. As of June 30, 2022, we estimated that an aggregate of approximately \$191.1 million of additional share-based compensation expense associated with the 2013 Equity Plan and the 2021 ESPP will be recognized over a remaining weighted average period of 3.1 years.

Non-GAAP Financial Measures

We are providing supplemental financial measures for (i) non-GAAP loss from operations that excludes the impact of our share-based compensation expense, (ii) non-GAAP net loss and non-GAAP diluted loss per share that exclude the impacts of our share-based compensation expense, interest expense arising from the amortization of debt issuance costs on our long-term debt, and related income tax effects, and (iii) certain non-GAAP constant currency revenues, cost of revenues, and operating expenses that exclude foreign currency exchange rate fluctuations. These supplemental financial measures are not measurements of financial performance under generally accepted accounting principles in the United States (“GAAP”) and, as a result, these supplemental financial measures may not be comparable to similarly titled measures of other companies. Management uses these non-GAAP financial measures internally to help understand, manage, and evaluate our business performance and to help make operating decisions.

We believe that these non-GAAP financial measures are also useful to investors and analysts in comparing our performance across reporting periods on a consistent basis. The first supplemental financial measure excludes a significant non-cash expense that we believe is not reflective of our general business performance, and for which the accounting requires management judgment and the resulting share-based compensation expense could vary significantly in comparison to other companies. The second set of supplemental financial measures excludes the impacts of (i) share-based compensation expense, (ii) non-cash interest expense arising from the amortization of debt issuance costs related to our long-term debt, and (iii) related income tax effects. The third set of supplemental financial measures excludes changes resulting from fluctuations in foreign currency exchange rates so that results may be compared to the same period in the prior year on a non-GAAP constant currency basis. We believe the use of these non-GAAP financial measures 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 the first two non-GAAP financial measures, 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. Similarly, we expect that interest expense arising from the amortization of debt issuance costs will continue to be a recurring expense over the term of the long-term debt. Our non-GAAP financial measures are 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 measures only supplementally.

The following is a reconciliation of our non-GAAP loss from operations, which excludes the impact of share-based compensation expense, to its most directly comparable GAAP measures (in thousands) for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Reconciliation of non-GAAP loss from operations:				
Loss from operations	\$ (918,123)	\$ (414,247)	\$(1,088,083)	\$ (597,399)
Share-based compensation expense	15,294	11,096	29,688	18,807
Non-GAAP loss from operations	<u>\$ (902,829)</u>	<u>\$ (403,151)</u>	<u>\$(1,058,395)</u>	<u>\$ (578,592)</u>

The following are reconciliations of our non-GAAP net loss and non-GAAP diluted loss per share, in each case excluding the impacts of (i) share-based compensation expense, (ii) interest expense arising from the amortization of debt issuance costs on our long-term debt, and (iii) related income tax effects to their most directly comparable GAAP measures (in thousands, except per share data) for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Reconciliation of non-GAAP net loss:				
Net loss	\$(1,062,298)	\$ (299,347)	\$(1,193,049)	\$ (409,367)
Share-based compensation expense	15,294	11,096	29,688	18,807
Interest expense arising from amortization of debt issuance costs	2,168	1,805	4,297	2,977
Income tax effects (1)	(3,898)	(2,651)	(7,342)	(26,388)
Non-GAAP net loss	<u>\$(1,048,734)</u>	<u>\$ (289,097)</u>	<u>\$(1,166,406)</u>	<u>\$ (413,971)</u>
Reconciliation of non-GAAP diluted loss per share (2):				
Diluted loss per share	\$ (94.01)	\$ (30.71)	\$ (105.64)	\$ (42.22)
Share-based compensation expense (per diluted share)	1.35	1.14	2.63	1.94
Interest expense arising from amortization of debt issuance costs (per diluted share)	0.19	0.19	0.38	0.31
Income tax effects (per diluted share)	(0.34)	(0.28)	(0.65)	(2.72)
Non-GAAP diluted loss per share	<u>\$ (92.81)</u>	<u>\$ (29.66)</u>	<u>\$ (103.28)</u>	<u>\$ (42.69)</u>

- (1) Income tax effects reflect the net tax effects of share-based compensation expense, which includes tax benefits and expenses on exercises of stock options and vesting of share-settled restricted stock units, and interest expense for amortization of debt issuance costs.

- (2) For reconciliation purposes, the non-GAAP diluted earnings (loss) per share calculations use the same weighted average shares outstanding as that used in the GAAP diluted earnings (loss) per share calculations for the same period. For example, in periods of GAAP net loss, otherwise dilutive potential shares of common stock from our share-based compensation arrangements and Convertible Notes are excluded from the GAAP diluted loss per share calculation as they would be antidilutive, and therefore are also excluded from the non-GAAP diluted earnings or loss per share calculation.

The following are reconciliations of certain non-GAAP constant currency revenues, cost of revenues, and operating expenses to their most directly comparable GAAP measures (in thousands) for the periods indicated:

Three Months Ended June 30,						
	GAAP 2022	Foreign Currency Exchange Rate Impact (1) 2022	Non-GAAP Constant Currency (2) 2022	GAAP 2021	GAAP % Change 2022	Non-GAAP Constant Currency % Change (3) 2022
Product licenses revenues	\$ 20,129	\$ (608)	\$ 20,737	\$ 22,151	-9.1%	-6.4%
Subscription services revenues	14,017	(483)	14,500	10,342	35.5%	40.2%
Product support revenues	66,521	(3,000)	69,521	71,027	-6.3%	-2.1%
Other services revenues	21,406	(1,365)	22,771	21,831	-1.9%	4.3%
Cost of product support revenues	5,127	(236)	5,363	4,862	5.5%	10.3%
Cost of other services revenues	14,148	(1,130)	15,278	13,947	1.4%	9.5%
Sales and marketing expenses	36,862	(1,505)	38,367	40,321	-8.6%	-4.8%
Research and development expenses	31,790	(447)	32,237	28,548	11.4%	12.9%
General and administrative expenses	28,502	(414)	28,916	22,917	24.4%	26.2%

	GAAP 2021	Foreign Currency Exchange Rate Impact (1) 2021	Non-GAAP Constant Currency (2) 2021	GAAP 2020	GAAP % Change 2021	Non-GAAP Constant Currency % Change (3) 2021
Product licenses revenues	\$ 22,151	\$ 132	\$ 22,019	\$ 14,816	49.5%	48.6%
Subscription services revenues	10,342	264	10,078	8,021	28.9%	25.6%
Product support revenues	71,027	2,425	68,602	70,038	1.4%	-2.1%
Other services revenues	21,831	763	21,068	17,709	23.3%	19.0%
Cost of product support revenues	4,862	83	4,779	6,837	-28.9%	-30.1%
Cost of other services revenues	13,947	521	13,426	12,846	8.6%	4.5%
Sales and marketing expenses	40,321	987	39,334	34,951	15.4%	12.5%
Research and development expenses	28,548	658	27,890	25,867	10.4%	7.8%
General and administrative expenses	22,917	244	22,673	19,449	17.8%	16.6%

**Six Months Ended
June 30,**

	GAAP	Foreign Currency Exchange Rate Impact (1)	Non-GAAP Constant Currency (2)	GAAP	GAAP % Change	Non-GAAP Constant Currency % Change (3)
	2022	2022	2022	2021	2022	2022
Product licenses revenues	\$ 36,642	\$ (1,096)	\$ 37,738	\$ 43,431	-15.6%	-13.1%
Subscription services revenues	26,862	(688)	27,550	20,368	31.9%	35.3%
Product support revenues	133,672	(4,699)	138,371	141,676	-5.6%	-2.3%
Other services revenues	44,174	(2,167)	46,341	42,778	3.3%	8.3%
Cost of product support revenues	10,318	(367)	10,685	9,674	6.7%	10.5%
Cost of other services revenues	28,747	(1,816)	30,563	27,568	4.3%	10.9%
Sales and marketing expenses	70,102	(2,317)	72,419	78,519	-10.7%	-7.8%
Research and development expenses	65,313	(430)	65,743	58,031	12.5%	13.3%
General and administrative expenses	55,208	(655)	55,863	44,646	23.7%	25.1%

	GAAP	Foreign Currency Exchange Rate Impact (1)	Non-GAAP Constant Currency (2)	GAAP	GAAP % Change	Non-GAAP Constant Currency % Change (3)
	2021	2021	2021	2020	2021	2021
Product licenses revenues	\$ 43,431	\$ 457	\$ 42,974	\$ 27,400	58.5%	56.8%
Subscription services revenues	20,368	454	19,914	15,989	27.4%	24.5%
Product support revenues	141,676	4,342	137,334	141,196	0.3%	-2.7%
Other services revenues	42,778	1,381	41,397	37,423	14.3%	10.6%
Cost of product support revenues	9,674	141	9,533	13,555	-28.6%	-29.7%
Cost of other services revenues	27,568	872	26,696	25,939	6.3%	2.9%
Sales and marketing expenses	78,519	1,412	77,107	74,469	5.4%	3.5%
Research and development expenses	58,031	1,103	56,928	51,968	11.7%	9.5%
General and administrative expenses	44,646	346	44,300	40,781	9.5%	8.6%

- (1) The “Foreign Currency Exchange Rate Impact” reflects the estimated impact of fluctuations in foreign currency exchange rates on international components of our Consolidated Statements of Operations. It shows the increase (decrease) in material international revenues or expenses, as applicable, from the same period in the prior year, based on comparisons to the prior year quarterly average foreign currency exchange rates. The term “international” refers to operations outside of the United States and Canada.
- (2) The “Non-GAAP Constant Currency” reflects the current period GAAP amount, less the Foreign Currency Exchange Rate Impact.
- (3) The “Non-GAAP Constant Currency % Change” reflects the percentage change between the current period Non-GAAP Constant Currency amount and the GAAP amount for the same period in the prior year.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based on our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of our Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and equity, the 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. Actual results and outcomes could differ from these estimates and assumptions.

Critical accounting estimates involve a significant level of estimation uncertainty and are estimates that have had or are reasonably likely to have a material impact on our financial condition or results of operations. We consider certain estimates and judgments related to revenue recognition to be critical accounting estimates for us, as discussed under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021. There have been no significant changes in such estimates and judgments since December 31, 2021.

Results of Operations

Comparison of the three and six months ended June 30, 2022 and 2021

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:

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2022	2021		2022	2021	
Product Licenses and Subscription Services Revenues:						
Product Licenses						
Domestic	\$ 15,165	\$ 10,019	51.4%	\$ 25,009	\$ 23,265	7.5%
International	4,964	12,132	-59.1%	11,633	20,166	-42.3%
Total product licenses revenues	20,129	22,151	-9.1%	36,642	43,431	-15.6%
Subscription Services						
Domestic	10,061	7,596	32.5%	19,159	15,065	27.2%
International	3,956	2,746	44.1%	7,703	5,303	45.3%
Total subscription services revenues	14,017	10,342	35.5%	26,862	20,368	31.9%
Total product licenses and subscription services revenues	\$ 34,146	\$ 32,493	5.1%	\$ 63,504	\$ 63,799	-0.5%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Product Licenses Transactions with Recognized Licenses Revenue in the Applicable Period:				
More than \$1.0 million in licenses revenue recognized	2	2	3	4
Between \$0.5 million and \$1.0 million in licenses revenue recognized	4	7	7	12
Total	6	9	10	16
<i>Domestic:</i>				
More than \$1.0 million in licenses revenue recognized	2	1	3	3
Between \$0.5 million and \$1.0 million in licenses revenue recognized	4	4	6	6
Total	6	5	9	9
<i>International:</i>				
More than \$1.0 million in licenses revenue recognized	0	1	0	1
Between \$0.5 million and \$1.0 million in licenses revenue recognized	0	3	1	6
Total	0	4	1	7

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:

	Three Months Ended June 30,			%	Six Months Ended June 30,		%
	2022	2021	Change		2022	2021	Change
Product Licenses Revenue Recognized in the Applicable Period:							
More than \$1.0 million in licenses revenue recognized	\$ 7,432	\$ 4,036	84.1%	\$ 8,557	\$ 10,139	-15.6%	
Between \$0.5 million and \$1.0 million in licenses revenue recognized	3,185	4,838	-34.2%	5,138	7,891	-34.9%	
Less than \$0.5 million in licenses revenue recognized	9,512	13,277	-28.4%	22,947	25,401	-9.7%	
Total	<u>20,129</u>	<u>22,151</u>	-9.1%	<u>36,642</u>	<u>43,431</u>	-15.6%	
<i>Domestic:</i>							
More than \$1.0 million in licenses revenue recognized	7,432	1,603	363.6%	8,557	7,706	11.0%	
Between \$0.5 million and \$1.0 million in licenses revenue recognized	3,185	2,663	19.6%	4,628	4,077	13.5%	
Less than \$0.5 million in licenses revenue recognized	4,548	5,753	-20.9%	11,824	11,482	3.0%	
Total	<u>15,165</u>	<u>10,019</u>	51.4%	<u>25,009</u>	<u>23,265</u>	7.5%	
<i>International:</i>							
More than \$1.0 million in licenses revenue recognized	0	2,433	-100.0%	0	2,433	-100.0%	
Between \$0.5 million and \$1.0 million in licenses revenue recognized	0	2,175	-100.0%	510	3,814	-86.6%	
Less than \$0.5 million in licenses revenue recognized	4,964	7,524	-34.0%	11,123	13,919	-20.1%	
Total	\$ 4,964	\$ 12,132	-59.1%	\$ 11,633	\$ 20,166	-42.3%	

Product licenses revenues decreased \$2.0 million and \$6.8 million for the three and six months ended June 30, 2022, respectively, as compared to the same periods in the prior year. For the three months ended June 30, 2022 and 2021, product licenses transactions with more than \$0.5 million in recognized revenue represented 52.7% and 40.1%, respectively, of our product licenses revenues. For the six months ended June 30, 2022, our top three product licenses transactions totaled \$8.6 million in recognized revenue, or 23.4% of total product licenses revenues, compared to \$8.9 million, or 20.6% of total product licenses revenues, for the six months ended June 30, 2021.

Domestic product licenses revenues. Domestic product licenses revenues increased \$5.1 million for the three months ended June 30, 2022, as compared to the same period in the prior year, primarily due to an increase in the average deal size of transactions and an increase in the number of transactions with more than \$1.0 million in recognized revenue, partially offset by a decrease in the number of transactions with less than \$0.5 million in recognized revenue. Domestic product licenses revenues increased \$1.7 million for the six months ended June 30, 2022, as compared to the same period in the prior year, primarily due to an increase in the average deal size of transactions, 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 \$7.2 million for the three months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a decrease in the number of transactions and a \$0.6 million unfavorable foreign currency exchange impact. International product licenses revenues decreased \$8.5 million for the six months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a decrease in the number of transactions and a \$1.1 million unfavorable foreign currency exchange impact.

Subscription services revenues. Subscription services revenues are derived from our MCE cloud subscription service and are recognized ratably over the service period in the contract. Subscription services revenues increased \$3.7 million for the three months ended June 30, 2022, as compared to the same period in the prior year, primarily due to conversions to cloud-based subscriptions from existing on-premises customers, an increase in the use of subscription services by existing customers, and sales contracts with new customers, partially offset by a \$0.5 million unfavorable foreign currency exchange impact. Subscription services revenues increased \$6.5 million for the six months ended June 30, 2022, as compared to the same period in the prior year, primarily due to conversions to cloud-based subscriptions from existing on-premises customers, an increase in the use of subscription services by existing customers, and sales contracts with new customers, partially offset by a \$0.7 million unfavorable foreign currency exchange impact. We expect our subscription services revenues to continue to grow in future periods as we continue to promote our cloud offering to new and existing customers.

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

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2022	2021		2022	2021	
Product Support Revenues:						
Domestic	\$ 39,403	\$ 40,739	-3.3 %	\$ 78,486	\$ 80,829	-2.9 %
International	27,118	30,288	-10.5 %	55,186	60,847	-9.3 %
Total product support revenues	<u>\$ 66,521</u>	<u>\$ 71,027</u>	-6.3 %	<u>\$ 133,672</u>	<u>\$ 141,676</u>	-5.6 %

Product support revenues are derived from providing technical software support and software updates and upgrades to customers. Product support revenues are recognized ratably over the term of the contract, which is generally one year. Product support revenues decreased \$4.5 million for the three months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a \$3.0 million unfavorable foreign currency exchange impact and certain existing customers converting from perpetual product licenses with separate support contracts to our subscription services or term product licenses offerings. Product support revenues decreased \$8.0 million for the six months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a \$4.7 million unfavorable foreign currency exchange impact and certain existing customers converting from perpetual product licenses with separate support contracts to our subscription services or term product licenses offerings.

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

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2022	2021		2022	2021	
Other Services Revenues:						
Consulting						
Domestic	\$ 9,743	\$ 9,810	-0.7 %	\$ 19,324	\$ 18,526	4.3 %
International	10,530	10,812	-2.6 %	22,384	21,807	2.6 %
Total consulting revenues	20,273	20,622	-1.7 %	41,708	40,333	3.4 %
Education	1,133	1,209	-6.3 %	2,466	2,445	0.9 %
Total other services revenues	<u>\$ 21,406</u>	<u>\$ 21,831</u>	-1.9 %	<u>\$ 44,174</u>	<u>\$ 42,778</u>	3.3 %

Consulting revenues. Consulting revenues are derived from helping customers plan and execute the deployment of our software. Consulting revenues did not materially change for the three months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a \$1.3 million unfavorable foreign currency exchange impact having been substantially offset by an increase in average bill rates and an increase in billable hours worldwide. Consulting revenues increased \$1.4 million for the six months ended June 30, 2022, as compared to the same period in the prior year, primarily due to an increase in billable hours worldwide and an increase in average bill rates, partially offset by a \$2.1 million unfavorable foreign currency exchange impact.

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 did not materially change for the three and six months ended June 30, 2022, as compared to the same periods in the prior year.

Costs and Expenses

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	% Change	2022	2021	% Change
Cost of Revenues:						
Product licenses and subscription services:						
Product licenses	\$ 431	\$ 419	2.9%	\$ 908	\$ 907	0.1%
Subscription services	5,498	3,810	44.3%	10,908	7,438	46.7%
Total product licenses and subscription services	5,929	4,229	40.2%	11,816	8,345	41.6%
Product support	5,127	4,862	5.5%	10,318	9,674	6.7%
Other services:						
Consulting	12,837	12,438	3.2%	26,137	24,770	5.5%
Education	1,311	1,509	-13.1%	2,610	2,798	-6.7%
Total other services	14,148	13,947	1.4%	28,747	27,568	4.3%
Total cost of revenues	\$ 25,204	\$ 23,038	9.4%	\$ 50,881	\$ 45,587	11.6%

Cost of product licenses revenues. Cost of product licenses revenues consists of referral fees paid to channel partners, the costs of product manuals and media, and royalties paid to third-party software vendors. Cost of product licenses revenues did not materially change for the three and six months ended June 30, 2022, as compared to the same periods in the prior year.

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. Subscription services headcount increased 48.2% to 83 at June 30, 2022 from 56 at June 30, 2021. Cost of subscription services revenues increased \$1.7 million for the three months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a \$1.1 million increase in cloud hosting infrastructure costs, which is a result of the increased usage by new and existing cloud subscription services customers, and a \$0.5 million increase in employee salaries primarily due to periodic wage increases and an increase in average staffing levels. Cost of subscription services revenues increased \$3.5 million for the six months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a \$2.2 million increase in cloud hosting infrastructure costs, which is a result of the increased usage by new and existing cloud subscription services customers, and a \$0.9 million increase in employee salaries primarily due to periodic wage increases and an increase in average staffing levels.

Cost of product support revenues. Cost of product support revenues consists of personnel and related overhead costs, including those under our Enterprise Support program. Our Enterprise Support program utilizes primarily consulting personnel to provide product support to our customers at our discretion. Compensation related to personnel providing Enterprise Support services is reported as cost of product support revenues. Product support headcount increased 2.5% to 164 at June 30, 2022 from 160 at June 30, 2021. Cost of product support revenues did not materially change for the three months ended June 30, 2022, as compared to the same period in the prior year. Cost of product support revenues increased \$0.6 million for the six months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a \$0.6 million increase in compensation and related costs attributable to an increase in product support average staffing levels and a \$0.5 million net increase in share-based compensation expense, partially offset by a \$0.6 million decrease in compensation and related costs attributable to non-product support personnel providing a decreased level of Enterprise Support services. The \$0.5 million net increase in share-based compensation expense is primarily due to the grant of additional awards under the 2013 Equity Plan.

Cost of consulting revenues. Cost of consulting revenues consists of personnel and related overhead costs, excluding those under our Enterprise Support program which are allocated to cost of product support revenues. Consulting headcount increased 10.3% to 428 at June 30, 2022 from 388 at June 30, 2021. Cost of consulting revenues did not materially change for the three months ended June 30, 2022, as compared to the same period in the prior year. Included in cost of consulting revenues for the three months ended June 30, 2022 is an aggregate \$1.1 million favorable foreign currency exchange impact. Cost of consulting revenues increased \$1.4 million for the six months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a \$0.7 million increase in employee salaries primarily due to an increase in average staffing levels and consulting personnel providing a decreased level of Enterprise Support services, and a \$0.6 million net increase in share-based compensation expense. The \$0.6 million net increase in share-based compensation expense is primarily due to the grant of additional awards under the 2013 Equity Plan. Included in cost of consulting revenues for the six months ended June 30, 2022 is an aggregate \$1.7 million favorable foreign currency exchange impact.

Cost of education revenues. Cost of education revenues consists of personnel and related overhead costs. Education headcount decreased 5.3% to 36 at June 30, 2022 from 38 at June 30, 2021. Cost of education revenues did not materially change for the three and six months ended June 30, 2022, as compared to the same periods in the prior year.

Sales and marketing expenses. Sales and marketing expenses consist of personnel costs, commissions, office facilities, travel, advertising, public relations programs, and promotional events, such as trade shows, seminars, and technical conferences. Sales and marketing headcount decreased 2.8% to 457 at June 30, 2022 from 470 at June 30, 2021. The following table sets forth sales and marketing expenses (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended			Six Months Ended		
	June 30,		%	June 30,		%
	2022	2021	Change	2022	2021	Change
Sales and marketing expenses	\$ 36,862	\$ 40,321	-8.6%	\$ 70,102	\$ 78,519	-10.7%

Sales and marketing expenses decreased \$3.5 million for the three months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a \$4.1 million decrease in variable compensation primarily due to a decrease in personnel costs and an increase in capitalized commissions, partially offset by a \$1.2 million net increase in share-based compensation expense and a \$0.5 million increase in travel and entertainment expenditures that were undertaken as various COVID-19-related restrictions were lifted. The \$1.2 million net increase in share-based compensation expense is primarily due to the grant of additional awards under the 2013 Equity Plan, partially offset by the fair value remeasurement of certain liability-classified awards at the end of the reporting period. Included in sales and marketing expenses for the three months ended June 30, 2022 is an aggregate \$1.5 million favorable foreign currency exchange impact.

Sales and marketing expenses decreased \$8.4 million for the six months ended June 30, 2022, as compared to the same period in the prior year, primarily due to an \$11.2 million decrease in variable compensation primarily due to an increase in capitalized commissions and decreases in personnel costs, bonuses, and employee relations expenses, partially offset by a \$3.1 million net increase in share-based compensation expense and a \$0.7 million increase in travel and entertainment expenditures that were undertaken as various COVID-19-related restrictions were lifted. The \$3.1 million net increase in share-based compensation expense is primarily due to the grant of additional awards under the 2013 Equity Plan, partially offset by the forfeiture of certain awards and the fair value remeasurement of certain liability-classified awards at the end of the reporting period. Included in sales and marketing expenses for the six months ended June 30, 2022 is an aggregate \$2.3 million favorable foreign currency exchange impact.

Research and development expenses. Research and development expenses consist of the personnel costs for our software engineering personnel, depreciation of equipment, and other related costs. Research and development headcount increased 9.8% to 728 at June 30, 2022 from 663 at June 30, 2021. The following table summarizes research and development expenses (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended			% Change	Six Months Ended			% Change
	June 30,		June 30,					
	2022	2021	2022		2021			
Research and development expenses	\$ 31,790	\$ 28,548	11.4%	\$ 65,313	\$ 58,031	12.5%		

Research and development expenses increased \$3.2 million for the three months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a \$2.4 million increase in employee salaries primarily due to periodic wage increases and an increase in average staffing levels, partially offset by a shift in staffing levels to lower cost regions, and a \$0.6 million net increase in share-based compensation expense. The \$0.6 million net increase in share-based compensation expense is primarily due to the grant of additional awards under the 2013 Equity Plan.

Research and development expenses increased \$7.3 million for the six months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a \$5.0 million increase in employee salaries primarily due to periodic wage increases and an increase in average staffing levels, partially offset by a shift in staffing levels to lower cost regions, and a \$1.9 million net increase in share-based compensation expense, partially offset by a \$0.5 million decrease in facility and other related support costs. The \$1.9 million net increase in share-based compensation expense is primarily due to the grant of additional awards under the 2013 Equity Plan, partially offset by the fair value remeasurement of certain liability-classified awards at the end of the reporting period and certain awards that became fully vested.

General and administrative expenses. General and administrative expenses consist 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. General and administrative headcount increased 1.2% to 262 at June 30, 2022 from 259 at June 30, 2021. The following table sets forth general and administrative expenses (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended June 30,			%	Six Months Ended June 30,			%
	2022	2021	Change		2022	2021	Change	
General and administrative expenses	\$ 28,502	\$ 22,917	24.4%		\$ 55,208	\$ 44,646	23.7%	

General and administrative expenses increased \$5.6 million for the three months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a \$2.5 million increase in costs related to the maintenance and operations of our corporate aircraft, a \$1.8 million net increase in share-based compensation expense, and a \$1.2 million increase in legal, consulting, and other advisory costs which includes costs from executing our bitcoin acquisition strategy, partially offset by a \$1.0 million decrease in custodial fees incurred on our bitcoin holdings. The \$1.8 million net increase in share-based compensation expense is primarily due to the grant of additional awards under the 2013 Equity Plan, partially offset by certain awards that became fully vested.

General and administrative expenses increased \$10.6 million for the six months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a \$4.7 million net increase in share-based compensation expense, a \$2.6 million increase in costs related to the maintenance and operations of our corporate aircraft, a \$1.4 million increase in legal, consulting, and other advisory costs which includes costs from executing our bitcoin acquisition strategy, a \$1.1 million increase in facility and other related support costs, a \$0.6 million increase in employee salaries primarily due to an increase in average staffing levels, and a \$0.5 million increase in travel and entertainment expenditures that were undertaken as various COVID-19-related restrictions were lifted, partially offset by a \$1.1 million decrease in custodial fees incurred on our bitcoin holdings and a \$0.6 million decrease in variable compensation. The \$4.7 million net increase in share-based compensation expense is primarily due to the grant of additional awards under the 2013 Equity Plan, partially offset by certain awards that became fully vested. Included in general and administrative expenses for the six months ended June 30, 2022 is an aggregate \$0.7 million favorable foreign currency exchange impact.

Digital asset impairment losses. Digital asset impairment losses are recognized when the carrying value of our digital assets exceeds their lowest fair value at any time since their acquisition. Impaired digital assets are written down to fair value at the time of impairment, and such impairment loss cannot be recovered for any subsequent increases in fair value. The following table sets forth digital asset impairment losses (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended June 30,			%	Six Months Ended June 30,			%
	2022	2021	Change		2022	2021	Change	
Digital asset impairment losses	\$ 917,838	\$ 424,774	116.1%		\$ 1,087,929	\$ 618,869	75.8%	

We did not sell any of our digital assets during the three and six months ended June 30, 2022 and 2021. We may continue to incur significant digital asset impairment losses in the future.

Interest Expense, Net

For the three and six months ended June 30, 2022, interest expense, net, of \$13.2 million and \$24.2 million, respectively, was primarily related to the contractual interest expense related to our 2028 Secured Notes, 2025 Secured Term Loan, and 2025 Convertible Notes, and the amortization of issuance costs related to our long-term debt arrangements. For the three and six months ended June 30, 2021, interest expense, net, of \$4.4 million and \$6.8 million, respectively, was primarily related to the contractual interest expense related to our 2025 Convertible Notes and 2028 Secured Notes, and the amortization of issuance costs related to our Convertible Notes. Refer to Note 4, Long-term Debt, to the Consolidated Financial Statements for further information.

Other Income (Expense), Net

For the three and six months ended June 30, 2022, other income, net, of \$5.1 million and \$7.3 million, respectively, were comprised primarily of foreign currency transaction net gains. For the three months ended June 30, 2021, other expense, net, of \$0.9 million was comprised primarily of foreign currency transaction net losses. For the six months ended June 30, 2021, other income, net of \$0.4 million was comprised primarily of foreign currency transaction net gains.

Provision for (Benefit from) Income Taxes

We recorded a provision for income taxes of \$88.1 million on a pretax loss of \$1.105 billion for the six months ended June 30, 2022 and a benefit from income taxes of \$194.5 million on a pretax loss of \$603.8 million for the six months ended June 30, 2021. Our provision for income taxes increased from the same period in the prior year primarily due to an increase in the valuation allowance on our deferred tax asset related to the impairment on our bitcoin holdings, attributable to the decrease in the market value of bitcoin as of June 30, 2022.

As of June 30, 2022, we had a valuation allowance of \$391.3 million primarily related to our deferred tax asset related to the impairment on our bitcoin holdings that, in our present estimation, more likely than not will not be realized. If the market value of bitcoin continues to decline or we are unable to regain profitability in future periods, we may be required to increase further the valuation allowance against our deferred tax assets, which could result in a charge that would materially adversely affect net income (loss) in the period in which the charge is incurred. To the extent the market value of bitcoin rises we may decrease the valuation allowance against our deferred tax asset. We will continue to regularly assess the realizability of deferred tax assets.

Our effective tax rate may fluctuate due to changes in our domestic and foreign earnings and losses, material discrete tax items, or a combination of these factors resulting from transactions or events.

Deferred Revenue and Advance Payments

Deferred revenue and advance payments represent amounts received or due from our customers in advance of our transferring our software or services to the customer. In the case of multi-year service contract arrangements, we generally do not invoice more than one year in advance of services and do not record deferred revenue for amounts that have not been invoiced. Revenue is subsequently recognized in the period(s) in which control of the software or services is transferred to the customer.

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

	June 30, 2022	December 31, 2021	June 30, 2021
Current:			
Deferred product licenses revenue	\$ 754	\$ 993	\$ 544
Deferred subscription services revenue	40,295	35,589	25,916
Deferred product support revenue	143,524	166,477	150,963
Deferred other services revenue	3,525	6,801	5,395
Total current deferred revenue and advance payments	<u>\$ 188,098</u>	<u>\$ 209,860</u>	<u>\$ 182,818</u>
Non-current:			
Deferred product licenses revenue	\$ 0	\$ 68	\$ 76
Deferred subscription services revenue	2,639	1,064	712
Deferred product support revenue	5,272	6,203	5,920
Deferred other services revenue	586	754	554
Total non-current deferred revenue and advance payments	<u>\$ 8,497</u>	<u>\$ 8,089</u>	<u>\$ 7,262</u>
Total current and non-current:			
Deferred product licenses revenue	\$ 754	\$ 1,061	\$ 620
Deferred subscription services revenue	42,934	36,653	26,628
Deferred product support revenue	148,796	172,680	156,883
Deferred other services revenue	4,111	7,555	5,949
Total current and non-current deferred revenue and advance payments	<u>\$ 196,595</u>	<u>\$ 217,949</u>	<u>\$ 190,080</u>

The portions of multi-year contracts that will be invoiced in the future are not presented on the balance sheet in “Accounts receivable, net” and “Deferred revenue and advance payments” and instead are included in the remaining performance obligation disclosure below. Total deferred revenue and advance payments decreased \$21.4 million as of June 30, 2022, as compared to December 31, 2021, primarily due to the timing of product support renewals and an increase in conversions from on-premises to subscription services and revenue recognized on previously deferred other services, partially offset by an increase in deferred revenue from new subscription services contracts. Total deferred revenue and advance payments increased \$6.5 million as of June 30, 2022, as compared to June 30, 2021, primarily due to an increase in deferred revenue from new subscription services contracts, partially offset by an increase in conversion from on-premises to subscription services and revenue recognized on previously deferred other services. Included in our international deferred revenue balances at June 30, 2022 are \$6.7 million and \$10.2 million unfavorable foreign currency impacts from the general strengthening of the U.S. dollar compared to December 31, 2021 and June 30, 2021, respectively.

Our remaining performance obligation represents all future revenue under contract and includes deferred revenue and advance payments and billable non-cancelable amounts that will be invoiced and recognized as revenue in future periods. The remaining performance obligation excludes contracts that are billed in arrears, such as certain time and materials contracts. As of June 30, 2022, we had an aggregate transaction price of \$273.9 million allocated to the remaining performance obligation related to product support, subscription services, product licenses, and other services contracts. We expect to recognize approximately \$207.3 million of the remaining performance obligation over the next 12 months and the remainder thereafter. However, the timing and ultimate recognition of our deferred revenue and advance payments and other remaining performance obligations depend on our satisfaction of various performance obligations, and the amount of deferred revenue and advance payments and remaining performance obligations at any date should not be considered indicative of revenues for any succeeding period.

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 may include holdings in bank demand deposits, money market instruments, certificates of deposit, and U.S. Treasury securities. Under our Treasury Reserve Policy and bitcoin acquisition strategy, we use a significant portion of our cash, including cash generated from capital raising transactions, to acquire bitcoins, which are classified as indefinite-lived intangible assets.

As of June 30, 2022 and December 31, 2021, the amount of cash and cash equivalents held by our U.S. entities was \$20.9 million and \$13.1 million, respectively, and by our non-U.S. entities was \$48.5 million and \$50.3 million, respectively. We earn a significant amount of our revenues outside the United States. We repatriated foreign earnings and profits of \$57.5 million during 2021 and \$21.1 million during the six months ended June 30, 2022.

Our material contractual obligations and cash requirements consist of:

- principal and interest payments related to our long-term debt;
- rent payments under noncancellable operating leases;
- payments related to the mandatory deemed repatriation transition tax (the “Transition Tax”) under the U.S. Tax Cuts and Jobs Act (the “Tax Act”);
- payments under various purchase agreements, primarily related to third-party software supporting our products, marketing, and operations; and
- ongoing personnel-related expenditures and vendor payments.

The above items are explained in further detail in Note 4, Long-term Debt, to the Consolidated Financial Statements included in this Quarterly Report as well as under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 and in the Notes to the Consolidated Financial Statements included therein. There have been no changes to our material contractual obligations and cash requirements since December 31, 2021, except for the issuance of the 2025 Secured Term Loan and other long-term secured debt, as described in Note 4, Long-term Debt, to the Consolidated Financial Statements.

We believe that existing cash and cash equivalents held by us and cash and cash equivalents anticipated to be generated by us are sufficient to meet working capital requirements, anticipated capital expenditures, and contractual obligations for at least the next 12 months. Beyond the next 12 months, our long-term cash requirements are primarily for obligations related to our long-term debt. We have principal due upon maturity of our long-term debt instruments in the aggregate of \$2.413 billion in addition to \$2.4 million in coupon interest due each semi-annual period for the 2025 Convertible Notes, \$15.3 million in coupon interest due each semi-annual period for the 2028 Secured Notes, an estimated \$0.8 million due monthly in variable coupon interest for the 2025 Secured Term Loan (based on the interest rate in effect at June 30, 2022), and \$0.1 million due monthly in principal and interest related to our other long-term secured debt. We also have long-term cash requirements for obligations related to our operating leases, the Transition Tax, and our various purchase agreements. If cash and cash equivalents generated by future operating activities are not sufficient to enable us to satisfy these obligations, we may seek to generate cash and cash equivalents from other sources. The sources could include the sale of bitcoins, additional borrowings collateralized by our bitcoins, as well as the issuance and sale of shares of our class A common stock. Furthermore, if certain conditions are met, we may have the right to elect to settle the Convertible Notes upon a conversion of such Convertible Notes in shares of our class A common stock, or a combination of cash and shares of class A common stock, which may enable us to reduce the amount of our cash obligations under the Convertible Notes.

As of June 30, 2022, we held approximately 129,699 bitcoins, of which approximately 85,059 are unencumbered. We do not believe we will need to sell or engage in other transactions with respect to any of our bitcoins within the next twelve months to meet our working capital requirements, although we may from time to time sell or engage in other transactions with respect to our bitcoins as part of treasury management operations, as noted above. The bitcoin market historically has been characterized by significant volatility in its price, limited liquidity and trading volumes compared to sovereign currencies markets, relative anonymity, a developing regulatory landscape, susceptibility to market abuse and manipulation, and various other risks inherent in its entirely electronic, virtual form and decentralized network. During times of instability in the bitcoin market, we may not be able to sell our bitcoins at reasonable prices or at all. As a result, our bitcoins are less liquid than our existing cash and cash equivalents and may not be able to serve as a source of liquidity for us to the same extent as cash and cash equivalents. In addition, upon sale of our bitcoin, we may incur additional taxes related to any realized gains or we may incur capital losses as to which the tax deduction may be limited.

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

	Six Months Ended June 30,		%
	2022	2021	Change
Net cash provided by operating activities	\$ 22,863	\$ 76,675	-70.2%
Net cash used in investing activities	\$ (227,019)	\$ (1,616,948)	-86.0%
Net cash provided by financing activities	\$ 218,487	\$ 1,538,087	-85.8%

Net cash provided by operating activities. The primary source of our cash provided by operating activities is cash collections of our accounts receivable from customers following the sales and renewals of our product licenses and product support, as well as consulting, education, and subscription services. Our primary uses of cash in operating activities 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, income taxes, and interest expense related to our long-term debt arrangements. Non-cash items to further reconcile net loss to net cash provided by operating activities consist primarily of depreciation and amortization, reduction in the carrying amount of operating lease right-of-use assets, credit losses and sales allowances, deferred taxes, share-based compensation expense, digital asset impairment losses, and amortization of debt issuance costs on our long-term debt.

Net cash provided by operating activities decreased \$53.8 million for the six months ended June 30, 2022, as compared to the same period in the prior year, due to a \$783.7 million increase in net loss and a \$23.7 million decrease from changes in operating assets and liabilities, partially offset by a \$753.6 million increase from changes in non-cash items.

Net cash used in investing activities. The changes in net cash used in investing activities primarily relate to purchases of digital assets and expenditures on property and equipment. Net cash used in investing activities decreased \$1.390 billion for the six months ended June 30, 2022, as compared to the same period in the prior year, primarily due to a \$1.390 billion decrease in purchases of bitcoins. During the six months ended June 30, 2022, we purchased bitcoin using \$190.5 million of the net proceeds from the issuance of the 2025 Secured Term Loan and excess cash. During the six months ended June 30, 2021, we purchased bitcoin using the net proceeds from the issuance of our 2027 Convertible Notes and 2028 Secured Notes, and excess cash.

Net cash provided by financing activities. The changes in net cash provided by (used in) financing activities primarily relate to the issuance of our long-term debt, the exercise of stock options under the 2013 Equity Plan, the sales of class A common stock under the 2021 ESPP, and the payment of withholding tax on vesting of restricted stock units. Net cash provided by financing activities decreased \$1.320 billion for the six months ended June 30, 2022, as compared to the same period in the prior year, primarily due to \$1.050 billion in gross proceeds from our 2027 Convertible Notes during the six months ended June 30, 2021, \$500.0 million in gross proceeds from our 2028 Secured Notes during the six months ended June 30, 2021, a \$23.4 million decrease in proceeds from the exercise of stock options under the 2013 Equity Plan, and \$0.5 million of withholding tax paid on vesting of restricted stock units during the six months ended June 30, 2022, partially offset by \$204.7 million in gross proceeds, net of lender fees, from our 2025 Secured Term Loan during the six months ended June 30, 2022, \$24.7 million in issuance costs paid for our Convertible Notes during the six months ended June 30, 2021, \$11.3 million in issuance costs paid for our 2028 Secured Notes during the six months ended June 30, 2021, \$11.1 million in gross proceeds from other long-term secured debt during the six months ended June 30, 2022, and \$2.8 million in proceeds from the sales of class A common stock under the 2021 ESPP in the six months ended June 30, 2022.

Long-term Debt

In December 2020, we issued \$650.0 million aggregate principal amount of the 2025 Convertible Notes and in February 2021, we issued \$1.050 billion aggregate principal amount of the 2027 Convertible Notes. We used the net proceeds from the issuance of the Convertible Notes to acquire bitcoin. The terms of the Convertible Notes are discussed more fully in Note 4, Long-term Debt, to the Consolidated Financial Statements included in this Quarterly Report as well as Note 8, Long-term Debt, to the Consolidated Financial Statements of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021. For the three and six months ended June 30, 2022, we paid \$2.4 million in interest to holders of the 2025 Convertible Notes. For the three and six months ended June 30, 2021, we paid \$2.5

million in interest to holders of the 2025 Convertible Notes. The 2027 Convertible Notes do not bear regular interest and we have not paid any special interest to holders of the 2027 Convertible Notes to date.

In June 2021, we issued \$500.0 million aggregate principal amount of the 2028 Secured Notes. We used the net proceeds from the issuance of the 2028 Secured Notes to acquire bitcoin. As of June 30, 2022, approximately 14,589 of the bitcoins held by the Company serve as part of the collateral for the 2028 Secured Notes. The terms of the 2028 Secured Notes are discussed more fully in Note 4, Long-term Debt to the Consolidated Financial Statements included in this Quarterly Report as well as Note 8, Long-term Debt, to the Consolidated Financial Statements of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021. For the three and six months ended June 30, 2022, we paid \$15.3 million in interest to holders of the 2028 Secured Notes. For the three and six months ended June 30, 2021, we did not pay any interest to holders of the 2028 Secured Notes.

In March 2022, MacroStrategy, our wholly-owned subsidiary, entered into a Credit and Security Agreement with Silvergate Bank, pursuant to which Silvergate Bank issued the \$205.0 million 2025 Secured Term Loan to MacroStrategy. We used \$190.5 million of the net proceeds from the issuance of the 2025 Secured Term Loan to acquire bitcoin, used \$5.0 million of the net proceeds to establish the Reserve Account which serves as collateral for the 2025 Secured Term Loan, and expect to use the remaining net proceeds to pay fees, interest, and expenses related to the 2025 Secured Term Loan or for general corporate purposes. As of June 30, 2022, approximately 30,051 of the bitcoins held by MacroStrategy serve as part of the collateral for the 2025 Secured Term Loan, which amount includes 10,585 bitcoins that in June 2022, as the price of bitcoin declined causing the LTV Ratio to increase, MacroStrategy deposited into the Bitcoin Collateral Account to help ensure that the LTV Ratio remained below the Maximum LTV Ratio. Subject to certain conditions described in Note 4, Long-term Debt, to the Consolidated Financial Statements included in this Quarterly Report, MacroStrategy can withdraw excess collateral held in the Bitcoin Collateral Account. The terms of the 2025 Secured Term Loan are discussed more fully in Note 4, Long-term Debt, to the Consolidated Financial Statements. For the three and six months ended June 30, 2022, we paid \$1.6 million in interest to Silvergate.

In June 2022, we, through one of our wholly-owned subsidiaries, entered into a secured term loan agreement in the amount of \$11.1 million, bearing interest at an annual rate of 5.2%, and maturing in June 2027.

Item 3. 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 market price changes in bitcoin and foreign currency fluctuations.

Market Price Risk of Bitcoin. We have used a significant portion of our cash, including cash generated from capital raising transactions, to acquire bitcoin and, as of June 30, 2022, we held approximately 129,699 bitcoins. The carrying value of our bitcoins as of June 30, 2022 was \$1.988 billion, which reflects cumulative impairments of \$1.989 billion, on our Consolidated Balance Sheet. We account for our bitcoin as indefinite-lived intangible assets, which are subject to impairment losses if the fair value of our bitcoin decreases below their carrying value at any time since their acquisition. Impairment losses cannot be recovered for any subsequent increase in fair value. For example, the market price of one bitcoin on the Coinbase exchange (our principal market for bitcoin) ranged from \$17,567.45 to \$48,240.00 during the six months ended June 30, 2022, but the carrying value of each bitcoin we held at the end of the reporting period reflects the lowest price of one bitcoin quoted on the active exchange at any time since its acquisition. Therefore, negative swings in the market price of bitcoin could have a material impact on our earnings and on the carrying value of our digital assets. Positive swings in the market price of bitcoin are not reflected in the carrying value of our digital assets and impact earnings only when the bitcoin is sold at a gain. For the six months ended June 30, 2022, we incurred an impairment loss of \$1.088 billion on our bitcoin.

Foreign Currency Risk. We conduct a significant portion of our business in currencies other than the U.S. dollar, the currency in which we report our Consolidated Financial Statements. International revenues accounted for 38.5% and 45.1% of our total revenues for the three months ended June 30, 2022 and 2021, respectively, and 40.6% and 44.0% of our total revenues for the six months ended June 30, 2022 and 2021, 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 generally 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 (loss).

As a result of transacting in multiple currencies and reporting our Consolidated 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 the “Non-GAAP Financial Measures” section under “Part I. Item 2. 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.

As of June 30, 2022 and December 31, 2021, a 10% adverse change in foreign currency exchange rates versus the U.S. dollar would have decreased our aggregate reported cash and cash equivalents by 3.7% and 4.0%, respectively. If average exchange rates during the six months ended June 30, 2022 had changed unfavorably by 10%, our revenues for the six months ended June 30, 2022 would have decreased by 3.6%. During the six months ended June 30, 2022, our revenues were lower by 3.5% as a result of a 7.8% unfavorable change in weighted average exchange rates, as compared to the same period in the prior year.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly 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 Quarterly Report, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls. No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three months ended June 30, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We are continually monitoring and assessing the effect of the COVID-19 pandemic on our internal control over financial reporting to minimize the impact on the design and operating effectiveness of such internal control. We have not experienced any material impact on our internal control over financial reporting despite the fact that many of our employees are working remotely as a result of the COVID-19 pandemic.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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 we face. 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 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.

Risks Related to Our Business in General

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

For many reasons, including those described below, our operating results, revenues, and expenses have varied in the past and may vary significantly in the future 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:

- fluctuations in the price of bitcoin, of which we have significant holdings and with respect to which we expect to continue to make significant future purchases, and potential material impairment charges that may be associated therewith;
- any sales by us of our bitcoin at prices above their then current carrying costs, which would result in our recording gains upon sale of our digital assets;
- regulatory, commercial, and technical developments related to bitcoin or the bitcoin blockchain;
- the size, timing, volume, and execution of significant orders and shipments;
- the mix of our offerings ordered by customers, including product licenses and cloud subscriptions, 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 and market acceptance of new and enhanced offerings;
- the timing of announcements of new offerings by us or our competitors;
- changes in our pricing policies or those of our competitors;
- the length of our sales cycles;
- seasonal or other buying patterns of our customers;
- changes in our operating expenses;
- the impact of the COVID-19 pandemic, or other future infectious disease pandemics, on the global economy and on our customers, suppliers, employees, and business;
- the timing of research and development projects;
- utilization of our consulting and education services, which can be affected by delays or deferrals of customer implementation of our software;
- fluctuations in foreign currency exchange rates;
- bilateral or multilateral trade tensions, which could affect our offerings in particular foreign markets;
- our profitability and expectations for future profitability and their effect on our deferred tax assets and net income for the period in which any adjustment to our net deferred tax asset valuation allowance may be made;
- increases or decreases in our liability for unrecognized tax benefits; and
- changes in customer decision-making processes or customer budgets.

Limited Ability to Adjust Expenses. We base our operating expense budgets on expected revenue trends and strategic objectives. Many of our expenses, such as interest expense on our long-term debt, office leases and certain personnel costs, are relatively fixed. We may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall or impairment losses related to our digital assets. Accordingly, any shortfall in revenue from our enterprise analytics software business or impairment losses related to our digital assets may cause significant variation in operating results in any quarter.

Based on the above factors, we believe 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.

We may not be able to regain or increase profitability in the future

We generated a net loss for the six months ended June 30, 2022, primarily due to digital asset impairment losses, and we may not be able to regain or increase profitability on a quarterly or annual basis in the future. If our revenues are not sufficient to offset our operating expenses, we are unable to adjust our operating expenses in a timely manner in response to any shortfall in anticipated revenue, or we incur significant impairment losses related to our digital assets, we may incur operating losses in future periods, our profitability may decrease, or we may cease to be profitable. As a result, our business, results of operations, and financial condition may be materially adversely affected.

As of June 30, 2022, we had \$243.4 million of deferred tax assets, which reflects a \$391.3 million valuation allowance. The largest deferred tax asset relates to the impairment on our bitcoin holdings. If the market value of bitcoin continues to decline, we may be required to increase further the valuation allowance against the deferred tax asset. Additionally, if we are unable to regain or increase profitability in the future, we may also be required to increase the valuation allowance against the remaining deferred tax assets. A significant increase in the valuation allowance could result in a charge that would materially adversely affect net income in the period in which the charge is incurred.

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 tax liability could be materially adversely affected by earnings that are lower than anticipated in jurisdictions where we have lower statutory rates, earnings that are higher than anticipated in jurisdictions where we have higher statutory rates, changes in the valuation of our deferred tax assets and liabilities, changes in the amount of unrecognized tax benefits, or changes in tax laws, regulations, accounting principles, or interpretations thereof (including in response to the COVID-19 pandemic). In addition, if we sold any of our bitcoin at prices greater than the cost basis of the bitcoin sold, we would incur a tax liability with respect to any gain recognized, and such tax liability could be material.

Changes in the tax laws of foreign jurisdictions could arise, including as a result of the project undertaken by the Organisation for Economic Co-operation and Development (“OECD”) to combat base erosion and profit shifting (“BEPS”). The OECD, which represents a coalition of member countries, has issued recommendations that, in some cases, make substantial changes to numerous long-standing tax positions and principles. These changes, many of which have been adopted or are under active consideration by OECD members and/or other countries, could increase tax uncertainty and may adversely affect our provision for income taxes.

In addition, in response to significant market volatility and disruptions to business operations resulting from the COVID-19 pandemic, legislatures and taxing authorities in many jurisdictions in which we operate have implemented, and in the future may implement additional, changes to their tax rules. As part of the U.S. Congress’s response to the COVID-19 pandemic, the Families First Coronavirus Response Act (“FFCR Act”) and the CARES Act were enacted in March 2020. Both contain numerous tax provisions. Regulatory guidance under the Tax Act, FFCR Act, and CARES Act is and continues to be forthcoming, and such guidance could ultimately increase or lessen the impact of these laws on our business and financial condition. Additional legislation may be enacted in connection with the COVID-19 pandemic, some of which could have tax provisions that impact us. In addition, it is uncertain if and to what extent various states will conform to the Tax Act, FFCR Act, or CARES Act. These changes in law could include modifications that have temporary effect or more permanent changes. The impact of these changes on us, our long-term tax planning, and our effective tax rate could be material.

Our determination of our tax liability is subject to review by applicable domestic and foreign tax authorities. 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.

Risks Related to Our Bitcoin Acquisition Strategy and Holdings

Our bitcoin acquisition strategy exposes us to various risks associated with bitcoin

Bitcoin is a highly volatile asset that has traded below \$20,000 per bitcoin and above \$65,000 per bitcoin on the Coinbase exchange (our principal market for bitcoin) in the 12 months preceding the date of this Quarterly Report. During the six months ended June 30, 2022, the significant decrease in the trading price of bitcoin significantly reduced the value of the bitcoin we hold. Bitcoin does not pay interest or other returns and so our ability to generate cash from our bitcoin holdings depends on sales or implementing strategies that we may consider to create income streams or otherwise generate funds using our bitcoin holdings, including lending bitcoin to counterparties. As of the date of this Quarterly Report on Form 10-Q, we have not implemented any such revenue generating strategies. If we continue to increase our overall holdings of bitcoin in the future, our bitcoin holdings will have a greater impact on our financial results and the market price of our Class A common stock. See “Risks Related to Our Bitcoin Acquisition Strategy and Holdings – Our historical financial statements do not reflect the potential variability in earnings that we may experience in the future relating to our bitcoin holdings.”

We are continually examining the risks and rewards of our bitcoin acquisition strategy. This strategy has not been tested over time or under various market conditions. For example, although we believe bitcoin can serve as a hedge against inflation in the long term, the short term price of bitcoin can be volatile or decline even as the inflation rate may increase. Some investors and other market participants may disagree with our bitcoin acquisition strategy or actions we undertake to implement it. If bitcoin prices continue to fall or our bitcoin acquisition strategy otherwise proves unsuccessful, it would adversely impact our financial condition, results of operations, and the market price of our class A common stock.

All of the bitcoin we own is held in custody accounts at institutional grade digital asset custodians. We believe that existing law and the terms and conditions of our contractual arrangements with our custodians would not result in the bitcoin held by our custodians being considered part of the custodian’s bankruptcy estate were the custodian to file for bankruptcy. However, applicable insolvency law is not fully developed with respect to the holding of digital assets in custodial accounts and, if our custodially-held bitcoin were, in the event of a bankruptcy of any of our custodians, nevertheless considered to be the property of a bankruptcy estate, the bitcoin custodially-held on our behalf could be subject to bankruptcy proceedings and we could be treated as a general unsecured creditor of the custodian, inhibiting our ability to exercise ownership rights with respect to such bitcoin. Any such outcome could have a material adverse effect on our financial condition and the market price of our class A common stock.

While our bitcoin is currently owned directly by us or our wholly owned subsidiaries, we may investigate other potential approaches to owning bitcoin, including indirect ownership (for example, through ownership interests in a fund that owns bitcoin). If we were to own all or a portion of our bitcoin indirectly, the accounting treatment for our bitcoin, as well as our ability to use our bitcoin as collateral for additional borrowings, may correspondingly change. A change in the accounting treatment of our bitcoin holdings could have a material impact on our results of operations in future periods and could increase the volatility of our reported results of operations as well as affect the carrying value of our bitcoin on our balance sheet, which in turn could have a material adverse effect on our financial results and the market price of our class A common stock.

The price of bitcoin may be influenced by regulatory, commercial, and technical factors that are highly uncertain, and fluctuations in the price of bitcoin are likely to influence our financial results and the market price of our class A common stock

Fluctuations in the price of bitcoin have in the past and are likely to continue to influence our financial results and the market price of our class A common stock. Our financial results and the market price of our class A common stock would be adversely affected, and our business and financial condition would be negatively impacted, if the price of bitcoin decreased substantially, including as a result of:

- decreased user and investor confidence in bitcoin;
- investment and trading activities of highly active retail and institutional users, speculators, miners and investors;
- negative publicity or events relating to bitcoin, including potential public backlash against bitcoin to the extent the public views bitcoin as a vehicle that may be used to circumvent sanctions, including the recent sanctions imposed on Russia related to the ongoing conflict between Russia and Ukraine;
- negative or unpredictable media or social media coverage on bitcoin;
- public sentiment related to the actual or perceived environmental impact of bitcoin and related activities, including environmental concerns raised by private individuals, governmental, non-governmental organizations, and other actors related to the energy resources consumed in the bitcoin mining process;
- changes in consumer preferences and the perceived value of bitcoin;

- competition from other digital assets that exhibit better speed, security, scalability, or energy efficiency, that feature other more favored characteristics, that are backed by governments, including the U.S. government, or reserves of fiat currencies, or that represent ownership or security interests in physical assets;
- due to the correlation between the prices of bitcoin and other digital assets, a decrease in the price of other digital assets, including as a result of a crash in one or more digital assets or platforms, such as the May 2022 crash of the stablecoin Terra USD or widespread defaults on digital asset exchanges, trading venues or lending platforms, such as the crash and subsequent filing for bankruptcy protection of the digital asset lending platform Celsius Network;
- the identification of Satoshi Nakamoto, the pseudonymous person or persons who developed bitcoin, or the transfer of substantial amounts of bitcoin from bitcoin wallets attributed to Mr. Nakamoto;
- interruptions in service or failures of the principal markets for bitcoin, for example the announcement by the digital asset lending firm Celsius Network that it would freeze withdrawals and transfers from its accounts and subsequent filing for bankruptcy protection;
- the bankruptcy, liquidation, or market concerns about the financial viability, of one or more digital asset custodians, trading venues, lending platforms, or investment funds, such as the digital asset lending platforms, Celsius Network and Voyager Digital Holdings, filing for bankruptcy protection in 2022, and the ordered liquidation of the digital asset investment fund, Three Arrows Capital, in 2022;
- regulatory actions that adversely affect the price, ownership, transferability, or public perception of bitcoin, or that adversely affect the operations of digital asset custodians or trading venues;
- further reductions in mining rewards of bitcoin, including block reward halving events, which are events that occur after a specific period of time that reduce the block reward earned by “miners” who validate bitcoin transactions;
- transaction congestion and fees associated with processing transactions on the bitcoin network;
- changes in the level of interest rates and inflation, monetary policies of governments, trade restrictions, and fiat currency devaluations;
- developments in mathematics or technology, including in digital computing, algebraic geometry and quantum computing, that could result in the cryptography being used by bitcoin becoming insecure or ineffective; and
- national and international economic and political conditions, including, without limitation, the adverse impact attributable to the economic and political instability caused by the current conflict between Russia and Ukraine and the economic sanctions adopted in response to the conflict.

In addition, bitcoin and other digital assets are relatively novel and are subject to various risks and uncertainties that may adversely impact their price. The application of securities laws and other laws and regulations to such assets is unclear in certain respects, and it is possible that regulators in the United States or foreign countries may interpret or apply existing laws and regulations in a manner that adversely affects the price of bitcoin.

The U.S. federal government, states, regulatory agencies, and foreign countries may also enact new laws and regulations that could materially impact the price of bitcoin or the ability of individuals or institutions such as us to own bitcoin. For example, on March 9, 2022, President Biden signed an executive order relating to cryptocurrencies. While the executive order did not mandate the adoption of any specific regulations, it instructs various federal agencies to consider potential regulatory measures, including the evaluation of the creation of a U.S. Central Bank digital currency. On April 4, 2022, SEC Chairman Gary Gensler announced that he has asked SEC staff to work (i) to register and regulate digital asset platforms like securities exchanges; (ii) with the Commodities Futures Trading Commission on how to jointly address digital asset platforms that trade both securities and non-securities; (iii) on segregating out digital asset platforms’ custody of customer assets, if appropriate; and (iv) on segregating out the market making functions of digital asset platforms, if appropriate. Similarly, foreign government authorities have recently expanded their efforts to restrict certain activities related to bitcoin and other digital assets. In the European Union, in June 2022, the EU Parliament and the Council of the EU agreed to advance the draft Markets in Crypto Assets regulation, which contains provisions which may regulate the use of digital assets, like bitcoin. In China, the People’s Bank of China and the National Development and Reform Commission have outlawed cryptocurrency mining and declared all cryptocurrency transactions illegal within the country. In India, it has been reported that the Ministry of Corporate Affairs has circulated draft legislation that would prohibit mining, holding, selling, trading, or using cryptocurrencies in the country. Moreover, the risks of engaging in a bitcoin acquisition strategy are relatively novel and have created, and may create further, complications due to the lack of experience that third parties have with companies engaging in such a strategy, such as the unavailability on acceptable terms, or increased cost, of director and officer liability insurance.

The growth of the digital assets industry in general, and the use and acceptance of bitcoin in particular, may also impact the price of bitcoin and is subject to a high degree of uncertainty. The pace of worldwide growth in the adoption and use of bitcoin may depend, for instance, on public familiarity with digital assets, ease of buying and accessing bitcoin, institutional demand for bitcoin as an investment asset, consumer demand for bitcoin as a means of payment, and the availability and popularity of alternatives to bitcoin. Even if growth in bitcoin adoption occurs in the near or medium-term, there is no assurance that bitcoin usage will continue to grow over the long-term.

Because bitcoin has no physical existence beyond the record of transactions on the bitcoin blockchain, a variety of technical factors related to the bitcoin blockchain could also impact the price of bitcoin. For example, malicious attacks by miners, inadequate mining fees to incentivize validating of bitcoin transactions, hard “forks” of the bitcoin blockchain into multiple blockchains, and advances in digital computing, algebraic geometry, and quantum computing could undercut the integrity of the bitcoin blockchain and negatively affect the price of bitcoin. The liquidity of bitcoin may also be reduced and damage to the public perception of bitcoin may occur, if financial institutions were to deny banking services to businesses that hold bitcoin, provide bitcoin-related services or accept bitcoin as payment, which could also decrease the price of bitcoin.

Our historical financial statements do not reflect the potential variability in earnings that we may experience in the future relating to our bitcoin holdings

Our historical financial statements do not fully reflect the potential variability in earnings that we may experience in the future from holding or selling significant amounts of bitcoin.

The price of bitcoin has historically been subject to dramatic price fluctuations and is highly volatile. We determine the fair value of our bitcoin based on quoted (unadjusted) prices on the Coinbase exchange (our principal market for bitcoin). We perform an analysis each quarter to identify whether events or changes in circumstances, principally decreases in the quoted (unadjusted) prices on the active exchange, indicate that it is more likely than not that any of our bitcoin assets are impaired. In determining if an impairment has occurred, we consider the lowest price of one bitcoin quoted on the active exchange at any time since acquiring the specific bitcoin held. If the carrying value of a bitcoin exceeds that lowest price at any time during the quarter, an impairment loss is deemed to have occurred with respect to that bitcoin in the amount equal to the difference between its carrying value and such lowest price, and subsequent increases in the price of bitcoin will not affect the carrying value of our bitcoin. Gains (if any) are not recorded until realized upon sale, at which point they would be presented net of any impairment losses. In determining the gain to be recognized upon sale, we calculate the difference between the sale price and carrying value of the specific bitcoin sold immediately prior to sale.

As a result, any decrease in the fair value of bitcoin below our carrying value for such assets at any time since their acquisition requires us to incur an impairment charge, and such charge could be material to our financial results for the applicable reporting period, which may create significant volatility in our reported earnings and decrease the carrying value of our digital assets, which in turn could have a material adverse effect on the market price of our class A common stock.

At June 30, 2022, we carried \$1.988 billion of digital assets on our balance sheet, consisting of approximately 129,699 bitcoins and reflecting \$1.989 billion in cumulative impairment losses attributable to bitcoin trading price fluctuations, and held \$69.4 million in cash and cash equivalents, compared to a carrying value of \$2.051 billion of digital assets, consisting of approximately 105,085 bitcoins, and \$56.4 million in cash and cash equivalents at June 30, 2021. Digital asset impairment losses of \$1.088 billion incurred during the six months ended June 30, 2022 represented 85.1% of our operating expenses, contributing to our net loss of \$1.193 billion for the six months ended June 30, 2022, compared to \$618.9 million in digital asset impairment losses in the six months ended June 30, 2021 representing 77.4% of our operating expenses and contributing to our net loss of \$409.4 million for the six months ended June 30, 2021.

Because we intend to purchase additional bitcoin in future periods and increase our overall holdings of bitcoin, we expect that the proportion of our total assets represented by our bitcoin holdings will increase in the future. As a result, volatility in our earnings in future periods may be significantly more than what we experienced in prior periods.

Changes in securities regulation may adversely impact the market price of our class A common stock

Although bitcoin and other digital assets have experienced a surge of investor attention since bitcoin was invented in 2008, investors in the United States currently have limited means to gain exposure to bitcoin through traditional investment channels such as 401(k) retirement accounts, and instead generally must hold bitcoin through “hosted” wallets provided by digital asset service providers or through “unhosted” wallets that expose the investor to risks associated with loss or hacking of their private keys. Given the relative novelty of digital assets, general lack of familiarity with the processes needed to hold bitcoin directly, as well as the potential reluctance of financial planners and advisers to recommend direct bitcoin holdings to their retail customers because of the manner in which such holdings are custodied, some investors have sought exposure to bitcoin through investment vehicles that hold bitcoin and issue shares representing fractional undivided interests in their underlying bitcoin holdings. Although a number of investment vehicles currently offer this exposure to bitcoin, none of these investment vehicles currently offers its shares directly to the public in the United States, and such shares are offered only to “accredited investors” on a private placement basis. Investors who are not eligible to participate in these private placements may nevertheless purchase shares of these investment vehicles in the over-the-counter market, where such shares have historically traded at a premium to the net asset value (“NAV”) of the underlying bitcoin. These premiums have at times been substantial.

One reason for the substantial premium to NAV exhibited by the trading prices of shares of some bitcoin investment vehicles may be because of the relative scarcity of traditional investment vehicles providing investment exposure to bitcoin. To the extent investors view the value of our class A common stock as providing such exposure, it is possible that the value of our class A common stock also includes a premium over the value of our bitcoin.

Another reason for the substantial premium to NAV historically exhibited by the trading prices of shares of some bitcoin investment vehicles is that such vehicles operate in a manner similar to closed-end investment funds as opposed to exchange-traded funds (“ETFs”) and therefore do not continuously offer to create and redeem their shares at NAV in exchange for bitcoin. Although several bitcoin investment vehicles have attempted to list their shares on a U.S. national securities exchange to permit them to function in the manner of an ETF with continuous share creation and redemption at NAV, the SEC has generally declined to approve any such listing, citing concerns over the surveillance of trading in markets for the underlying bitcoin as well as concerns about fraud and manipulation in bitcoin trading markets. Most recently, in June 2022 the SEC denied proposals from NYSE Arca, Inc. to convert Grayscale Bitcoin Trust into a spot bitcoin ETF and to list and trade shares of the Bitwise Bitcoin ETF. However, in October 2021, the SEC permitted the listing of the ProShares Bitcoin Strategy ETF (the “ProShares ETF”), an ETF that invests primarily in bitcoin futures contracts. Although this ETF allows investors to obtain managed exposure to bitcoin futures contracts, it does not invest directly in bitcoin. As a result, it is unclear as to whether or to what extent the existence of this ETF or other ETFs that invest in bitcoin futures contracts that may be listed in the future will have on any premium over the value of our bitcoin holdings that may be included in the value of our class A common stock. Shortly after the listing of the ProShares ETF, the SEC permitted the listing of the Valkyrie Bitcoin Strategy ETF (the “Valkyrie ETF”) and VanEck Bitcoin Strategy ETF (“VanEck ETF”), additional ETFs that invest primarily in bitcoin futures contracts. Other ETFs containing an asset mix consisting of bitcoin futures contracts and equities of publicly traded companies that have exposure to bitcoin or blockchain technology have also been introduced.

If the SEC were to further resolve its concerns regarding surveillance of and the existence of fraud and manipulation in the bitcoin trading markets, it is possible that the SEC would permit the listing of ETFs specializing in the direct acquisition and holding of bitcoin, allowing these funds to offer their shares directly to the public. In addition to greatly simplifying the task of gaining investment exposure to bitcoin, the listing of a bitcoin ETF with continuous share creation and redemption at NAV would be expected to eliminate the NAV premiums currently exhibited by shares of investment vehicles that trade in the over-the-counter market. To the extent that our class A common stock is viewed as an alternative-to-bitcoin investment vehicle and trades at a premium to the value of our bitcoin holdings, that premium may also be eliminated, causing the price of our class A common stock to decline.

In addition, the introduction of the bitcoin futures focused ETFs and any future bitcoin focused ETFs on U.S. national securities exchanges may be viewed by investors as offering “pure play” exposure to bitcoin that would generally not be subject to federal income tax at the entity level as we are.

As a result of the foregoing factors, to the extent investors view our class A common stock as linked to the value of our bitcoin holdings, the introduction of bitcoin ETFs on U.S. national securities exchanges could have a material adverse effect on the market price of our class A common stock.

Our bitcoin holdings could subject us to regulatory scrutiny

As noted above, several bitcoin investment vehicles have attempted to list their shares on a U.S. national securities exchange to permit them to function in the manner of an ETF with continuous share creation and redemption at NAV. To date the SEC has declined to approve any such listing, citing concerns over the surveillance of trading in markets for the underlying bitcoin as well as concerns about fraud and manipulation in bitcoin trading markets. Even though we do not function in the manner of an ETF and do not offer continuous share creation and redemption at NAV, it is possible that we nevertheless could face regulatory scrutiny from the SEC, as a company with a class of securities registered under the Exchange Act and traded on The Nasdaq Global Select Market.

In addition, there has been increasing focus on the extent to which digital assets can be used to launder the proceeds of illegal activities, fund criminal or terrorist activities, or circumvent sanctions regimes, including those sanctions recently imposed in response to the ongoing conflict between Russia and Ukraine. While we have implemented and maintain policies and procedures reasonably designed to promote compliance with applicable anti-money laundering and sanctions laws and regulations and take care to only acquire our bitcoin through entities subject to anti-money laundering regulation and related compliance rules in the United States, if we are found to have purchased any of our bitcoin from bad actors that have used bitcoin to launder money or persons subject to sanctions, we may be subject to regulatory proceedings and any further transactions or dealings in bitcoin by us may be restricted or prohibited.

We may consider issuing debt or other financial instruments that may be collateralized by our bitcoin holdings and may consider strategies to create income streams or otherwise generate funds using our bitcoin holdings, including lending bitcoin to counterparties. To the extent that we enter into bitcoin-related transactions beyond simply acquiring and holding bitcoin, such transactions may subject

us to additional regulatory compliance requirements, including federal and state money services regulations, money transmitter licensing requirements and various commodity and securities laws and regulations.

In addition, private actors that are wary of bitcoin or the regulatory concerns associated with bitcoin have in the past and may take further actions that may have an adverse effect on our business or the market price of our class A common stock. For example, an affiliate of HSBC Holdings has prohibited customers of its HSBC InvestDirect retail investment platform from buying shares of our class A common stock after determining that the value of our stock is related to the performance of bitcoin, indicating that it did not want to facilitate exposure to virtual currencies.

Due to the unregulated nature and lack of transparency surrounding the operations of many bitcoin trading venues, bitcoin trading venues may experience greater fraud, security failures or operational problems than trading venues for more established asset classes, which may result in a loss of confidence in bitcoin trading venues and adversely affect the value of our bitcoin

Bitcoin trading venues are relatively new and, in many cases, unregulated. Furthermore, there are many bitcoin trading venues which do not provide the public with significant information regarding their ownership structure, management teams, corporate practices and regulatory compliance. As a result, the marketplace may lose confidence in bitcoin trading venues, including prominent exchanges that handle a significant volume of bitcoin trading and/or are subject to regulatory oversight, in the event one or more bitcoin trading venues experience fraud, security failures or operational problems.

For example, in 2019 there were reports claiming that 80-95% of bitcoin trading volume on trading venues was false or non-economic in nature, with specific focus on unregulated exchanges located outside of the United States. Such reports may indicate that the bitcoin market is significantly smaller than expected and that the United States makes up a significantly larger percentage of the bitcoin market than is commonly understood. Any actual or perceived false trading in the bitcoin market, and any other fraudulent or manipulative acts and practices, could adversely affect the value of our bitcoin.

Negative perception, a lack of stability in the broader bitcoin markets and the closure, temporary shutdown or operational disruption of bitcoin trading venues due to fraud, business failure, hackers or malware, or government-mandated regulation may reduce confidence in bitcoin and result in greater volatility in the prices of bitcoin. To the extent investors view our class A common stock as linked to the value of our bitcoin holdings, these potential consequences of a bitcoin trading venue's failure could have a material adverse effect on the market price of our class A common stock.

The concentration of our bitcoin holdings enhances the risks inherent in our bitcoin acquisition strategy

As of August 1, 2022, we held approximately 129,699 bitcoins that were acquired at an aggregate purchase price of \$3.977 billion and we intend to purchase additional bitcoin and increase our overall holdings of bitcoin in the future. The concentration of our bitcoin holdings limits the risk mitigation that we could take advantage of by purchasing a more diversified portfolio of treasury assets, and the absence of diversification enhances the risks inherent in our bitcoin acquisition strategy. The price of bitcoin has recently experienced a significant decline, and this has had, and any further significant declines in the price of bitcoin would have, a more pronounced impact on our financial condition than if we used our cash to purchase a more diverse portfolio of assets.

The emergence or growth of other digital assets, including those with significant private or public sector backing, could have a negative impact on the price of Bitcoin and adversely affect our business

As a result of our bitcoin acquisition strategy, the majority of our assets are concentrated in our bitcoin holdings. Accordingly, a significant decrease in the market price of bitcoin may have a material adverse effect on our financial condition. As of the date of this Quarterly Report on Form 10-Q, bitcoin was the largest digital asset by market capitalization. However, there are numerous alternative digital assets and many entities, including consortiums and financial institutions, are researching and investing resources into private or permissioned blockchain platforms or digital assets that do not use proof-of-work mining like the bitcoin network. Additionally, central banks in some countries have started to introduce digital forms of legal tender. For example, China's cryptocurrencies backed by central banks ("CBDC") project was made available to consumers in January 2022, and governments including the United States and the European Union have been discussing the potential creation of new digital currencies. Whether or not they incorporate blockchain or similar technology, CBDCs, as legal tender in the issuing jurisdiction, could have an advantage in competing with, or replacing, bitcoin and other digital assets as a medium of exchange or store of value. As a result, the value of bitcoin could decrease, which could have a material adverse effect on our business, prospects, financial condition, and operating results.

Our bitcoin holdings are less liquid than our existing cash and cash equivalents and may not be able to serve as a source of liquidity for us to the same extent as cash and cash equivalents

In September 2020, we adopted bitcoin as our primary treasury reserve asset. Historically, the bitcoin markets have been characterized by more price volatility, less liquidity, and lower trading volumes compared to sovereign currencies markets, as well as relative anonymity, a developing regulatory landscape, susceptibility to market abuse and manipulation, and various other risks inherent in its entirely electronic, virtual form and decentralized network. During times of market instability, we may not be able to sell our bitcoin at reasonable prices or at all. For example, although the Coinbase exchange (our principal market for bitcoin) has, to date, not been impacted, a number of bitcoin trading venues recently have temporarily halted deposits and withdrawals. As a result, our bitcoin holdings may not be able to serve as a source of liquidity for us to the same extent as cash and cash equivalents. Additionally, during times of market instability, including in particular at times when the price of bitcoin has materially declined, we may be unable to enter into term loans or other financings collateralized by our unencumbered bitcoin or otherwise generate funds using our bitcoin holdings. If we are unable to sell our bitcoin, enter into additional financings using bitcoin as collateral, or otherwise generate funds using our bitcoin holdings, or if we are forced to sell our bitcoin at a significant loss, in order to meet our working capital requirements, our business and financial condition could be negatively impacted.

If we or our third-party service providers experience a security breach or cyberattack and unauthorized parties obtain access to our bitcoin, we may lose some or all of our bitcoin and our financial condition and results of operations could be materially adversely affected

Security breaches and cyberattacks are of particular concern with respect to our bitcoin. Bitcoin and other blockchain-based cryptocurrencies have been, and may in the future be, subject to security breaches, cyberattacks, or other malicious activities. For example, in October 2021 it was reported that hackers exploited a flaw in the account recovery process and stole from the accounts of at least 6,000 customers of the Coinbase exchange (our principal market for bitcoin), although the flaw was subsequently fixed and Coinbase reimbursed affected customers. Similarly, in January 2022, hackers exploited weaknesses in the security architecture of the digital asset exchange Crypto.com and stole over \$30 million in digital assets, including bitcoin, from the accounts of 483 customers, although the flaw was subsequently fixed and Crypto.com reimbursed affected customers. Nonetheless, a successful security breach or cyberattack could result in:

- a partial or total loss of our bitcoin in a manner that may not be covered by insurance or indemnity provisions of the custody agreement with a custodian who holds our bitcoin;
- harm to our reputation and brand;
- improper disclosure of data and violations of applicable data privacy and other laws; or
- significant regulatory scrutiny, investigations, fines, penalties, and other legal, regulatory, contractual and financial exposure.

Further, any actual or perceived data security breach or cybersecurity attack directed at other companies with digital assets or companies that operate digital asset networks, whether or not we are directly impacted, could lead to a general loss of confidence in the broader bitcoin blockchain ecosystem or in the use of bitcoin networks to conduct financial transactions, which could negatively impact us.

Attacks upon systems across a variety of industries, including industries related to bitcoin, are increasing in frequency, persistence, and sophistication, and, in many cases, are being conducted by sophisticated, well-funded and organized groups and individuals, including state actors. The techniques used to obtain unauthorized, improper or illegal access to systems and information (including personal data and digital assets), disable or degrade services, or sabotage systems are constantly evolving, may be difficult to detect quickly, and often are not recognized or detected until after they have been launched against a target. These attacks may occur on our systems or those of our third-party service providers or partners. We may experience breaches of our security measures due to human error, malfeasance, insider threats, system errors or vulnerabilities or other irregularities. In particular, unauthorized parties have attempted, and we expect that they will continue to attempt, to gain access to our systems and facilities, as well as those of our partners and third-party service providers, through various means, such as hacking, social engineering, phishing and fraud. In the past, hackers have successfully employed a social engineering attack against one of our service providers and misappropriated our digital assets, although, to date, such events have not been material to our financial condition or operating results. Threats can come from a variety of sources, including criminal hackers, hacktivists, state-sponsored intrusions, industrial espionage, and insiders. In addition, certain types of attacks could harm us even if our systems are left undisturbed. For example, certain threats are designed to remain dormant or undetectable, sometimes for extended periods of time, or until launched against a target and we may not be able to implement adequate preventative measures. Further, there has been an increase in such activities as a result of the COVID-19 pandemic. The risk of cyberattacks could also be increased by cyberwarfare in connection with the ongoing conflict between Russia and Ukraine, including potential proliferation of malware from the conflict into systems unrelated to the conflict. Any future breach of our operations or those of others in the bitcoin industry, including third-party services on which we rely, could materially and adversely affect our business.

The loss or destruction of a private key required to access our bitcoin may be irreversible. If we are unable to access our private keys or if we experience a cyberattack or other data loss relating to our bitcoin, our financial condition and results of operations could be materially adversely affected

Bitcoin is controllable only by the possessor of both the unique public key and private key relating to the local or online digital wallet in which the bitcoin is held. While the bitcoin blockchain ledger requires a public key relating to a digital wallet to be published when used in a transaction, private keys must be safeguarded and kept private in order to prevent a third party from accessing the bitcoin held in such wallet. To the extent our private key is lost, destroyed, or otherwise compromised and no backup of the private key is accessible, we will be unable to access the bitcoin held in the related digital wallet. Furthermore, we cannot provide assurance that our digital wallets will not be compromised as a result of a cyberattack. The bitcoin and blockchain ledger, as well as other digital assets and blockchain technologies, have been, and may in the future be, subject to security breaches, cyberattacks, or other malicious activities.

We hold our bitcoin with regulated custodians that have duties to safeguard our private keys. In light of the significant amount of bitcoin we hold, we are continuing to seek a greater degree of diversification in the use of custodial services as the extent of potential risk of loss is dependent, in part, on the degree of diversification. As of June 30, 2022, the insurance that covers losses of our bitcoin holdings covers only a small fraction of the value of the entirety of our bitcoin holdings, and there can be no guarantee that such insurance will be maintained as part of the custodial services we have or that such coverage will cover losses with respect to our bitcoin. Moreover, as noted above, the use of custodians to hold our bitcoin exposes us to the risk that the bitcoin custodially-held on our behalf could be subject to bankruptcy proceedings and we could be treated as a general unsecured creditor of the custodian, inhibiting our ability to exercise ownership rights with respect to such bitcoin. Any loss associated with such insolvency proceedings is unlikely to be covered by any insurance coverage we maintain related to our bitcoin.

Regulatory change reclassifying bitcoin as a security could lead to our classification as an “investment company” under the Investment Company Act of 1940 and could adversely affect the market price of bitcoin and the market price of our class A common stock

While senior SEC officials have stated their view that bitcoin is not a “security” for purposes of the federal securities laws, the SEC has so far refused to permit the listing of any bitcoin-based ETFs, citing, among other things, concerns regarding bitcoin market integrity and custodial protections. It is possible that the SEC could take a contrary position to the one taken by its senior officials or a federal court could conclude that bitcoin is a security. Such a determination could lead to our classification as an “investment company” under the Investment Company Act of 1940, which would subject us to significant additional regulatory controls that could have a material adverse effect on our business and operations and also may require us to substantially change the manner in which we conduct our business.

In addition, if bitcoin is determined to constitute a security for purposes of the federal securities laws, the additional regulatory restrictions imposed by such a determination could adversely affect the market price of bitcoin and in turn adversely affect the market price of our class A common stock.

A significant decrease in the market value of our bitcoin holdings could adversely affect our ability to service our indebtedness

As a result of our bitcoin acquisition strategy and our Treasury Reserve Policy, the majority of our assets are concentrated in our bitcoin holdings. The concentration of our assets in bitcoin limits our ability to mitigate risk that could otherwise be achieved by purchasing a more diversified portfolio of treasury assets. Accordingly, the recent decline in the market price of bitcoin has significantly reduced the market value of our bitcoin holdings and any further decline in the market price of bitcoin will cause our bitcoin holdings to experience a decline, which, if significant, could have a material adverse effect on our financial condition. Any material adverse effect on our financial condition caused by a significant decline in the market value of our bitcoin holdings may create liquidity and credit risks for our business operations, as we would have limited means to obtain cash beyond the revenues generated by our enterprise analytics software business. To the extent that the cash generated by our enterprise analytics software business is insufficient to satisfy our debt service obligations, and to the extent that the liquidation of our bitcoin holdings would be insufficient to satisfy our debt service obligations, we may be unable to make scheduled payments on our current or future indebtedness, which could cause us to default on our debt obligations. Any default on our current or future indebtedness may have a material adverse effect on our financial condition. See “Risks Related to Our Outstanding and Potential Future Indebtedness” for additional details about the risks which may impact us if we are unable to service our indebtedness.

Risks Related to Our Enterprise Analytics Software Business Strategy

We depend on revenue from a single software platform and related services as well as revenue from our installed customer base

Our revenue is derived from sales of our analytics software platform and related services. Although demand for analytics software has continued to grow, the market for analytics offerings continues to evolve. Resistance from consumer and privacy groups to commercial

collection, use, and sharing of personal data has grown in recent years and our customers, potential customers, or the general public may perceive that use of our analytics software could violate individual privacy rights. In addition, increasing government restrictions on the collection, use, and transfer of personal data could impair the further growth of the market for analytics software, especially in foreign markets. Because we depend on revenue from a single software platform and related services, our business could be harmed by a decline in demand for, or in the adoption or prices of, our platform and related services as a result of, among other factors, any change in our pricing or packaging model, increased competition, maturation in the markets for our platform, or other risks described in this Quarterly Report. In addition, the adoption of our bitcoin acquisition strategy and the recent increase in our indebtedness has caused and may in the future cause certain of our existing or prospective customers to form negative perceptions regarding our corporate risk profile or our financial viability as a commercial counterparty, and such negative perceptions could negatively impact sales of our analytics software platform and related services to current or prospective customers. Such risks can also be exacerbated if the price of bitcoin declines. We also depend on our installed customer base for a substantial portion of our revenue. If our existing customers cancel or fail to renew their service contracts or fail to make additional purchases from us for any reason, including due to the risks inherent in our bitcoin acquisition strategy, our revenue could decrease and our operating results could be materially adversely affected.

A substantial customer shift in the deployment of the MicroStrategy platform from a product license model to a cloud subscription model could result in higher future rates of attrition of customers from the MicroStrategy platform and could affect the timing of revenue recognition, reduce product licenses and product support revenues, and materially adversely affect our operating results, and our ability to accelerate our cloud strategy could be negatively impacted by any inability to provide necessary sales and engineering support

We offer our analytics platform in the form of a product license or a cloud subscription. Given that it is relatively easy for customers to migrate on and off our cloud subscription platform, a substantial shift among our customers toward our cloud platform could result in higher future rates of attrition among our customers. In addition, the payment streams and revenue recognition timing for our product licenses are different from those for our cloud subscriptions. For product licenses, customers typically pay us a lump sum soon after entering into a license agreement, and we typically recognize product licenses revenue when control of the license is transferred to the customer. For cloud subscriptions, customers typically make periodic payments over the subscription period and we recognize subscription services revenues ratably over the subscription period. As a result, if a substantial number of current customers shift to, or new customers purchase, cloud subscriptions instead of product licenses, the resulting change in payment terms and revenue recognition may result in our recognizing less revenue in the reporting period in which the sale transactions are consummated than has been the case in prior periods, with more revenue being recognized in future periods. This change in the timing of revenue recognition could materially adversely affect our operating results and cash flows for the periods during which such a shift or change in purchasing occurs. Accordingly, in any particular reporting period, cloud subscription sales could negatively impact product license sales to our existing and prospective customers, which could reduce product licenses and product support revenues. Finally, our ability to accelerate our cloud strategy could be negatively impacted by any inability to provide necessary sales and sales engineering support, including the support of channel partners, our internal sales team, and digital marketing.

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 system integrators, consulting firms, resellers, solution providers, managed service providers, OEMs, and technology companies, to license and support our offerings. For the six months ended June 30, 2022, transactions by channel partners for which we recognized revenue accounted for 25.9% of our total product licenses revenues, and our ability to achieve revenue growth in the future will depend in part on our ability to maintain these relationships. Our channel partners may offer customers the products and services of several different companies, including competing offerings, and we cannot be certain that they will prioritize or devote adequate resources to selling our offerings. If we are unable to maintain our relationships with our channel partners, or if we experience a reduction in sales by our channel partners, our business, operating results, and financial condition could be materially adversely affected.

In addition, we rely on our channel partners to operate in accordance with applicable laws and regulatory requirements. If they fail to do so, we may need to incur significant costs in responding to investigations or enforcement actions or paying penalties assessed by the applicable authorities. We also rely on our channel partners to operate in accordance with the terms of their contractual agreements with us. For example, some of our agreements with our channel partners prescribe the terms and conditions pursuant to which they are authorized to resell or distribute our software and offer technical support and related services. If our channel partners do not comply with their contractual obligations to us, our business, operating results, and financial condition may be materially adversely affected.

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

Our deferred revenue and advance payments totaled \$196.6 million as of June 30, 2022. The timing and ultimate recognition of our deferred revenue and advance payments depend on various factors, including our performance of various service obligations.

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.

In addition, we had \$77.3 million of other remaining performance obligations as of June 30, 2022, consisting of the portions of multi-year contracts that will be invoiced in the future that are not reflected on our balance sheet. As with deferred revenue and advance payments, these other remaining performance obligations at any particular date may not be representative of actual revenue for any succeeding period.

We may lose sales, or sales may be delayed, due to the long sales and implementation cycles of certain of our offerings, which could materially adversely affect our revenues and operating results

The decision to purchase our offerings typically requires our customers to invest substantial time, money, personnel, and other resources, which can result in long sales cycles that can exceed nine months. These long sales cycles increase the risk that intervening events, such as the introduction of new offerings and changes in customer budgets and purchasing priorities, will affect the size, timing, and completion of an order. Even if an order is completed, the time and resources required to implement and integrate our offerings vary widely depending on customer needs and the complexity of deployment. If we lose sales or sales are delayed due to these long sales and implementation cycles, our revenues and operating results for that period may be materially adversely affected.

Our results in any particular period may depend on 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

Larger, enterprise-level transactions often require considerably more resources, are often more complex to implement, and typically require additional management approval, which may result in a lengthier, more complex, and less predictable sales cycle and may increase the risk that an order is delayed or not brought to completion. We may also encounter greater competition and pricing pressure on these larger transactions, and our sales and delivery efforts may be more costly. The presence or absence of one or more large transactions in a particular period may have a material effect on our revenues and operating results for that period and may result in lower estimated revenues and earnings in future periods. For the six months ended June 30, 2022, our top three product licenses transactions with recognized revenue totaled \$8.6 million, or 23.4% of total product licenses revenues, compared to \$8.9 million, or 20.6% of total product licenses revenues, for the six months ended June 30, 2021.

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

The analytics market is highly competitive and subject to rapidly changing technology. Within the analytics space, we compete with many different software vendors, including IBM, Microsoft, Oracle, Qlik, Salesforce, and SAP. Our future success depends on our ability to differentiate our offerings and successfully compete across analytics implementation projects of varying sizes. Our ability to compete successfully depends on a number of factors, both within and outside of our control. Some of these factors include software deployment options; analytical, mobility, data discovery, and visualization capabilities; performance and scalability; the quality and reliability of our customer service and support; and brand recognition. Failure to compete successfully in any one of these or other areas may reduce the demand for our offerings and materially adversely affect our revenue from both existing and prospective customers.

Some of our competitors have longer operating histories, more focused business strategies 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 products. In addition, many of our competitors have strong relationships with current and potential customers, extensive industry and specialized business knowledge, and corresponding proprietary technologies that they can leverage. As a result, they may be able to prevent us from penetrating new accounts or expanding existing accounts.

Increased competition may lead to price cuts, reduced gross margins, and loss of market share. The failure to compete successfully and 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 their expanded offerings and rapidly gain significant market share, which 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.

Risks Related to Our Technology and Intellectual Property

If we are unable to develop and release new offerings and software enhancements to respond to rapid technological change, new customer requirements, or evolving industry standards 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 frequent new offerings and software enhancements in response to rapid technological change, new customer requirements, and evolving industry standards. The introduction of new or enhanced offerings can quickly make existing ones obsolete. We believe our future success depends largely on our ability to continue to support popular operating systems and databases, maintain and improve our current offerings, rapidly develop new offerings and software enhancements that achieve market acceptance, maintain technological competitiveness, and meet an expanding range of customer requirements.

Analytics applications are inherently complex, and research and development can be costly and time consuming. In addition, customers may delay their purchasing decisions because they anticipate that new or enhanced versions of our offerings will soon become available or because of concerns regarding the complexity of migration or performance issues related to new offerings. 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 will achieve market acceptance. Moreover, even if our new offerings achieve market acceptance, we may experience a decline in revenues of our existing offerings that is not fully matched by the new offering's revenue. This could result in a temporary or permanent revenue shortfall and materially adversely affect our business, operating results, and financial condition.

We depend on technology licensed to us by third parties, and changes in or discontinuances of such licenses could impair our software, delay implementation of our offerings, or force us to pay higher license fees

We license third-party technologies that are incorporated into or utilized by our existing offerings. These licenses may be terminated, or we may be unable to license third-party technologies 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 technologies that we license are found to infringe intellectual property rights of others. Changes in or discontinuance of third-party licenses could lead to a material increase in our costs or to our offerings becoming inoperable or their performance being materially reduced. As a result, we may need to incur additional development costs to help ensure continued performance of our offerings, and we may experience a decreased demand for our offerings.

Changes in third-party software or systems or the emergence of new industry standards could materially adversely affect the operation of and demand for our existing software

The functionalities of our software depend in part on the ability of our software to interface with our customers' information technology ("IT") infrastructure and cloud environments, including software applications, network infrastructure, and end user devices, which are supplied to our customers by various other vendors. When new or updated versions of these third-party software or systems are introduced, or new industry standards in related fields emerge, we may be required to develop updated versions of or enhancements to our software to help ensure that it continues to effectively interoperate with our customers' IT infrastructure and cloud environments. If new or modified operating systems are introduced or new web standards and technologies or new standards in the field of database access technology emerge that are incompatible with our software, development efforts to maintain the interoperability of our software with our customers' IT infrastructure and cloud environments could require substantial capital investment and employee resources. If we are unable to update our software in a timely manner, cost-effectively, or at all, the ability of our software to perform key functions could be impaired, which may impact our customers' satisfaction with our software, potentially result in breach of warranty or other claims, and materially adversely affect demand for our software.

The nature of our software makes it particularly susceptible to undetected errors, bugs, or security vulnerabilities, which could cause problems with how the software performs and, in turn, reduce demand for our software, reduce our revenue, and lead to litigation claims against us

Despite extensive testing by us and our current and potential customers, we have in the past discovered software errors, bugs, or security vulnerabilities (including the log4j and SpringShell vulnerabilities which surfaced in December 2021 and March 2022, respectively, and affected companies worldwide) in our offerings after commercial shipments began and they may be found in future offerings or releases. This could result in lost revenue, damage to our reputation, or delays in market acceptance, which could have a material adverse effect on our business, operating results, and financial condition. We may also need to expend resources and capital to correct these defects if they occur.

Our customer agreements typically contain provisions designed to limit our exposure to product liability, warranty, and other claims. It is possible these provisions are unenforceable in certain domestic or international jurisdictions, and we may be exposed to such claims. A successful claim against us could have a material adverse effect on our business, operating results, and financial condition.

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

Unauthorized third parties may try to copy or reverse engineer portions of our software or otherwise obtain and use our intellectual property. Copyrights, patents, trademarks, trade secrets, confidentiality procedures, and contractual commitments can only provide limited protection. Any intellectual property owned by us may be invalidated, circumvented, or challenged. Any of our pending or future intellectual property applications, whether or not currently being challenged, may not be issued with the scope we seek, if at all. Moreover, amendments to and developing jurisprudence regarding U.S. and international law may affect our ability to protect our intellectual property and defend against claims of infringement. In addition, although we generally enter into confidentiality agreements with our employees and contractors, the confidential nature of our intellectual property may not be maintained. Furthermore, 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 third parties claiming we are infringing their intellectual property rights. The number of such claims may increase as we expand our offerings and branding, the number of offerings and level of competition in our industry grow, the functionality of offerings overlaps, and the volume of issued patents, patent applications, and copyright 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 or licensing agreements that we would normally find unacceptable;
- 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 or channel partners.

Additionally, while we monitor our use of third-party software, including open source software, our processes for controlling such use in our offerings may not be effective. If we fail to comply with the terms or conditions associated with third-party software that we use, if we inadvertently embed certain types of third-party software into one or more of our offerings, or if third-party software that we license is found to infringe the intellectual property rights of others, we could subject ourselves to infringement liability and be required to re-engineer our offerings, discontinue the sale of our offerings, or 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.

Risks Related to Our Operations

We face risks related to the COVID-19 pandemic that could significantly disrupt or materially adversely affect our business and operating results

The COVID-19 pandemic has had a significant adverse impact on global commercial activity and has created significant volatility in financial markets. Government recommendations and requirements are continuing to change, and we may not be able to immediately respond to, meet or enforce all required health and safety measures or other government requirements in all of our locations. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the global economy and consumer confidence. The COVID-19 pandemic could have a sustained adverse impact on economic and market conditions and trigger a period of prolonged global economic slowdown, which could decrease technology spending, adversely affect demand for our offerings, and harm our business and operating results.

Although our total revenues for the six months ended June 30, 2022 were not materially impacted by COVID-19, our revenues may be negatively impacted in future periods until the effects of the pandemic and the efforts to address it have fully subsided and the current macroeconomic environment has substantially recovered. The uncertainty related to COVID-19 may also result in increased volatility in the financial projections we use as the basis for estimates and assumptions used in our financial statements.

In light of the uncertain and rapidly evolving situation relating to COVID-19, we have taken precautionary measures intended to reduce the risk of the virus to our employees, customers, and communities in which we operate. We established flexible working arrangements for our employees, reduced business travel, and shifted certain of our customer, employee, and industry events to virtual formats. As a result of these precautionary measures, there could be a negative impact on our sales, marketing, and customer success efforts, continued delays in our sales cycles, delays in the release or delivery of new or enhanced offerings or unexpected changes to such offerings, or operational or other challenges, any of which could significantly disrupt our business and operating results. For example, our shift to creating virtual customer and industry events may not be successful, and we may not be able to showcase our products as effectively or generate the same customer interest, opportunities, and leads through virtual events as we have historically done through in-person events. Additionally, while we have not experienced any material disruptions to date, our technological systems or infrastructure may not be equipped to facilitate effective remote working arrangements or operate in compliance with all laws and regulations for our employees in the short or long term.

Considerable uncertainty still surrounds COVID-19, the evolution of its variants, its potential long-term economic effects, as well as the effectiveness of any responses taken by government authorities and businesses and of various efforts to inoculate the global population and develop effective treatments. Although we continue to actively monitor the situation and may take further actions as may be required or recommended by government authorities or as more information and public health guidance become available, we may not be able to immediately respond to, meet or enforce all required or recommended health and safety measures or other government requirements or recommendations in all of our locations, and the full extent to which COVID-19 impacts our business and operating results will depend on future developments, including the duration, spread, severity, and potential recurrence of the COVID-19 pandemic, impact on our customers and our sales cycles, our ability to generate new business leads, impact on our customer, employee, and industry events, and effect on our vendors, all of which are highly uncertain and cannot be predicted.

In addition, the effects of the COVID-19 pandemic may heighten many of the other risks described in this “Risk Factors” section.

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

A significant portion of our research and development activities or certain other critical business operations are concentrated in facilities in Northern Virginia, China, and Poland. In addition, we serve our customers and manage certain critical internal processes using a third-party data center hosting facility located in the United States and other third-party services, including AWS, Azure, and other cloud services. Any disruptions or failures of our systems or the third-party hosting facility or other services that we use, including as a result of a natural disaster, fire, cyberattack (including the potential increase in risk for such attacks due to cyberwarfare in connection with the ongoing conflict between Russia and Ukraine), act of terrorism, geopolitical conflict, pandemic (including the ongoing COVID-19 pandemic), the effects of climate change, or other catastrophic event, as well as power outages, telecommunications infrastructure outages, a decision by one of our third-party service providers to close facilities that we use without adequate notice or to materially change the pricing or terms of their services, host country restrictions on the conduct of our business operations or the availability of our offerings, or other unanticipated problems with the third-party services that we use, such as a failure to meet service standards, could severely impact our ability to conduct our business operations or to attract new customers or maintain existing customers, or result in a material weakness in our internal control over financial reporting, any of which could materially adversely affect our future operating results.

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

We receive a significant portion of our total revenues from international sales and conduct our business activities in various foreign countries, including some emerging markets where we have limited experience, where the challenges of conducting our business can be significantly different from those we have faced in more developed markets, and where business practices may create internal control risks. International revenues accounted for 38.5% and 45.1% of our total revenues for the three months ended June 30, 2022 and 2021, respectively, and 40.6% and 44.0% of our total revenues for the six months ended June 30, 2022 and 2021, respectively. Our international operations require significant management attention and financial resources and expose us to additional risks, including:

- fluctuations in foreign currency exchange rates;
- new, or changes in, regulatory requirements;
- tariffs, export and import restrictions, restrictions on foreign investments, tax laws, sanctions, laws and policies that favor local competitors (such as mandatory technology transfers), and other trade barriers or protection measures;
- compliance with a wide variety of laws, including those relating to labor matters, antitrust, procurement and contracting, consumer and data protection, privacy, data localization, governmental access to data, network security, and encryption;
- costs of localizing offerings and lack of acceptance of localized offerings;

- difficulties in and costs of staffing, managing, and operating our international operations;
- economic weakness or currency-related crises;
- generally longer payment cycles and greater difficulty in collecting accounts receivable;
- weaker intellectual property protection;
- increased risk of corporate espionage or misappropriation, theft, or misuse of intellectual property, particularly in foreign countries where we have significant software development operations that have access to product source code, such as China;
- our ability to adapt to sales practices and customer requirements in different cultures;
- natural disasters, acts of war, terrorism, or pandemics (including the ongoing COVID-19 pandemic); and
- political instability and security risks in the countries where we are doing business, including, without limitation, political and economic instability caused by the current conflict between Russia and Ukraine and economic sanctions adopted in response to the conflict.

Disruptions to trade, weakening of economic conditions, economic and legal uncertainties, or changes in currency rates may adversely affect our business, financial condition, operating results, and cash flows. For example, we may face heightened risks in connection with our international operations as a result of the withdrawal of the United Kingdom from the European Union, commonly referred to as “Brexit.” The future effects of Brexit are uncertain and will depend on the implementation of the Trade and Cooperation Agreement between the United Kingdom and the European Union and any other future agreements the United Kingdom may make to retain access to European Union markets. Brexit could, among other outcomes, disrupt the free movement of goods, services, and people between the United Kingdom and the European Union. Brexit could also lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which EU laws to replace or replicate. Recently, the United States has put in place higher tariffs and other trade restrictions and signaled that it may additionally alter trade agreements and terms between the United States and China, the European Union, Canada, and Mexico, among others, including limiting trade and/or imposing tariffs on imports from such countries. In addition, China, the European Union, Canada, and Mexico, among others, have either threatened or put into place retaliatory tariffs of their own. These tariffs and any further escalation of protectionist trade measures could adversely affect the markets in which we sell our offerings and, in turn, our business, financial condition, operating results, and cash flows. While the Biden administration has indicated that it may pursue temporary repeals of such measures, it is unclear whether and to what extent such measures will be reversed in the future or whether the Biden administration will make additional changes to U.S. trade policy that may result in further impacts on our business.

Changes to the U.S. taxation of our international income, or changes in foreign tax laws, could have a material effect on our future operating results. For example, the Tax Act led to corporate income tax rate changes, the modification or elimination of certain tax incentives, changes to the existing regime for taxing overseas earnings, and measures to prevent BEPS, and the United Kingdom adopted legislation imposing a tax related to offshore receipts in respect of intangible property held in low tax jurisdictions.

Moreover, 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. Our failure to comply with these laws and regulations has exposed, and may in the future expose, us to fines and penalties. These laws and regulations include anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act, the UK Bribery Act, local laws prohibiting corrupt payments to government officials, and local laws relating to procurement, contracting, and antitrust. These laws and regulations also include import and export requirements and economic and trade sanctions administered by the Office of Foreign Assets Control and the U.S. Department of Commerce based on U.S. foreign policy and national security goals against targeted foreign states, organizations, and individuals. Although we have implemented policies and procedures designed to help ensure compliance with these laws, our employees, channel partners, and other persons with whom we do business may take actions in violation of our policies or these laws. For example, following an internal review initiated in 2018, we believe our Brazilian subsidiary failed or likely failed to comply with local procurement regulations in conducting business with certain Brazilian government entities. Any violation of these laws could subject us to civil or administrative penalties, including substantial fines, prohibitions, or other limitations on our ability to sell our offerings 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, business, operating results, and financial condition.

We face a variety of risks in doing business with U.S. and foreign federal, 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, 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 us to incur significant up-front time and expense without any assurance that we will win a contract.

Budgetary Constraints and Cycles. Public sector funding reductions or delays adversely impact demand and payment for our offerings.

Termination of Contracts. Public sector customers often have contractual or other legal rights to terminate contracts for convenience or due to a default. If a contract is terminated for convenience, we may only be able to collect fees for software or services delivered prior to termination and settlement expenses. If a contract is terminated due to a default, we may not recover even those amounts, and we may be liable for excess costs incurred by the customer for procuring alternative software 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 typical for commercial contracts. These may include rights regarding price protection, the accuracy of information provided to the government, contractor compliance with socio-economic policies, and other terms unique to government contracts. 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 or administrative sanctions, including contract termination, forfeiture of profits, fines, and suspensions or debarment from future government business and we may suffer harm to our reputation.

Our customers also include foreign governments and government agencies. Similar procurement, budgetary, contract, and audit risks also apply to 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.

If we are unable to recruit or retain skilled personnel, or if we lose the services of Michael J. Saylor, 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 qualified employees in the technology industry has historically been high, and may be further amplified by evolving restrictions on immigration, travel, or availability of visas for skilled technology workers, including restrictions imposed in response to the COVID-19 pandemic. We may not be able to retain our current key employees or attract, train, assimilate, and retain other highly skilled personnel in the future. Our future success also depends in large part on the continued service of Michael J. Saylor, our current Chairman of the Board of Directors & Chief Executive Officer. On August 2, 2022, we announced that Mr. Saylor will transition to the new role of Executive Chairman, effective as of August 8, 2022. If we lose the services of Mr. Saylor, 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.

Changes in laws or regulations relating to privacy or the collection, processing, disclosure, storage, localization, or transmission of personal data, or any actual or perceived failure by us or our third-party service providers to comply with such laws and regulations, contractual obligations, or applicable privacy policies, could materially adversely affect our business

Aspects of our business involve collecting, processing, disclosing, storing, and transmitting personal data, which are subject to certain privacy policies, contractual obligations, and U.S. and foreign laws, regulations, and directives relating to privacy and data protection. We store a substantial amount of customer and employee data, including personal data, on our networks and other systems and the cloud environments we manage. In addition, the types of data subject to protection as personal data in the European Union, China, the United States, and elsewhere have been expanding. In recent years, the collection and use of personal data by companies have come under increased regulatory and public scrutiny, especially in relation to the collection and processing of sensitive data, such as healthcare, biometric, genetic, financial services, and children's data, precise location data, and data regarding a person's race or ethnic origins, political opinions, or religious beliefs. For example, in the United States, protected health information is subject to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), which can provide for civil and criminal penalties for noncompliance. Entities (such as us) that engage in creating, receiving, maintaining, or transmitting protected health information provided by covered entities and other business associates are subject to enforcement under HIPAA. Our access to protected health information triggers obligations to comply with certain privacy rules and data security requirements under HIPAA.

Any systems failure or security breach that results in the release of, or unauthorized access to, personal data, or any failure or perceived failure by us or our third-party service providers to comply with applicable privacy policies, contractual obligations, or any applicable laws or regulations relating to privacy or data protection, could result in proceedings against us by domestic or foreign government entities or others, including private plaintiffs in litigation. Such proceedings could result in the imposition of sanctions, fines, penalties, liabilities, government orders, and/or orders requiring that we change our data practices, any of which could have a material adverse effect on our business, operating results, reputation, and financial condition.

Various U.S. and foreign government bodies may enact new or additional laws or regulations, or issue rulings that invalidate prior laws or regulations, concerning privacy, data storage, data protection, and cross-border transfer of data that could materially adversely impact our business. In the European Union, the General Data Protection Regulation ("GDPR") took effect in May 2018. GDPR establishes requirements regarding the handling and security of personal data, requires disclosure of data breaches to individuals, customers, and data protection authorities in certain circumstances, requires companies to honor data subjects' requests relating to their personal data, permits regulators to impose fines of up to €20,000,000 or 4% of global annual revenue, whichever is higher, and establishes a private right of action. Furthermore, a new ePrivacy Regulation, regulating electronic communications, was proposed in 2017 and is under

consideration by the European Commission, the European Parliament, and the European Council. More recently, the Court of Justice of the European Union (“CJEU”) invalidated the U.S.-EU Privacy Shield in July 2020. The U.S.-EU Privacy Shield provided a mechanism to lawfully transfer personal data from the European Union to the United States and certain other countries. In the wake of the invalidation of the U.S.-EU Privacy Shield, we have transitioned to reliance on the EU Standard Contractual Clauses (“SCCs”) to lawfully transfer certain personal data from the European Union to the United States. The rules involving this alternative data transfer option are also undergoing revision and this transfer mechanism may also be declared invalid (or require us to change our business practices) in the future, requiring us to provide an alternative means of data transfer. In addition, the required terms for contracts containing SCCs along with recommended supplemental provisions are changing and may require us to assume additional obligations, otherwise inhibit or restrict our ability to undertake certain activities, or incur additional costs related to data protection.

In addition, in June 2021, the European Data Protection Board (“EDPB”) issued a new set of SCCs and formal recommendations on measures to ensure compliance with the EU data protection requirements when transferring personal data outside of the European Economic Area (the “EDPB Recommendations”). The new SCCs place obligations on us in relation to government authorities’ access requests in respect of personal data transferred under the SCCs. The EDPB Recommendations are designed to be read in tandem with the new SCCs and set out new requirements for organizations to assess third countries and identify appropriate supplementary data protection and security measures to be implemented on a case-by-case basis where needed.

The rules involving this alternative SCC data transfer option are continually undergoing revision and this transfer mechanism may also be declared invalid (or require us to change our business practices) in the future, requiring us to provide an alternative means of data transfer or implement significant changes in our data security and protection practices. In addition, the required terms for contracts containing SCCs along with recommended supplemental provisions are changing and may require us to assume additional obligations, otherwise inhibit or restrict our ability to undertake certain activities, or incur additional costs related to data protection.

Similar requirements are also coming into force in other countries. Brazil enacted the Lei Geral de Proteção de Dados (the “Brazilian General Data Protection Law”), which became effective in August 2020 and imposes requirements largely similar to GDPR on products and services offered to users in Brazil. In China, we may also be subject to the Cybersecurity Law that went into effect in June 2017 and the revision of the Personal Information Security Specification that went into effect in October 2020, which have broad but uncertain application and impose a number of new privacy and data security obligations. China also adopted new legislation on the protection of privacy and personal data in November 2021, including the Personal Information Protection Law and Data Security Law that impose new data processing obligations on us. Under these new regulations, if an entity operating in China violates the law, regulators may order it to take corrective actions, issue warnings, confiscate illegal income, suspend services, revoke operating permits or business licenses, or issue a fine. The fine can be up to ¥50 million or 5 percent of an organization’s annual revenue for the prior financial year. Other countries are considering new or expanded laws governing privacy and data security that may impact our business practices. These developments, including in China, may impact our activities with our customers, other MicroStrategy entities and vendors, and require us to take appropriate steps in light of data transfers between the U.S. and the EU (and the UK), as well as transfers and onward transfers of personal data from the EU to other non-EU countries.

The state of California has also adopted a comprehensive privacy law, the California Consumer Privacy Act (“CCPA”), which took effect in January 2020 and became enforceable in July 2020. We may be required to devote substantial resources to implement and maintain compliance with the CCPA, and noncompliance could result in regulatory investigations and fines or private litigation. Moreover, in November 2020, California voters approved a privacy law, the California Privacy Rights Act (“CPRA”), which amends the CCPA to create privacy rights and obligations in California. Virginia and Colorado have passed laws similar to the CCPA and several other states are considering bills similar to the CCPA or other generally applicable privacy laws that may impose additional costs and obligations on us.

Furthermore, the U.S. Congress is considering comprehensive privacy legislation. At this time, it is unclear whether Congress will pass such a law and if so, when and what it will require and prohibit. Moreover, it is not clear whether any such legislation would give the Federal Trade Commission (“FTC”) any new authority to impose civil penalties for violations of the Federal Trade Commission Act in the first instance, whether Congress will grant the FTC rulemaking authority over privacy and information security, or whether Congress will vest some or all privacy and data security regulatory authority and enforcement power in a new agency, akin to EU data protection authorities.

Complying with these and other changing requirements could cause us or our customers to incur substantial costs or pay substantial fines or penalties, require us to change our business practices, require us to take on more onerous obligations in our contracts, or limit our ability to provide certain offerings in certain jurisdictions, any of which could materially adversely affect our business and operating results. New laws or regulations restricting or limiting the collection or use of mobile data could also reduce demand for certain of our offerings or require changes to our business practices, which could materially adversely affect our business and operating results.

If we or our third-party service providers experience a disruption due to a cybersecurity attack or security breach and unauthorized parties obtain access to our customers', prospects', vendors', or channel partners' data, our data, our networks or other systems, or the cloud environments we manage, 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 and financial liabilities, and our business could be materially adversely affected

As part of our business, we process, store, and transmit our customers', prospects', vendors', and channel partners' data as well as our own, including in our networks and other systems and the cloud environments we manage. Security breaches may occur due to technological error, computer viruses, or third-party action, including intentional misconduct by computer hackers or state actors, physical break-ins, industrial espionage, fraudulent inducement of employees, customers, or channel partners to disclose sensitive information such as user names or passwords, and employee, customer, or channel partner error or malfeasance. A security breach could result in unauthorized access to or disclosure, modification, misuse, loss, or destruction of our customers', prospects', vendors', or channel partners' data, our data (including our proprietary information, intellectual property, or trade secrets), our networks or other systems, or the cloud environments we manage. Third parties may also conduct attacks designed to prevent access to critical data or systems through ransomware or temporarily deny customers access to our cloud environments.

We, and our service providers, may experience and have experienced attempts by third parties to identify and exploit software and service vulnerabilities, penetrate or bypass our security measures, and gain unauthorized access to our or our customers' or service providers' cloud environments, networks, and other systems. Security measures that we or our third-party service providers have implemented may not be effective against all current or future security threats, including any potential threats from the exploitation of the log4j or SpringShell vulnerabilities. Because there are many different security breach techniques and such techniques continue to evolve, we may be unable to anticipate, detect, or mitigate attempted security breaches and implement adequate preventative measures.

Any security breach, ransomware attack, 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, reduce the demand for our offerings, disrupt our normal business operations, require us to spend material resources to investigate or correct the breach, require us to notify affected customers or individuals and/or applicable regulators and others, provide identity theft protection services to individuals, expose us to legal liabilities, including litigation, regulatory enforcement, and indemnity obligations, and materially adversely affect our revenues and operating results. Our software operates in conjunction with and is dependent on third-party products and components across a broad ecosystem. If there is a security vulnerability in one of these products or components, and if there is a security exploit targeting it, we could face increased costs, liability claims, customer dissatisfaction, reduced revenue, or harm to our reputation or competitive position.

These risks will increase as we continue to grow the number and scale of our cloud subscriptions and process, store, and transmit increasingly large amounts of our customers', prospects', vendors', channel partners', and our own data. In particular, in connection with the COVID-19 pandemic, there has been an increase in cyberattacks and other malicious activities as remote working conditions have led businesses to increasingly rely on virtual environments and communication systems.

Our having entered into indemnification agreements with Michael J. Saylor, our Chairman of the Board of Directors & Chief Executive Officer, to supplement our conventional director and officer liability insurance provided by third-party insurance carriers could negatively affect our business and the market price of our class A common stock

Due to market trends toward higher premiums and the novelty of our bitcoin acquisition strategy, we have been unable to obtain our desired coverage level for director and officer liability insurance on acceptable terms, and in lieu of such insurance from June 2021 through June 2022, and as a supplement to commercial carrier coverage we were able to obtain beginning in June 2022, we have entered into indemnification agreements with Michael J. Saylor, our Chairman of the Board of Directors & Chief Executive Officer, pursuant to which Mr. Saylor has agreed to personally indemnify our directors and officers with respect to claims and expenses substantially similar to those typically covered under conventional director and officer insurance policies, for which we agreed to pay Mr. Saylor applicable fees. Our having entered into such indemnification agreements with Mr. Saylor could have adverse effects on our business, including making it more difficult to attract and retain qualified directors and officers due to the unconventional nature of the arrangement and potential concerns that the indemnification arrangement might not provide the same level of protection that might otherwise be provided by coverage obtained entirely through conventional director and officer insurance. In addition, our indemnity arrangements with Mr. Saylor may result in some investors perceiving that our independent directors are not sufficiently independent from Mr. Saylor due to their entitlement to personal indemnification from him, which may have an adverse effect on the market price of our class A common stock.

Risks Related to Our Class A Common Stock

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 has historically been volatile and this volatility has been significant in recent periods. Since August 11, 2020, the date on which we announced our initial purchase of bitcoin, the closing price of our class A common stock has increased from \$123.62 as of August 10, 2020, the last trading day before our announcement, to \$275.74 as of August 1, 2022. 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:

- fluctuations in the price of bitcoin, of which we have significant holdings, and in which we expect we will continue to make significant purchases and announcements about our transactions in bitcoin;
- changes to our bitcoin acquisition strategy;
- announcement of additional capital raising transactions;
- regulatory, commercial and technical developments related to bitcoin or the bitcoin blockchain;
- 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;
- our ability to develop, market, and deliver new and enhanced offerings on a timely basis;
- commencement of, or our involvement in, litigation;
- recommendations by securities analysts or changes in earnings estimates and our ability to meet those estimates;
- investor perception of our Company;
- 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; and
- general economic conditions and slow or negative growth of related markets, including as a result of the COVID-19 pandemic.

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

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 us, or limit the ability of our other stockholders 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 July 26, 2022, holders of our class B common stock owned 1,964,025 shares of class B common stock, or 67.8% of the total voting power. As of July 26, 2022, Mr. Saylor, our Chairman of the Board of Directors & Chief Executive Officer, beneficially owned 1,961,668 shares of class B common stock, or 67.7% of the total voting power. Accordingly, Mr. Saylor can 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 holding a majority of the outstanding class B common stock. Mr. Saylor 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 could also 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.

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

Because we qualify as a "controlled company" under Nasdaq corporate governance rules, we are not required to have independent directors comprise a majority of our Board of 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 are also 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. On August 2, 2022, we announced that Mr. Saylor will transition to the new role of Executive Chairman and Mr. Le was appointed Chief Executive officer, each effective as of August 8, 2022. The Compensation Committee determines the compensation of our Chief Executive Officer and will also determine the compensation of our Executive Chairman. However, our Board of Directors has authorized our Chief Executive Officer to determine the compensation of executive officers other than himself and the Executive Chairman, except that certain performance-based executive officer compensation is determined by the Compensation Committee. Awards made to directors and officers subject to Section 16 of the Exchange Act under the 2013 Equity Plan are also approved by the Compensation Committee. Additionally, while our Compensation Committee is empowered with the authority to retain and terminate outside counsel, compensation consultants, and other experts or consultants, it is not required to assess their independence.

Although currently a majority of our Board of Directors is comprised of independent directors and the Compensation Committee is comprised entirely of independent directors, we may elect in the future not to have independent directors constitute a majority of the Board of Directors or the Compensation Committee, our Chief Executive Officer's compensation determined by a compensation committee of independent directors, or 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 Nasdaq corporate governance rules. 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.

Future sales, or the perception of future sales, of our class A common stock, convertible debt instruments or other convertible securities could depress the price of our class A common stock

We may issue and sell additional shares of class A common stock, convertible notes, or other securities in subsequent offerings to raise capital or issue shares for other purposes, including in connection with the acquisition of additional bitcoin. We cannot predict:

- the size of future issuances of equity securities;
- the size and terms of future issuances of convertible debt instruments or other convertible securities; or
- the effect, if any, that future issuances and sales of our securities will have on the market price of our class A common stock.

Transactions involving newly issued class A common stock, convertible debt instruments, or other convertible securities could result in possibly substantial dilution to holders of our class A common stock.

Our amended and restated by-laws provide that the Court of Chancery of the State of Delaware (or, if the Court of Chancery of the State of Delaware does not have jurisdiction, then any other state court located in the State of Delaware, or if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware) is the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for such disputes with us or our directors, officers or employees

Our amended and restated by-laws provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if the Court of Chancery of the State of Delaware does not have jurisdiction, then any other state court located in the State of Delaware, or if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware) shall, to the fullest extent permitted by law, be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer, other employee or stockholder of the Company to the Company or the Company's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the General Corporation Law of the State of Delaware or the Company's certificate of incorporation or by-laws (in each case, as they may be amended from time to time), or (iv) any action asserting a claim governed by the internal affairs doctrine. This exclusive forum provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act, which provides for exclusive jurisdiction of the federal courts. It could apply, however, to a suit that falls within one or more of the categories enumerated in the choice of forum provision and asserts claims under the Securities Act, inasmuch as Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. There is uncertainty as to whether a court would enforce such provision

with respect to claims under the Securities Act, and our stockholders will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder.

The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated by-laws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions.

Risks Related to Our Outstanding and Potential Future Indebtedness

Our level and terms of indebtedness could adversely affect our ability to raise additional capital to further execute on our bitcoin acquisition strategy, fund our enterprise analytics software operations, and take advantage of new business opportunities

As of June 30, 2022, we had \$1.7 billion aggregate principal amount of indebtedness under the Convertible Notes, \$500.0 million aggregate principal amount of indebtedness under the 2028 Secured Notes, \$205.0 million of outstanding borrowings under the 2025 Secured Term Loan, and \$11.1 million of other long-term indebtedness.

Our substantial indebtedness and interest expense could have important consequences to us, including:

- limiting our ability to use a substantial portion of our cash flow from operations in other areas of our business, including for acquisition of additional bitcoin, working capital, research and development, expanding our infrastructure, capital expenditures, and other general business activities and investment opportunities in our company, because we must dedicate a substantial portion of these funds to pay interest on and/or service our debt;
- limiting our ability to obtain additional financing in the future for acquisition of additional bitcoin, working capital, capital expenditures, debt service, acquisitions, execution of our strategy, and other expenses or investments planned by us;
- limiting our flexibility and our ability to capitalize on business opportunities and to react to competitive pressures and adverse changes in government regulation, our business, and our industry;
- increasing our vulnerability to a downturn in our business and to adverse economic and industry conditions generally;
- placing us at a competitive disadvantage as compared to our competitors that are less leveraged; and
- limiting our ability, or increasing the costs, to refinance indebtedness.

We may be unable to service our indebtedness, which could cause us to default on our debt obligations and could force us into bankruptcy or liquidation

Our ability to make scheduled payments on and to refinance our indebtedness depends on and is subject to our financial and operating performance, which is influenced, in part, by general economic, financial, competitive, legislative, regulatory, counterparty business, and other risks that are beyond our control, including the availability of financing in the U.S. banking and capital markets. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital, or restructure or refinance our indebtedness. We cannot assure you that future borrowings will be available to us in an amount sufficient to enable us to service our indebtedness, to refinance our indebtedness, or to fund our other liquidity needs. Even if refinancing indebtedness is available, any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants that could further restrict our business operations. In addition, our bitcoin acquisition strategy anticipates that we may issue additional debt in future periods to finance additional purchases of bitcoin, but if we are unable to generate sufficient cash flow to service our debt and make necessary capital expenditures, we may be required to sell bitcoin. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations or our financial covenants, which could cause us to default on our debt obligations. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness.

In the event of an event of default under any of our indebtedness, the holders of the defaulted indebtedness could elect to declare all the funds borrowed to be due and payable, together with accrued and unpaid interest and, in the case of our 2028 Secured Notes, enforce their security interests on substantially all of our assets and the assets of our subsidiary guarantors, including any bitcoins or other digital assets acquired on or after the closing of our sale of the 2028 Secured Notes, but excluding our bitcoin acquired prior to that date ("Prior Bitcoins"), as well as bitcoins and digital assets acquired with the proceeds from the sale of Prior Bitcoins and bitcoins acquired from proceeds of debt secured by Prior Bitcoins. Similarly, in the event of an event of default under the Credit and Security Agreement, the lender thereunder could elect to declare all outstanding loan principal under the 2025 Secured Term Loan to be due and payable, together with accrued and unpaid interest, and enforce its security interest on the \$5.0 million cash reserve account and the bitcoin held in the account securing the borrowings under the Credit and Security Agreement. Any of these events could in turn result in cross-defaults

under our other indebtedness. We may not have sufficient funds available to pay the amounts due upon any such default, particularly in the event that there has been a decrease in the market value of our bitcoin holdings, and we may not be able to raise additional funds to pay such amounts on a timely basis, on terms we find acceptable, or at all. Any financing that we may undertake under such circumstances could result in substantial dilution of our existing stockholders, and in the absence of being able to obtain such financing, we could be forced into bankruptcy or liquidation.

The indenture governing our 2028 Secured Notes imposes significant operating and financial restrictions on us and certain restricted subsidiaries of ours, which may prevent us from capitalizing on business opportunities

The indenture governing our 2028 Secured Notes imposes significant operating and financial restrictions on us and certain designated restricted subsidiaries of ours. These restrictions limit our ability, and the ability of such restricted subsidiaries, to, among other things:

- incur or guarantee additional debt or issue disqualified stock or certain preferred stock;
- create or incur liens;
- pay dividends, redeem stock, or make certain other distributions;
- make certain investments;
- create restrictions on the ability of our restricted subsidiaries to pay dividends to us or make other intercompany transfers;
- transfer or sell assets;
- merge or consolidate; and
- enter into certain transactions with affiliates.

As a result of these restrictions, we are limited as to how we conduct our business and we may be unable to raise additional indebtedness or conduct equity financing to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness we may incur could include more restrictive covenants. We cannot assure you that we will be able to maintain compliance with these covenants in the future and, if we fail to do so, that we will be able to obtain waivers from the lenders or amend the covenants.

Our failure to comply with the restrictive covenants described above, as well as other terms of our indebtedness or the terms of any future indebtedness from time to time could result in an event of default, which, if not cured or waived, could result in our being required to repay these borrowings before their due date and/or face insolvency proceedings. If we are forced to refinance these borrowings on less favorable terms or cannot refinance these borrowings, our results of operations and financial condition could be adversely affected.

We may be required to repay the 2028 Secured Notes prior to their stated maturity date, if the springing maturity feature is triggered

The 2028 Secured Notes have a stated maturity date of June 15, 2028, but include a springing maturity feature that will cause the stated maturity date to spring ahead to the date that is 91 days prior to the existing maturity date of the 2025 Convertible Notes (which is September 15, 2025), the 2027 Convertible Notes (which is November 16, 2026), or the maturity date of any future convertible debt that we may issue that is then outstanding, unless on such dates we meet specified liquidity requirements or less than \$100,000,000 of aggregate principal amount of the 2025 Convertible Notes, the 2027 Convertible Notes, or such future convertible debt, as applicable, remains outstanding. If such springing maturity feature is triggered, we will be required to pay all amounts outstanding under the 2028 Secured Notes sooner than they would otherwise be due, we may not have sufficient funds available to pay such amounts at that time, and we may not be able to raise additional funds to pay such amounts on a timely basis, on terms we find acceptable, or at all.

Our MacroStrategy subsidiary has no independent operations other than holding bitcoin and financing activities and will depend on cash contributions from us and/or sales of bitcoin to meet its obligations under the Credit and Security Agreement under which the 2025 Secured Term Loan was issued

Our MacroStrategy subsidiary primarily holds bitcoin, a \$5.0 million cash reserve account held as collateral for the 2025 Secured Term Loan, and certain cash proceeds retained from the 2025 Secured Term Loan. As of June 30, 2022, MacroStrategy had no operations other than purchasing and holding bitcoin and those related to the administration and repayment of the loan principal outstanding and interest due under the Credit and Security Agreement. MacroStrategy's principal sources of funds to make payments pursuant to the Credit and Security Agreement are capital contributions, loans or other cash payments from us, which may be restricted by the covenants governing the 2028 Secured Notes, and sales of bitcoin, which in turn may be restricted due to the requirement in the Credit and Security Agreement requiring MacroStrategy to maintain the LTV Ratio at or below 50%. Accordingly, MacroStrategy may not have sufficient funds available to pay amounts due under the Credit and Security Agreement when they become due, and MacroStrategy and we may not be able to raise additional funds to pay such amounts on a timely basis, on terms we find acceptable, or at all.

MacroStrategy has contributed and may in the future be required to contribute additional bitcoin to the collateral package securing the Credit and Security Agreement or repay certain amounts outstanding thereunder prior to its stated maturity date, if the value of bitcoin declines

The Credit and Security Agreement has a stated maturity date of March 23, 2025, but includes a requirement that MacroStrategy maintain a LTV Ratio of 50% or less, which amounts to at least \$410.0 million worth of bitcoin being required to be held in the account securing the borrowings under the Credit and Security Agreement based on the loan principal outstanding as of June 30, 2022. If the price of bitcoin drops such that the LTV Ratio exceeds the Maximum LTV Ratio of 50%, MacroStrategy is required to either deposit additional bitcoin into such account or prepay a portion of the outstanding borrowings under the Credit and Security Agreement such that the LTV Ratio is reduced to 25% or less (or 35% or less, provided that in such case the interest rate on the outstanding borrowings will be increased by 25 basis points until such time as the LTV Ratio is reduced to 25% or less). In June 2022, as the price of bitcoin declined causing the LTV Ratio to increase, MacroStrategy deposited 10,585 additional bitcoins into the account securing the borrowing under the Credit and Security Agreement to help ensure that the LTV Ratio remained below the Maximum LTV Ratio. If the LTV Ratio exceeds 50% at any time prior to the maturity date of the Credit and Security Agreement, MacroStrategy may be required to repay some of the principal outstanding under the Credit and Security Agreement sooner than such amounts would otherwise be due, MacroStrategy may not have sufficient funds available to pay such amounts at that time or the ability to sell bitcoin to generate additional funds, and MacroStrategy and we may not be able to raise additional funds to pay such amounts on a timely basis, on terms we find acceptable, or at all.

We may not be able to finance required repurchases of the 2028 Secured Notes or the Convertible Notes upon a change of control or a fundamental change or the repayment of amounts due under the 2025 Secured Term Loan upon a change of control

Upon a change of control or a fundamental change as defined in the indentures governing the 2028 Secured Notes and the Convertible Notes, the holders of such notes will have the right to require us to offer to purchase all of the applicable notes then outstanding at a price equal to 101% of the principal amount of the 2028 Secured Notes and 100% of the principal amount of the Convertible Notes, respectively, plus, in each case, accrued and unpaid interest, if any, to, but excluding, the repurchase date. In order to obtain sufficient funds to pay the purchase price of such notes, we expect that we would have to refinance the notes and we may not be able to refinance the notes on reasonable terms, if at all. Our failure to offer to purchase all applicable notes or to purchase all validly tendered notes would be an event of default under the indentures governing the 2028 Secured Notes and the Convertible Notes.

If a change of control or a fundamental change occurs, we may not have enough assets to satisfy all obligations under the indentures governing the 2028 Secured Notes and the Convertible Notes. Upon the occurrence of a change of control or a fundamental change we could seek to refinance the indebtedness under the 2028 Secured Notes or the Convertible Notes or obtain a waiver from the applicable note holders. However, we may not be able to obtain a waiver or refinance the applicable notes on commercially reasonable terms, if at all. Moreover, the exercise by holders of the 2028 Secured Notes or the Convertible Notes of their right to require us to repurchase such notes could cause a default under future debt agreements, even if the change of control or fundamental change itself does not, due to the financial effect of such repurchase on us.

Similarly, the Credit and Security Agreement under which the 2025 Secured Term Loan was issued includes customary change-of-control provisions, providing the lender with a right to declare all outstanding loan principal to be immediately due and payable, together with accrued and unpaid interest, in connection with a change of control (as such term is defined therein), including the sale of all or substantially all of our or MacroStrategy's assets. In order to obtain sufficient funds to repay the amounts due under the Credit and Security Agreement, we expect that we or MacroStrategy would need to refinance the amount due and may not be able to do so on reasonable terms, if at all.

We may not have the ability to raise the funds necessary to settle for cash conversions of the Convertible Notes

Upon conversion of the 2025 Convertible Notes or the 2027 Convertible Notes, unless we elect (or have previously irrevocably elected) to deliver solely shares of our class A common stock to settle such conversion of such Convertible Notes (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the applicable Convertible Notes being converted as described in the applicable indenture. However, we may not have enough available cash or be able to obtain financing at the time we are required to pay cash with respect to such notes being converted. In addition, our ability to pay cash upon conversions of the Convertible Notes may be limited by law, regulatory authority, the covenants contained in the indenture governing the 2028 Secured Notes, or agreements governing any future indebtedness. Our failure to pay any cash payable on future conversions of the Convertible Notes as required by the respective indentures would constitute a default under the indenture for that series of Convertible Notes and could also lead to a default under the indenture for the other series of Convertible Notes or the 2028 Secured Notes. A default under any indenture could also lead to a default under agreements governing any future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness.

The conditional conversion feature of the Convertible Notes, if triggered, may adversely affect our financial condition and operating results

In the event the conditional conversion feature of either the 2025 Convertible Notes or the 2027 Convertible Notes is triggered, holders of the applicable Convertible Notes will be entitled to convert such notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our class A common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the applicable Convertible Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

We rely on the receipt of funds from our subsidiaries in order to meet our cash needs and service our indebtedness, including the 2028 Secured Notes and the Convertible Notes, and certain of our subsidiaries holding digital assets may not provide any dividends, distributions, or other payments to us to fund our obligations and meet our cash needs

We depend on dividends, distributions, and other payments from our subsidiaries to fund our obligations, including those arising under the 2028 Secured Notes and the Convertible Notes, and meet our cash needs. The operating results of our subsidiaries at any given time may not be sufficient to make dividends, distributions, or other payments to us in order to allow us to make payments on the 2028 Secured Notes and the Convertible Notes. Our MacroStrategy LLC subsidiary that holds the bitcoin that we owned prior to the issuance of the 2028 Secured Notes and the bitcoin that we acquired from the proceeds of the sale of our class A shares pursuant to open market sales agreements is not obligated to provide and may in the future be prohibited from providing any dividends, distributions, or other payments to us to fund our obligations and meet our cash needs. MacroStrategy LLC holds approximately 115,110 bitcoins that as of June 30, 2022 had a carrying value of \$1.731 billion on our Consolidated Balance Sheet, representing 67.4% of our consolidated total assets at such date. As of June 30, 2022, approximately 30,051 bitcoins are pledged as collateral under the Credit and Security Agreement under which the 2025 Secured Term Loan was issued. In addition, dividends, distributions, or other payments, as well as other transfers of assets, between our subsidiaries and from our subsidiaries to us may be subject to legal, regulatory, or contractual restrictions, which may materially adversely affect our ability to transfer cash within our consolidated companies and our ability to meet our cash needs and service our indebtedness.

Despite our current level of indebtedness, we may be able to incur substantially more indebtedness and enter into other transactions in the future which could further exacerbate the risks related to our indebtedness

Although the indenture governing our 2028 Secured Notes contains, and future debt instruments may contain, restrictions on the incurrence of additional indebtedness and entering into certain types of other transactions, these restrictions are subject to a number of qualifications and exceptions and we may be able to incur significant additional indebtedness in the future. For example, these restrictions do not prevent us from incurring obligations, such as certain trade payables and operating leases, that do not constitute indebtedness as defined under our debt instruments. To the extent we incur additional indebtedness or other obligations, the risks described herein with respect to our indebtedness may increase significantly.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three and six months ended June 30, 2022, we did not repurchase any equity securities registered by us pursuant to Section 12 of the Exchange Act. See Note 6, Treasury Stock, to the Consolidated Financial Statements in “Part I. Item 1. Financial Statements” for further information regarding our Share Repurchase Program.

Item 5. Other Information

Earnings Release

On August 2, 2022, we issued a press release announcing the Company’s financial results for the quarter ended June 30, 2022. A copy of this press release is attached as Exhibit 99.1 to this Quarterly Report. The information regarding this press release in this Item 5 (including Exhibit 99.1) shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such a filing.

MicroStrategy Announces Separation of Chairman and CEO Roles

Transition of Chief Executive Officer to the Office of Executive Chairman

On July 28, 2022, the Board of Directors (the “Board”) of MicroStrategy Incorporated (the “Company”) approved Michael J. Saylor’s transition from the position of Chief Executive Officer to the newly created office of Executive Chairman, effective as of August 8, 2022 (the “Transition Date”). In assuming this new role, Mr. Saylor will remain Chairman of the Board and an executive officer of the Company.

Appointment of New Chief Executive Officer

On July 28, 2022, the Board appointed Phong Le as the Company's Chief Executive Officer, effective as of the Transition Date. In assuming this role, Mr. Le will retain his current position as President of the Company and serve as the Company's principal executive officer.

For Mr. Le's biographical information, see the disclosure included under the heading "Executive Officers of the Company" on page 7 of [the Company's definitive proxy statement for the 2022 annual meeting of stockholders filed with the Securities and Exchange Commission on April 14, 2022](#), which disclosure is incorporated herein by reference.

In connection with his appointment as Chief Executive Officer and effective as of the Transition Date, Mr. Le's annual base salary will be increased to \$1,000,000 and his annual discretionary cash bonus target for 2022 will be increased to \$800,000, in each case prorated from the Transition Date. An award pursuant to the foregoing discretionary cash bonus target will be determined by the Compensation Committee based on a subjective evaluation of Mr. Le's performance in the context of general economic and industry conditions and Company performance during the year. The Company also expects that the Compensation Committee will grant Mr. Le an option to purchase 60,000 shares of class A common stock under the Company's 2013 Stock Incentive Plan.

Election of Director

On July 28, 2022, the Board elected Mr. Le to serve as a member of the Board, effective as of the Transition Date. Mr. Le has not been appointed to serve on any committee of the Board and will not receive any compensation for his service as a member of the Board.

Item 6. Exhibits

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	<u>Second Restated Certificate of Incorporation of the registrant (incorporated herein by reference to Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2003 (File No. 000-24435)).</u>
3.2	<u>Amended and Restated By-Laws of the registrant (incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed with the SEC on January 30, 2015 (File No. 000-24435)).</u>
4.1	<u>Form of Certificate of Class A Common Stock of the registrant (incorporated herein by reference to Exhibit 4.1 to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2003 (File No. 000-24435)).</u>
4.2	<u>Indenture, dated as of December 11, 2020, by and between the registrant and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on December 11, 2020 (File No. 000-24435)).</u>
4.3	<u>Form of 0.750% Convertible Senior Note due 2025 (included within Exhibit 4.2 incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on December 11, 2020 (File No. 000-24435)).</u>
4.4	<u>Indenture, dated as of February 19, 2021, by and between the registrant and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on February 19, 2021 (File No. 000-24435)).</u>
4.5	<u>Form of 0% Convertible Senior Note due 2027 (included within Exhibit 4.4 incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on February 19, 2021 (File No. 000-24435)).</u>
4.6	<u>Indenture, dated as of June 14, 2021, by and among the registrant, as issuer, MicroStrategy Services Corporation, as a guarantor, and U.S. Bank National Association, as trustee and notes collateral agent (incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on June 14, 2021 (File No. 000-24435)).</u>
4.7	<u>Form of 6.125% Senior Secured Note due 2028 (included within Exhibit 4.6 incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on June 14, 2021 (File No. 000-24435)).</u>
10.1†	Form of International Restricted Stock Unit Agreement.
10.2†	Form of Argentina Restricted Stock Unit Agreement.
10.3†	Form of China Restricted Stock Unit Agreement.
10.4†	Indemnification Agreement, effective as of June 12, 2022, by and between the registrant and Michael J. Saylor.
10.5†*	Indemnification Agreement (Tail Agreement), effective as of June 24, 2022, by and between the registrant and Michael J. Saylor.
10.6†*	Indemnification Agreement (Excess Agreement), effective as of June 24, 2022, by and between the registrant and Michael J. Saylor.
10.7	Letter Agreement, dated as of July 7, 2022, by and between MacroStrategy LLC, as borrower, and Silvergate Bank, as lender.
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Principal Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Principal 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.
99.1	Press release, dated August 2, 2022, regarding the Company's financial results for the quarter ended June 30, 2022.
101.INS	Inline XBRL Instance Document. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase.

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase.

104 Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

† Management contracts and compensatory plans or arrangements.

* Portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MICROSTRATEGY INCORPORATED

By: /s/ Andrew Kang
Andrew Kang
Senior Executive Vice President & Chief Financial Officer

By: /s/ Jeanine Montgomery
Jeanine Montgomery
Senior Vice President & Chief Accounting Officer

Date: August 2, 2022

Exhibit 10.1**MICROSTRATEGY INCORPORATED****Restricted Stock Unit Agreement
Granted Under 2013 Stock Incentive Plan**

MicroStrategy Incorporated, a Delaware corporation (the “Company”), hereby grants the following restricted stock units pursuant to its 2013 Stock Incentive Plan. The terms and conditions attached hereto are also a part hereof.

Notice of Grant

Name of recipient (the “ <u>Participant</u> ”):	
Grant Date:	
Number of restricted stock units (“ <u>RSUs</u> ”) granted:	
Number, if any, of RSUs that vest immediately on the Grant Date:	
RSUs that are subject to vesting schedule:	
Vesting Start Date:	

Vesting Schedule:

<u>Vesting Date:</u>	<u>Number of RSUs that Vest:</u>
25% of the RSUs	One-year anniversary of the Vesting Start Date
25% of the RSUs	Two-year anniversary of the Vesting Start Date
25% of the RSUs	Three-year anniversary of the Vesting Start Date
25% of the RSUs	Four-year anniversary of the Vesting Start Date
All vesting is dependent on the Participant remaining an Eligible Participant, as provided herein, and is subject to Section 3(b) below. The Participant shall be an “ <u>Eligible Participant</u> ” if he or she is an employee, director or officer of, or consultant or advisor to, any entity included in the definition of the Company in the Plan (each, a “ <u>Specified Company</u> ”).	

This grant of RSUs satisfies in full all commitments that the Company has to the Participant with respect to the issuance of stock, stock options or other equity securities.

MICROSTRATEGY INCORPORATED

By: _____

Name:

Title:

MICROSTRATEGY INCORPORATED

Restricted Stock Unit Agreement Incorporated Terms and Conditions

1. Award of Restricted Stock Units. In consideration of services rendered and to be rendered to the Company by the Participant, the Company has granted to the Participant, subject to the terms and conditions set forth in this Restricted Stock Unit Agreement (this “Agreement”) and in the Company’s 2013 Stock Incentive Plan, as amended (the “Plan”), an award with respect to the number of RSUs set forth in the Notice of Grant that forms part of this Agreement (the “Notice of Grant”). Each RSU represents the right to receive one share of class A common stock, \$0.001 par value per share, of the Company (the “Common Stock”) upon vesting of the RSU, subject to the terms and conditions set forth herein. To accept this award, the Participant must accept this Agreement within six (6) months of the Grant Date. If this Agreement is not accepted within six (6) months of the Grant Date, the Company’s offer to grant RSUs under this Agreement will be withdrawn and cease to be in effect and the Participant shall have no rights to any RSUs under this Agreement.

2. Definitions.

(a) “Adverse Event” shall mean the occurrence of (x) any material diminution in the Participant’s authority, duties, responsibility, or base compensation, or (y) the requirement by the Company that the Participant be principally located at a place of business that is more than 50 miles from the place of business where the Participant was principally located immediately prior to the Change in Control Event (as defined in paragraph 2(c) below).

(b) “Cause” shall mean willful misconduct by the Participant or willful failure by the Participant to perform his or her responsibilities to any Specified Company, (including, without limitation, breach by the Participant of any provision of any employment, consulting, advisory, nondisclosure, non-competition or other similar agreement between the Participant and any Specified Company), as determined by the Company, which determination shall be conclusive. Notwithstanding the foregoing, if the Participant is party to an employment, consulting or severance agreement with a Specified Company that contains a definition of “cause” for termination of employment or other relationship as an Eligible Participant, “Cause” shall have the meaning ascribed to such term in such agreement. The Participant’s employment or other relationship as an Eligible Participant shall be considered to have been terminated for “Cause” if the Company determines no later than 30 days after the Participant’s termination of employment or other relationship as an Eligible Participant, that termination for Cause was warranted.

(c) A “Change in Control Event” shall mean any of the following, provided that such event constitutes a “change in control event” within the meaning of Section 409A of the Code:

(i) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership of any capital stock of the Company after the date hereof if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 under the Exchange Act) 50% or more of the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control Event: (I) any acquisition directly from the Company (excluding an acquisition pursuant to the exercise, conversion or exchange of any security exercisable for, convertible into or exchangeable for Common Stock, class B common stock, par value \$0.001 per share of the Company (“Class B Common Stock”) or other voting securities of the Company, unless the Person exercising, converting or exchanging

such security acquired such security directly from the Company or an underwriter or agent of the Company), (II) any acquisition by any corporation pursuant to a Business Combination (as defined in paragraph 2(b)(iii) below) which complies with clauses (x) and (y) of subsection (iii) of this definition, (III) any transfer by Michael J. Saylor or any of his affiliates (within the meaning of Rule 12b-2 of the Exchange Act) (the “MS Affiliates”) to Michael J. Saylor or any MS Affiliate or (IV) any acquisition by Michael J. Saylor or any MS Affiliate not pursuant to a Business Combination, except for an acquisition that results in any of the effects described in paragraph (a)(3)(ii)(B) of Rule 13e-3 under the Exchange Act (or any successor provision) with respect to the Common Stock; or

(ii) on any date after Michael J. Saylor and the MS Affiliates cease to own in the aggregate more than 50% of the combined voting power of the Outstanding Company Voting Securities (the “Applicable Date”), there is a change in the composition of the board of the Company (the “Board”) that results in the Continuing Directors (as defined below) no longer constituting a majority of the Board (or, if applicable, the board of directors of a successor corporation to the Company), where the term “Continuing Director” means at any date a member of the Board (x) who was a member of the Board on the date immediately prior to the Applicable Date or (y) who was nominated or elected subsequent to the Applicable Date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (y) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board; or

(iii) the consummation of a merger, consolidation, reorganization, recapitalization or share exchange involving the Company or a sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (x) all or substantially all of the individuals and entities who were the beneficial owners of the outstanding shares of the Common Stock and Class B Common Stock and any other Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns the Company or substantially all of the Company’s assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the “Acquiring Corporation”) in substantially the same proportions as their ownership of the Common Stock, Class B Common Stock and such other Outstanding Company Voting Securities, respectively, immediately prior to such Business Combination and (y) no Person (excluding Michael J. Saylor or any MS Affiliate, any employee benefit plan (or related trust) maintained or sponsored by the Company or by the Acquiring Corporation or any Person who beneficially owned, directly or indirectly, 50% or more of the combined voting power of the Outstanding Company Voting Securities prior to the Business Combination) beneficially owns, directly or indirectly, 50% or more of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors; provided, however, that for the avoidance of doubt, the consummation of any Business Combination that results in any of the effects described in paragraph (a)(3)(ii)(B) of Rule 13e-3 under the Exchange Act (or any successor provision) with respect to the Common Stock shall be deemed not to satisfy the condition set forth in clause (x).

(d) “Good Reason” shall mean the occurrence of an Adverse Event, in each case, after the Change in Control Event. Notwithstanding the foregoing, an Adverse Event shall not be deemed to constitute Good Reason unless (i) the Participant gives the Company or the Acquiring Corporation, as

applicable, notice of termination of employment or other relationship as an Eligible Participant no more than 90 days after the initial occurrence of the Adverse Event, (ii) such Adverse Event has not been fully corrected and the Participant has not been reasonably compensated for any losses or damages resulting therefrom within 30 days of the Company's or the Acquiring Corporation's receipt of such notice and (iii) the Participant's termination of employment or other relationship as an Eligible Participant occurs within six (6) months following the Company's or the Acquiring Corporation's receipt of such notice.

3. Vesting.

(a) The RSUs shall vest in accordance with the Vesting Schedule set forth in the Notice of Grant (the "Vesting Schedule"). Any fractional shares resulting from the application of any percentages used in the Vesting Schedule shall be rounded down to the nearest whole number of RSUs. Upon each Vesting Date (or, if applicable, an earlier vesting date pursuant to Section 3(b) below, which, in such event, shall also be hereinafter referred to as the "Vesting Date"), the Company shall settle the vested portion of the RSUs and shall therefore, subject to the payment of any taxes pursuant to Section 8(b), (i) issue and deliver to the Participant one share of Common Stock for each RSU that vests on such Vesting Date (the "RSU Shares") and (ii) enter the Participant's name as a shareholder of record with respect to the RSU Shares on the books of the Company. Alternatively, the Board may, in its sole discretion, elect to pay cash or part cash and part RSU Shares in lieu of settling the RSUs that vest on such Vesting Date solely in RSU Shares (such discretion of the Board to settle in cash shall not apply to a Participant who is subject to Canadian tax, whose shares must be settled in previously unissued shares). If a cash payment is made in lieu of delivering RSU Shares, the amount of such payment shall be equal to the Fair Market Value (as defined in the Plan) of the RSU Shares as of the Vesting Date less an amount equal to any federal, state, local and other taxes of any kind required to be withheld with respect to the vesting of the RSUs. The RSU Shares or any cash payment in lieu of RSU Shares will be delivered to the Participant as soon as practicable following each Vesting Date, but in any event within 30 days of such date.

(b) Notwithstanding the provisions of Section 9(b) of the Plan or Section 3(a) above, in the event of a Change in Control Event:

(i) If the Change in Control Event also constitutes a Reorganization Event (as defined in the Plan) and the RSUs are not assumed, or substantially equivalent RSUs substituted, by the Acquiring Corporation, these RSUs shall automatically become vested in full immediately prior to such Change in Control Event; and

(ii) If otherwise, these RSUs shall continue to vest in accordance with the Vesting Schedule; provided, however, that these RSUs shall immediately become vested in full if, on or prior to the first anniversary of the date of the consummation of the Change in Control Event, the Participant's employment or other relationship as an Eligible Participant with the Company or the Acquiring Corporation is terminated for Good Reason by the Participant or is terminated without Cause by the Company or the Acquiring Corporation.

4. Forfeiture of Unvested RSUs Upon Cessation of Service. In the event that the Participant ceases to be an Eligible Participant for any reason or no reason, with or without Cause, including in the case of resignation or dismissal with or without Cause, all of the RSUs that are unvested as of the time of such cessation shall be forfeited immediately and automatically to the Company, without the payment of any consideration to the Participant, effective as of such cessation and the Participant will not be entitled to any compensation in relation to any unvested RSUs. The Participant shall have no further rights with respect to the unvested RSUs or any Common Stock that may have been issuable with respect thereto.

5. Restrictions on Transfer. The Participant shall not sell, assign, transfer, pledge, hypothecate, encumber or otherwise dispose of, by operation of law or otherwise (collectively “transfer”) any RSUs, or any interest therein. The Company shall not be required to treat as the owner of any RSUs or issue any Common Stock or make any cash payment, to any transferee to whom such RSUs have been transferred in violation of any of the provisions of this Agreement.

6. Rights as a Stockholder. The Participant shall have no rights as a stockholder of the Company with respect to any shares of Common Stock that may be issuable with respect to the RSUs until the issuance of the shares of Common Stock to the Participant following the vesting of the RSUs.

7. Provisions of the Plan. This Agreement is subject to the provisions of the Plan, a copy of which is furnished to the Participant with this Agreement. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Plan.

8. Tax Matters.

(a) Acknowledgments; No Section 83(b) Election. The Participant acknowledges that he or she is responsible for obtaining the advice of the Participant’s own tax advisors with respect to the award of RSUs and the Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents with respect to the tax consequences relating to the RSUs. The Participant understands that the Participant (and not the Company) shall be responsible for the Participant’s tax liability that may arise in connection with the acquisition, vesting and/or disposition of the RSUs. The Participant acknowledges that no election under Section 83(b) of the Internal Revenue Code of 1986, as amended, (the “Code”) is available with respect to RSUs.

(b) Withholding. The Participant acknowledges and agrees that the Company has the right to deduct from payments of any kind otherwise due to the Participant any federal, state, local or other taxes or social security contributions of any kind required by law to be withheld with respect to the vesting of the RSUs or otherwise in connection with the RSUs. On each Vesting Date (or other date or time at which the Company is required to withhold taxes or social security contributions associated with the RSUs), the Company will retain from the RSU Shares otherwise issuable on such date a number of shares of Common Stock having a Fair Market Value equal to the Company’s minimum statutory withholding obligation with respect to such taxable event. If the Company is unable to retain sufficient shares of Common Stock to satisfy such tax withholding obligation, the Participant acknowledges and agrees that the Company or an affiliate of the Company shall be entitled to immediate payment from the Participant of the amount of any tax required to be withheld by the Company. The Company shall not deliver any RSU Shares to the Participant until it is satisfied that all required withholdings have been made.

(c) Australian Participants. Subdivision 83A-C of the Australian Income Tax Assessment Act 1997 (the “Australian Income Tax Act”) applies to the Plan and this Agreement in relation to RSUs awarded to Participants who are subject to Australian taxes (subject to the requirement of the Australian Income Tax Act).

9. Miscellaneous.

(a) Section 409A. The RSUs awarded pursuant to this Agreement are intended to be exempt from or comply with the requirements of Section 409A of the Code and the Treasury Regulations issued thereunder (“Section 409A”). The delivery of RSU Shares on the vesting of the RSUs may not be accelerated or deferred to dates or events other than those set forth herein, unless permitted or required by Section 409A.

(b) Participant's Acknowledgements. The Participant acknowledges that he or she: (i) has read this Agreement; (ii) has been represented in the preparation, negotiation and execution of this Agreement by legal counsel of the Participant's own choice or has voluntarily declined to seek such counsel; (iii) understands the terms and consequences of this Agreement; (iv) can read and understand English and does not require this Agreement, the Plan or any related documentation to be translated into any other language; (v) is fully aware of the legal and binding effect of this Agreement; and (vi) agrees that in accepting this award, he or she will be bound by any clawback policy that the Company may adopt in the future. Neither the Company nor any employee of the MicroStrategy group can advise the Participant on whether the Participant should participate in the Plan or accept the grant of the RSUs, or provide the Participant with any legal, tax or financial advice with respect to the grant of RSUs. To accept this award, the Participant acknowledges that they must accept this Agreement within six (6) months of the Grant Date. If this Agreement is not accepted within six (6) months of the Grant Date, the Company's offer to grant RSUs under this Agreement will be withdrawn and cease to be in effect and the Participant shall have no rights to any RSUs under this Agreement.

(c) No Compensation. In no circumstances shall the Participant, on ceasing to hold employment or office with his or her employer, be entitled to any compensation for any loss of any right or benefit or prospective right or benefit under the Plan or this Agreement which he or she might otherwise have enjoyed, whether such compensation is claimed by way of damages for wrongful dismissal or other breach of contract or by way of compensation for loss of office or otherwise.

(d) Severance Pay. The grant of the RSUs (including any cash payment made in lieu of RSU Shares) and the Plan shall be disregarded for the purposes of calculating any end-of-service severance or other termination payment, to the extent such end-of-service severance or termination payment is due to the Participant.

10. Data Privacy.

(a) Personal Information. In connection with this Agreement and the grant of RSUs, the Company may collect, process, use and/or disclose personal information about the Participant. Any such information will be collected, processed, used and/or disclosed in accordance with the Privacy Policy provided to the Participant and available from the Company's legal department (the "Privacy Policy"). In relation to Participants who reside in Poland, Italy, Germany, Spain or France, the processing of personal information in order to implement, administer, and manage the Plan is justified by reasons other than consent, as explained in the Privacy Policy. Participants who reside in Argentina, the United Arab Emirates, Republic of Korea, Japan and Singapore hereby give explicit consent to the collection, processing, use and/or disclosure of any such personal information. Participants who reside in Australia hereby give consent to the collection, processing, use and/or disclosure of their Tax File Number in order to implement, administer, and manage the Plan, for the purposes of the Privacy Act 1988 (Cth).

(b) Transfer of Personal Information. In connection with this Agreement and the grant of RSUs, the Company may transfer any personal information referred to in Section 10(a) above outside, or within the country in which the Participant works or is employed, including, with respect to non-U.S. resident Participants, to the United States of America, to transferees as described in the Privacy Policy. In relation to Participants who reside in Poland, Italy, Germany, Spain or France, the transfer of personal information in order to implement, administer, and manage the Plan is justified by reasons other than consent, as explained in the Privacy Policy. Participants who reside in Argentina, Singapore, Japan or the United Arab Emirates hereby give explicit consent to the transfer of any such personal information. Participants who reside in Singapore may object to the collection, use, disclosure, processing or transfer of personal information by notifying the general counsel of the Company in writing, but understand that such objection may impair his or her ability to participate in the Plan. Participants who reside in Australia hereby

give consent to the transfer of their Tax File Number to entities in the United States of America. Where participants are based in Brazil, for the purposes of the transfer, the Company is relying on Article 33, IV of the Brazilian General Data Protection Act (Law n. 13,709/2018)

The terms and conditions of this Agreement have been accepted by:

###PARTICIPANT_NAME###

Dated: ###ACCEPTANCE_DATE###

MICROSTRATEGY INCORPORATED

Contrato de Unidades de Acciones Restringidas
Otorgado en virtud del Plan de Incentivo basado en Acciones 2013

MicroStrategy Incorporated, una sociedad constituida en Delaware (la “Compañía”), por el presente otorga las siguientes unidades de acciones restringidas en el marco del Plan de Incentivo basado en Acciones 2013. Los términos y condiciones que se adjuntan forman parte integral del presente.

Aviso de Otorgamiento

Nombre del beneficiario (el “ <u>Participante</u> ”):	
Fecha de Otorgamiento:	
Número de unidades de acciones restringidas (“ <u>RSU</u> ”, por sus siglas en inglés) otorgadas:	
Número de RSU, de corresponder, que se perfeccionan en la Fecha de Otorgamiento:	
RSU sujetas a un cronograma de perfeccionamiento:	
Fecha de Inicio del Perfeccionamiento:	

Cronograma de Perfeccionamiento:

<u>Fecha de Perfeccionamiento:</u>	<u>Número de RSU a perfeccionar:</u>
25% de las RSU	Primer aniversario de la Fecha de Inicio del Perfeccionamiento
25% de las RSU	Segundo aniversario de la Fecha de Inicio del Perfeccionamiento
25% de las RSU	Tercer aniversario de la Fecha de Inicio del Perfeccionamiento
25% de las RSU	Cuarto aniversario de la Fecha de Inicio del Perfeccionamiento
El perfeccionamiento depende de que el Participante siga siendo un Participante Admisible, conforme a lo dispuesto en el presente y está sujeto al Artículo 3(b). Se considera que el Participante es un “ <u>Participante Admisible</u> ” en tanto sea empleado, director, funcionario, consultor o asesor de alguna entidad incluida en la definición de la Compañía en el Plan (cada una de ellas, una “ <u>Compañía Especificada</u> ”).	

Este otorgamiento de RSU cumple cabalmente con todos los compromisos que la Compañía tiene hacia el Participante con respecto a la emisión de acciones, opciones de compra de acciones u otros títulos de capital.

MICROSTRATEGY INCORPORATED

Por:

Aclaración:

Cargo:

MICROSTRATEGY INCORPORATED

Contrato de Unidades de Acciones Restringidas Términos y Condiciones Incorporados

1. Otorgamiento de Unidades de Acciones Restringidas. Como contraprestación por los servicios brindados y a brindar por el Participante a la Compañía, la Compañía ha otorgado al Participante, sujeto a los términos y condiciones estipulados en este Contrato de Unidades de Acciones Restringidas (este “Contrato”) y en el Plan de Incentivo basado en Acciones 2013 de la Compañía, en su versión vigente (el “Plan”), una asignación con respecto al número de RSU estipulado en el Aviso de Otorgamiento que forma parte de este Contrato (el “Aviso de Otorgamiento”). Cada RSU representa el derecho a recibir una acción ordinaria clase A, por un valor nominal de \$0,001 cada una, de la Compañía (las “Acciones Ordinarias”) al producirse el perfeccionamiento de las RSU, sujeto a los términos y condiciones del presente. Para aceptar esta asignación, el Participante debe aceptar este Contrato dentro de los seis (6) meses de la Fecha de Otorgamiento. Si este Contrato no es aceptado dentro de los seis (6) meses de la Fecha de Otorgamiento, la oferta de la Compañía de otorgar RSU en virtud de este Contrato será revocada y quedará sin efecto y el Participante no tendrá derechos en ninguna RSU en virtud de este Contrato.

2. Definiciones.

(a) “Acontecimiento Adverso” significa (x) toda disminución significativa en las atribuciones, deberes, responsabilidades o remuneración básica del Participante, o (y) el hecho de que la Compañía le exija al Participante que desempeñe sus funciones principalmente en un establecimiento situado a más de 80 Km del establecimiento en el que el Participante desempeñaba principalmente sus funciones con anterioridad inmediata al Supuesto de Cambio de Control (según se define en el inciso 2(c) a continuación).

(b) “Causa” significa un acto ilícito intencional o la omisión intencional del Participante de cumplir con sus responsabilidades hacia cualquier Compañía Especificada (lo que incluye, sin carácter limitativo, el incumplimiento del Participante de cualquier cláusula de un contrato de empleo, consultoría, asesoramiento, confidencialidad, no competencia o contrato similar celebrado entre el Participante y cualquier Compañía Especificada), conforme a lo determinado por la Compañía, cuya determinación tendrá carácter concluyente. Sin perjuicio de lo antedicho, si el Participante es parte de algún contrato de empleo, consultoría o cesantía con una Compañía Especificada que contenga una definición de “causa” de la finalización de la relación laboral u otra relación como Participante Admisible, el término “Causa” tendrá el significado que se le asigna en dicho contrato. Se considerará que la relación laboral u otra relación del Participante como Participante Admisible ha finalizado con “Causa” si la Compañía determina, a más tardar, 30 días después de finalizada la relación laboral u otra relación del Participante como Participante Admisible, que la finalización con Causa estaba justificada.

(c) “Supuesto de Cambio de Control” significa cualquiera de los siguientes acontecimientos, en tanto cada uno de ellos constituya un “supuesto de cambio de control” dentro del significado que se le asigna en el Artículo 409A del Código:

(i) la adquisición por parte de un individuo, entidad o grupo (dentro del significado que se le asigna en el Artículo 13(d)(3) o 14(d)(2) de la Ley del Mercado de Valores de 1934, en su versión vigente (la “Ley del Mercado”)) (una “Persona”) de una participación beneficiaria en el capital de la Compañía después de la fecha del presente si, posteriormente a dicha adquisición, esa Persona adquiere la titularidad beneficiaria (dentro del significado que se le asigna en la Regla 13d-3 de la Ley del Mercado) del 50% o más del poder de voto combinado de los títulos de la Compañía que estén en circulación en ese entonces y tengan derecho a votar en términos generales en la elección de directores (los

“Títulos con Derecho a Voto de la Compañía en Circulación”); quedando establecido, sin embargo, que a los efectos de este inciso (i), las siguientes adquisiciones no constituirán un Supuesto de Cambio de Control: (I) cualquier adquisición realizada directamente a la Compañía (a exclusión de una adquisición en el marco del ejercicio, la conversión o el intercambio de algún título ejercible, convertible o intercambiable por Acciones Ordinarias Clase B, por un valor nominal de \$0,001 cada una de la Compañía (“Acciones Ordinarias Clase B”)) u otros títulos con derecho a voto de la Compañía, a menos que la Persona que ejerza, convierta o intercambie dichos títulos los haya adquirido directamente a la Compañía o a un colocador o agente de la Compañía), (II) cualquier adquisición por parte de una compañía en el marco de una Combinación de Negocios (según se define en el inciso 2(b)(iii) a continuación) que cumpla con las cláusulas (x) y (y) del inciso (iii) de esta definición, (III) cualquier transferencia efectuada por Michael J. Saylor o cualquiera de sus afiliadas (dentro del significado que se le asigna en la Regla 12b-2 de la Ley del Mercado) (las “Afiliadas de MS”) a favor de Michael J. Saylor o de cualquier Afiliada de MS o (IV) cualquier adquisición por parte de Michael J. Saylor o cualquier Afiliada de MS fuera del marco de una Combinación de Negocios, salvo por una adquisición que dé lugar a los efectos descritos en el inciso (a)(3)(ii)(B) de la Regla 13e-3 de la Ley del Mercado (o cualquier disposición que la reemplace) con respecto a las Acciones Ordinarias; o

(ii) en cualquier fecha posterior a que Michael J. Saylor y las Afiliadas de MS dejen de tener la titularidad, en total, de más del 50% del poder de voto combinado de los Títulos con Derecho a Voto de la Compañía en Circulación (la “Fecha Aplicable”), se suscite un cambio en la composición del directorio de la Compañía (el “Directorio”) a raíz del cual los Directores Permanentes (según se define a continuación) dejen de constituir una mayoría en el Directorio (o, de corresponder, en el directorio de una sociedad sucesora de la Compañía), donde el término “Director Permanente” significa, en cualquier fecha, un miembro del Directorio (x) que era miembro del Directorio en la fecha inmediatamente anterior a la Fecha Aplicable o (y) que fuera designado o electo después de la Fecha Aplicable por, al menos, una mayoría de los directores que eran Directores Permanentes al momento de tal designación o elección o cuya elección para integrar el Directorio hubiese sido recomendada o avalada por, al menos, una mayoría de directores que eran Directores Permanentes al momento de tal designación o elección; quedando establecido, sin embargo, que quedan excluidos de esta cláusula (y) todos aquellos individuos que hubiesen asumido inicialmente sus funciones como resultado de una contienda electoral real o potencial para elegir o destituir directores u otra solicitud real o potencial de poderes o consentimientos, por o en nombre de una persona distinta al Directorio; o

(iii) la consumación de una fusión propiamente dicha o fusión por absorción, reorganización, recapitalización o canje de acciones que involucre a la Compañía o una venta u otra enajenación de todos o sustancialmente todos los activos de la Compañía (una “Combinación de Negocios”), a menos que, inmediatamente después de dicha Combinación de Negocios, se cumplan cada una de las siguientes dos condiciones: (x) todos o sustancialmente todos los individuos y las entidades que eran titulares beneficiarios de las Acciones Ordinarias y Acciones Ordinarias Clase B en circulación y cualesquiera otros Títulos con Derecho a Voto de la Compañía en Circulación con anterioridad inmediata a dicha Combinación de Negocios sean titulares beneficiarios, directa o indirectamente, de más del 50% del poder de voto combinado de los títulos en circulación en ese entonces que tengan derecho a votar, en términos generales, para elegir directores, respectivamente, de la sociedad resultante o adquiriente en dicha Combinación de Negocios (incluyendo, sin carácter limitativo, una sociedad que, como consecuencia de dicha transacción, pase a tener la titularidad de la Compañía o de sustancialmente todos los activos de la Compañía de manera directa o a través de una o más subsidiarias) (en lo sucesivo, se hará referencia a dicha sociedad resultante o adquiriente como la “Sociedad Adquiriente”) en sustancialmente las mismas proporciones de titularidad que las Acciones Ordinarias, Acciones Ordinarias Clase B y dichos otros Títulos con Derecho a Voto de la Compañía en Circulación, respectivamente, con anterioridad inmediata a dicha Combinación de Negocios y (y) ninguna Persona (excluyendo a Michael J. Saylor o cualquier Afiliada de MS, plan de beneficios para los empleados (o su respectivo fideicomiso) mantenido o patrocinado por la

Compañía o por la Sociedad Adquiriente, o por cualquier Persona que fuera titular beneficiaria, directa o indirectamente, del 50% o más del poder de voto combinado de los Títulos con Derecho a Voto de la Compañía en Circulación antes de la Combinación de Negocios) posea la titularidad beneficiaria, directa o indirectamente, del 50% o más del poder de voto combinado de los títulos de dicha sociedad que estén en circulación ese entonces y tengan derecho a votar en general para elegir directores; quedando establecido, sin embargo, para evitar dudas, que se considerará que la consumación de una Combinación de Negocios que surta cualesquiera efectos descriptos en el inciso (a)(3)(ii)(B) de la Regla 13e-3 de la Ley del Mercado (o cualquier disposición que la reemplace) con respecto a las Acciones Ordinarias no cumple con la condición estipulada en la cláusula (x).

(d) “Motivo Suficiente” significa el acaecimiento de un Acontecimiento Adverso, en cada caso, después del Supuesto de Cambio de Control. Sin perjuicio de lo antedicho, no se considerará que un Acontecimiento Adverso constituye Motivo Suficiente, a menos que (i) el Participante le dé a la Compañía o a la Sociedad Adquiriente, según corresponda, una notificación de finalización de la relación laboral u otra relación como Participante Admisible, a más tardar, 90 días después del acaecimiento inicial del Acontecimiento Adverso, (ii) dicho Acontecimiento Adverso no haya sido rectificado por completo y el Participante no haya sido razonablemente compensado por las pérdidas o daños resultantes del mismo dentro de los 30 días posteriores a la recepción de dicha notificación por parte de la Compañía o la Sociedad Adquiriente, y (iii) la finalización de la relación laboral u otra relación del Participante a título de Participante Admisible tenga lugar a los seis (6) meses de que la Compañía o Sociedad Adquiriente hubiesen recibido tal notificación.

3. Perfeccionamiento.

(a) Las RSU se perfeccionarán de acuerdo con el Cronograma de Perfeccionamiento estipulado en el Aviso de Otorgamiento (el “Cronograma de Perfeccionamiento”). Toda fracción de una acción que resulte de aplicar los porcentajes utilizados en el Cronograma de Perfeccionamiento se redondeará al número entero de RSU más cercano. En cada Fecha de Perfeccionamiento (o, de corresponder, en una fecha de perfeccionamiento anterior conforme al Artículo 3(b), a la cual, en ese caso, también se la denominará “Fecha de Perfeccionamiento”), la Compañía liquidará la parte perfeccionada de las RSU y deberá, por lo tanto, sujeto al pago de cualesquiera impuestos en virtud del Artículo 8(b), (i) emitir y entregar al Participante una Acción Ordinaria por cada RSU que se perfeccione en dicha Fecha de Perfeccionamiento (las “Participaciones de RSU”) y (ii) anotar el nombre del Participante como accionista registrado con respecto a las Participaciones de RSU en los libros de la Compañía. En su defecto, el Directorio podrá, a su entero criterio, optar por liquidar las RSU que se perfeccionan en esa Fecha de Perfeccionamiento en efectivo o parte en efectivo y parte con Participaciones de RSU en lugar de hacerlo enteramente con Participaciones de RSU (dicha decisión discrecional del Directorio de efectuar la liquidación en efectivo no es aplicable a Participantes que estén sujetos al impuesto canadiense, cuyas acciones deben ser liquidadas con acciones no emitidas previamente). Si se realiza un pago en efectivo en lugar de entregar las Participaciones de RSU, el monto de ese pago será equivalente al Valor Razonable de Mercado (según se define en el Plan) de las Participaciones de RSU a la Fecha de Perfeccionamiento, menos un monto equivalente a cualesquiera impuestos federales, estatales, locales y otros impuestos de cualquier índole que corresponda retener en razón del perfeccionamiento de las RSU. Las Participaciones de RSU o cualquier pago en efectivo en lugar de con Participaciones de RSU serán entregados al Participante, tan pronto como sea posible después de cada Fecha de Perfeccionamiento, pero, a todo evento, dentro de los 30 días de dicha fecha.

(b) Sin perjuicio de las disposiciones del Artículo 9(b) del Plan o del Artículo 3(a) precedente, ante un Supuesto de Cambio de Control:

(i) si el Supuesto de Cambio de Control también constituye un Supuesto de Reorganización (según se define en el Plan) y la Sociedad Adquiriente no asume las RSU o no las reemplaza por RSU sustancialmente equivalentes, estas RSU se perfeccionarán automáticamente en su totalidad, con anterioridad inmediata a dicho Supuesto de Cambio de Control; y

(ii) de lo contrario, estas RSU se seguirán perfeccionando de acuerdo con el Cronograma de Perfeccionamiento; quedando establecido, sin embargo, que estas RSU se perfeccionarán inmediatamente en su totalidad si, en o antes del primer aniversario de la fecha de consumación del Supuesto de Cambio de Control, la relación laboral u otra relación del Participante a título de Participante Admisible con la Compañía o la Sociedad Adquiriente finaliza con Motivo Suficiente a instancias del Participante, o sin Causa a instancias de la Compañía o la Sociedad Adquiriente.

4. Pérdida de derechos en RSU no perfeccionadas por cese de servicios. En el supuesto de que el Participante deje de ser un Participante Admisible por cualquier motivo o sin motivo, con o sin Causa, incluso en el caso de renuncia o despido con o sin Causa, se perderán de manera automática e inmediata los derechos en RSU que no se hubiesen perfeccionado a la fecha de cese en favor de la Compañía, sin mediar el pago de contraprestación alguna al Participante, con efecto a partir del cese y el Participante no tendrá derecho a indemnización alguna por las RSU no perfeccionadas. El Participante no tendrá otros derechos en las RSU no perfeccionadas o en cualesquiera Acciones Ordinarias que puedan haberse emitido con respecto a las mismas.

5. Restricciones a la transferencia. El Participante no podrá vender, ceder, transferir, preñar, hipotecar, constituir gravámenes en, o bien enajenar, por mandato de la ley o de otro modo (en conjunto, una “transferencia”) las RSU o cualquier derecho en las mismas. La Compañía no estará obligada a tratar con carácter de propietario de cualesquiera RSU, emitir Acciones Ordinarias o efectuar pagos en efectivo a cualquier cesionario a quien se le hayan transferido dichas RSU en contravención de las cláusulas de este Contrato.

6. Derechos como accionista. El Participante no tendrá derechos como accionista de la Compañía con respecto a cualesquiera Acciones Ordinarias que puedan emitirse con relación a las RSU hasta el momento en que se emitan Acciones Ordinarias a nombre del Participante, después del perfeccionamiento de las RSU.

7. Disposiciones del Plan. Este Contrato está sujeto a las disposiciones del Plan, cuya copia se entrega al Participante junto con este Contrato. Los términos en mayúsculas utilizados en el presente y que no estén definidos de otro modo tendrán los significados que se les asignan en el Plan.

8. Cuestiones impositivas.

(a) Manifestaciones; ausencia de elección bajo el Artículo 83(b). El Participante manifiesta ser responsable de obtener el asesoramiento de sus propios asesores impositivos con respecto a la asignación de RSU y el Participante se basa exclusivamente en las opiniones de dichos asesores y no en las afirmaciones o declaraciones de la Compañía o cualquiera de sus agentes con respecto a las consecuencias impositivas asociadas a las RSU. El Participante entiende que el Participante (y no la Compañía) será responsable de las obligaciones impositivas en cabeza del Participante que puedan surgir en el marco de la adquisición, el perfeccionamiento y/o la disposición de las RSU. El Participante manifiesta que no existe elección disponible en virtud del Artículo 83(b) del Código de Rentas Internas de 1986, en su versión vigente (el “Código”) con respecto a las RSU.

(b) Retenciones. El Participante manifiesta y acepta que la Compañía tiene derecho a deducir de pagos de cualquier naturaleza adeudados al Participante todo impuesto federal, estatal, local o de otra índole o aportes a la seguridad social de cualquier tipo que la ley exija retener en el marco del perfeccionamiento de las RSU o con relación a las RSU. En cada Fecha de Perfeccionamiento (o bien en otra fecha u otro momento en que la Compañía esté obligada a retener impuestos o aportes a la seguridad social relacionados con las RSU), la Compañía retendrá de las Participaciones de RSU que habrían de emitirse en esa fecha un número de Acciones Ordinarias por un Valor Razonable de Mercado equivalente a la obligación de retención mínima de la Compañía que impone la ley con respecto a dicho hecho imponible. Si la Compañía no puede retener suficientes Acciones Ordinarias para cumplir con dicha obligación de retención de impuestos, el Participante manifiesta y acepta que la Compañía o una afiliada de la Compañía tendrá derecho a un pago inmediato del Participante por el monto de todo impuesto que la Compañía esté obligada a retener. La Compañía no entregará Participaciones de RSU al Participante hasta cerciorarse de que se hayan efectuado todas las retenciones necesarias.

(c) Participantes australianos. El inciso 83A-C de la Ley Australiana de Determinación del Impuesto a las Ganancias de 1997 (la “Ley Australiana del Impuesto a las Ganancias”) es aplicable al Plan y a este Contrato con respecto a RSU asignadas a Participantes sujetos a impuestos australianos (con sujeción a los requisitos de la Ley del Impuesto a las Ganancias de Australia).

9. Disposiciones varias.

(a) Artículo 409A. Las RSU asignadas en virtud de este Contrato están concebidas para estar exentas de o para cumplir con los requisitos del Artículo 409A del Código y las Reglamentaciones del Tesoro emitidas en virtud del mismo (“Artículo 409A”). La entrega de Participaciones de RSU al producirse el perfeccionamiento de las RSU no puede adelantarse o diferirse a fechas o hechos distintos a los aquí estipulados, salvo en la medida de lo permitido o exigido por el Artículo 409A.

(b) Manifestaciones del Participante. El Participante manifiesta que: (i) ha leído este Contrato; (ii) ha estado representado en la preparación, negociación y celebración de este Contrato por el asesor legal elegido por el Participante o ha rechazado voluntariamente dicha representación legal; (iii) comprende los términos y las consecuencias de este Contrato; (iv) puede leer y entender el idioma inglés y no necesita que este Contrato, el Plan o cualquier documentación relacionada sean traducidos a otro idioma; (v) está plenamente al tanto del efecto legal y vinculante de este Contrato; y (vi) acuerda que, al aceptar esta asignación, quedará obligado por cualquier política de recuperación (*clawback*) que la Compañía pueda adoptar en el futuro. Ni la Compañía ni ningún empleado del grupo MicroStrategy pueden aconsejar al Participante si participar o no en el Plan o aceptar el otorgamiento de las RSU, o brindarle al Participante ningún tipo de asesoramiento legal, impositivo o financiero respecto al otorgamiento de las RSU. A efectos de aceptar esta asignación, el Participante manifiesta que debe aceptar este Contrato dentro de los seis (6) meses de la Fecha de Otorgamiento. Si este Contrato no es aceptado dentro de los seis (6) meses de la Fecha de Otorgamiento, la oferta de la Compañía de otorgar RSU en virtud de este Contrato será revocada y dejará de surtir efecto y el Participante no tendrá derechos en ninguna RSU en virtud de este Contrato.

(c) Ausencia de indemnización. Al producirse el cese de la relación laboral o el cese en el cargo con su empleador, el Participante no tendrá derecho, bajo ninguna circunstancia, a indemnización por la pérdida de cualquier derecho o beneficio o del futuro derecho o beneficio en virtud del Plan o este Contrato que de lo contrario le habría correspondido recibir, sea que dicha indemnización se reclame en concepto de daños y perjuicios por despido improcedente u otro incumplimiento contractual, por cesación en el cargo o por otro concepto.

(d) Indemnización por desvinculación. El otorgamiento de las RSU (incluyendo cualquier pago en efectivo realizado en lugar de las Acciones RSU) y el Plan no se tendrán en cuenta a los

efectos de calcular toda indemnización por desvinculación u otro pago por finalización de la relación laboral, en la medida en que al Participante le corresponda recibir dicha indemnización por desvinculación o pago por finalización de la relación laboral.

10. Privacidad de los datos.

(a) Información personal. En el marco de este Contrato y del otorgamiento de RSU, la Compañía podrá obtener, procesar, usar y/o revelar información personal sobre el Participante. MicroStrategy Brasil Ltda. Sucursal Argentina compartirá sus Datos Personales con la Compañía para el cumplimiento de los fines establecidos en este Contrato. Dicha información se obtendrá, procesará, utilizará y/o revelará con arreglo a la Política de Privacidad informada al Participante y disponible a través del departamento de asuntos legales de la Compañía (la “Política de Privacidad”). En lo que respecta a Participantes que residen en Polonia, Italia, Alemania, España o Francia, el procesamiento de información personal para implementar, administrar y gestionar el Plan está justificado por razones distintas al consentimiento, tal como se explica en la Política de Privacidad. Los Participantes que residen en Argentina, los Emiratos Árabes Unidos, República de Corea, Japón y Singapur por el presente prestan su consentimiento explícito para la obtención, el procesamiento, el uso y/o la divulgación de dicha información personal. Los Participantes que residen en Australia por el presente prestan su consentimiento para que se obtenga, procese, use y/o divulgue su número de identificación tributaria (*Tax File Number*) con el fin de implementar, administrar y gestionar el Plan, a los efectos de la Ley de Privacidad de 1988 (Cth).

(b) Transferencia de Información Personal. En el marco de este Contrato y del otorgamiento de RSU, la Compañía puede transferir cualquier información personal a la que se hace referencia en el Artículo 10(a) precedente fuera o dentro del país en el que el Participante trabaje o esté empleado, incluso, con respecto a Participantes no residentes de EE. UU., a Estados Unidos, a cesionarios según lo descrito en la Política de Privacidad. En lo que respecta a Participantes que residen en Polonia, Italia, Alemania, España o Francia, la transferencia de información personal para implementar, administrar y gestionar el Plan está justificada por razones distintas al consentimiento, tal como se explica en la Política de Privacidad. Los Participantes que residen en Argentina, Singapur, Japón o los Emiratos Árabes Unidos por el presente prestan su consentimiento explícito para la transferencia de dicha información personal. Los Participantes que residen en Singapur pueden oponerse a la obtención, uso, divulgación, procesamiento o transferencia de información personal, notificando por escrito al asesor general de la Compañía, pero entienden que dicha objeción puede menoscabar su capacidad de participar en el Plan. Los Participantes que residen en Australia por el presente prestan su consentimiento para que se transfiera número de identificación tributaria (*Tax File Number*) a entidades en Estados Unidos de América. Cuando los Participantes tengan su sede en Brasil, a los efectos de la transferencia, la Compañía se basa en el capítulo IV, artículo 33, de la Ley General de Protección de Datos de Brasil (Ley n. 13.709/2018).

Los términos y condiciones de este Contrato han sido aceptados por:

###NOMBRE_PARTICIPANTE###

Fecha: ###FECHA _ACEPTACIÓN###

Exhibit 10.3**MICROSTRATEGY INCORPORATED****Restricted Stock Unit Agreement
Granted Under 2013 Stock Incentive Plan**

MicroStrategy Incorporated, a Delaware corporation (the “Company”), hereby grants the following restricted stock units pursuant to its 2013 Stock Incentive Plan. The terms and conditions attached hereto are also a part hereof.

Notice of Grant

Name of recipient (the “ <u>Participant</u> ”):	
Grant Date:	
Number of restricted stock units (“ <u>RSUs</u> ”) granted:	
Number, if any, of RSUs that vest immediately on the Grant Date:	
RSUs that are subject to vesting schedule:	
Vesting Start Date:	

Vesting Schedule:

<u>Vesting Date:</u>	<u>Number of RSUs that Vest:</u>
25% of the RSUs	One-year anniversary of the Vesting Start Date
25% of the RSUs	Two-year anniversary of the Vesting Start Date
25% of the RSUs	Three-year anniversary of the Vesting Start Date
25% of the RSUs	Four-year anniversary of the Vesting Start Date
All vesting is dependent on the Participant remaining an Eligible Participant, as provided herein, and is subject to Section 3(b) below. The Participant shall be an “ <u>Eligible Participant</u> ” if he or she is an employee, director or officer of, or consultant or advisor to, any entity included in the definition of the Company in the Plan (each, a “ <u>Specified Company</u> ”).	

This grant of RSUs satisfies in full all commitments that the Company has to the Participant with respect to the issuance of stock, stock options or other equity securities.

MICROSTRATEGY INCORPORATED

By: _____

Name:

Title:

MICROSTRATEGY INCORPORATED

Restricted Stock Unit Agreement Incorporated Terms and Conditions

1. Award of Restricted Stock Units. In consideration of services rendered and to be rendered to the Company by the Participant, the Company has granted to the Participant, subject to the terms and conditions set forth in this Restricted Stock Unit Agreement (this “Agreement”) and in the Company’s 2013 Stock Incentive Plan, as amended (the “Plan”), an award with respect to the number of RSUs set forth in the Notice of Grant that forms part of this Agreement (the “Notice of Grant”). Each RSU represents the right to receive one share of class A common stock, \$0.001 par value per share, of the Company (the “Common Stock”) upon vesting of the RSU, subject to the terms and conditions set forth herein. To accept this award, the Participant must accept this Agreement within six (6) months of the Grant Date. If this Agreement is not accepted within six (6) months of the Grant Date, the Company’s offer to grant RSUs under this Agreement will be withdrawn and cease to be in effect and the Participant shall have no rights to any RSUs under this Agreement.

2. Definitions.

(a) “Adverse Event” shall mean the occurrence of (x) any material diminution in the Participant’s authority, duties, responsibility, or base compensation, or (y) the requirement by the Company that the Participant be principally located at a place of business that is more than 50 miles from the place of business where the Participant was principally located immediately prior to the Change in Control Event (as defined in paragraph 2(c) below).

(b) “Cause” shall mean willful misconduct by the Participant or willful failure by the Participant to perform his or her responsibilities to any Specified Company, (including, without limitation, breach by the Participant of any provision of any employment, consulting, advisory, nondisclosure, non-competition or other similar agreement between the Participant and any Specified Company), as determined by the Company, which determination shall be conclusive. Notwithstanding the foregoing, if the Participant is party to an employment, consulting or severance agreement with a Specified Company that contains a definition of “cause” for termination of employment or other relationship as an Eligible Participant, “Cause” shall have the meaning ascribed to such term in such agreement. The Participant’s employment or other relationship as an Eligible Participant shall be considered to have been terminated for “Cause” if the Company determines no later than 30 days after the Participant’s termination of employment or other relationship as an Eligible Participant, that termination for Cause was warranted.

(c) A “Change in Control Event” shall mean any of the following, provided that such event constitutes a “change in control event” within the meaning of Section 409A of the Code:

(i) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership of any capital stock of the Company after the date hereof if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 under the Exchange Act) 50% or more of the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control Event: (I) any acquisition directly from the Company (excluding an acquisition pursuant to the exercise, conversion or exchange of any security exercisable for, convertible into or exchangeable for Common Stock, class B common stock, par value \$0.001 per share of the Company (“Class B Common Stock”) or other voting securities of the Company, unless the Person exercising, converting or exchanging

such security acquired such security directly from the Company or an underwriter or agent of the Company), (II) any acquisition by any corporation pursuant to a Business Combination (as defined in paragraph 2(b)(iii) below) which complies with clauses (x) and (y) of subsection (iii) of this definition, (III) any transfer by Michael J. Saylor or any of his affiliates (within the meaning of Rule 12b-2 of the Exchange Act) (the “MS Affiliates”) to Michael J. Saylor or any MS Affiliate or (IV) any acquisition by Michael J. Saylor or any MS Affiliate not pursuant to a Business Combination, except for an acquisition that results in any of the effects described in paragraph (a)(3)(ii)(B) of Rule 13e-3 under the Exchange Act (or any successor provision) with respect to the Common Stock; or

(ii) on any date after Michael J. Saylor and the MS Affiliates cease to own in the aggregate more than 50% of the combined voting power of the Outstanding Company Voting Securities (the “Applicable Date”), there is a change in the composition of the board of the Company (the “Board”) that results in the Continuing Directors (as defined below) no longer constituting a majority of the Board (or, if applicable, the board of directors of a successor corporation to the Company), where the term “Continuing Director” means at any date a member of the Board (x) who was a member of the Board on the date immediately prior to the Applicable Date or (y) who was nominated or elected subsequent to the Applicable Date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (y) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board; or

(iii) the consummation of a merger, consolidation, reorganization, recapitalization or share exchange involving the Company or a sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (x) all or substantially all of the individuals and entities who were the beneficial owners of the outstanding shares of the Common Stock and Class B Common Stock and any other Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns the Company or substantially all of the Company’s assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the “Acquiring Corporation”) in substantially the same proportions as their ownership of the Common Stock, Class B Common Stock and such other Outstanding Company Voting Securities, respectively, immediately prior to such Business Combination and (y) no Person (excluding Michael J. Saylor or any MS Affiliate, any employee benefit plan (or related trust) maintained or sponsored by the Company or by the Acquiring Corporation or any Person who beneficially owned, directly or indirectly, 50% or more of the combined voting power of the Outstanding Company Voting Securities prior to the Business Combination) beneficially owns, directly or indirectly, 50% or more of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors; provided, however, that for the avoidance of doubt, the consummation of any Business Combination that results in any of the effects described in paragraph (a)(3)(ii)(B) of Rule 13e-3 under the Exchange Act (or any successor provision) with respect to the Common Stock shall be deemed not to satisfy the condition set forth in clause (x).

(d) “Good Reason” shall mean the occurrence of an Adverse Event, in each case, after the Change in Control Event. Notwithstanding the foregoing, an Adverse Event shall not be deemed to constitute Good Reason unless (i) the Participant gives the Company or the Acquiring Corporation, as

applicable, notice of termination of employment or other relationship as an Eligible Participant no more than 90 days after the initial occurrence of the Adverse Event, (ii) such Adverse Event has not been fully corrected and the Participant has not been reasonably compensated for any losses or damages resulting therefrom within 30 days of the Company's or the Acquiring Corporation's receipt of such notice and (iii) the Participant's termination of employment or other relationship as an Eligible Participant occurs within six (6) months following the Company's or the Acquiring Corporation's receipt of such notice.

3. Vesting.

(a) The RSUs shall vest in accordance with the Vesting Schedule set forth in the Notice of Grant (the "Vesting Schedule"). Any fractional shares resulting from the application of any percentages used in the Vesting Schedule shall be rounded down to the nearest whole number of RSUs. Upon each Vesting Date (or, if applicable, an earlier vesting date pursuant to Section 3(b) below, which, in such event, shall also be hereinafter referred to as the "Vesting Date"), the Company shall settle the vested portion of the RSUs and shall therefore, subject to the payment of any taxes pursuant to Section 8(b), (i) issue and deliver to the Participant one share of Common Stock for each RSU that vests on such Vesting Date (the "RSU Shares") and (ii) enter the Participant's name as a shareholder of record with respect to the RSU Shares on the books of the Company. Alternatively, the Board may, in its sole discretion, elect to pay cash or part cash and part RSU Shares in lieu of settling the RSUs that vest on such Vesting Date solely in RSU Shares (such discretion of the Board to settle in cash shall not apply to a Participant who is subject to Canadian tax, whose shares must be settled in previously unissued shares). If a cash payment is made in lieu of delivering RSU Shares, the amount of such payment shall be equal to the Fair Market Value (as defined in the Plan) of the RSU Shares as of the Vesting Date less an amount equal to any federal, state, local and other taxes of any kind required to be withheld with respect to the vesting of the RSUs. The RSU Shares or any cash payment in lieu of RSU Shares will be delivered to the Participant as soon as practicable following each Vesting Date, but in any event within 30 days of such date.

(b) Notwithstanding the provisions of Section 9(b) of the Plan or Section 3(a) above, in the event of a Change in Control Event:

(i) If the Change in Control Event also constitutes a Reorganization Event (as defined in the Plan) and the RSUs are not assumed, or substantially equivalent RSUs substituted, by the Acquiring Corporation, these RSUs shall automatically become vested in full immediately prior to such Change in Control Event; and

(ii) If otherwise, these RSUs shall continue to vest in accordance with the Vesting Schedule; provided, however, that these RSUs shall immediately become vested in full if, on or prior to the first anniversary of the date of the consummation of the Change in Control Event, the Participant's employment or other relationship as an Eligible Participant with the Company or the Acquiring Corporation is terminated for Good Reason by the Participant or is terminated without Cause by the Company or the Acquiring Corporation.

4. Forfeiture of Unvested RSUs Upon Cessation of Service. In the event that the Participant ceases to be an Eligible Participant for any reason or no reason, with or without Cause, including in the case of resignation or dismissal with or without Cause, all of the RSUs that are unvested as of the time of such cessation shall be forfeited immediately and automatically to the Company, without the payment of any consideration to the Participant, effective as of such cessation and the Participant will not be entitled to any compensation in relation to any unvested RSUs. The Participant shall have no further rights with respect to the unvested RSUs or any Common Stock that may have been issuable with respect thereto.

5. Restrictions on Transfer. The Participant shall not sell, assign, transfer, pledge, hypothecate, encumber or otherwise dispose of, by operation of law or otherwise (collectively “transfer”) any RSUs, or any interest therein. The Company shall not be required to treat as the owner of any RSUs or issue any Common Stock or make any cash payment, to any transferee to whom such RSUs have been transferred in violation of any of the provisions of this Agreement.

6. Rights as a Stockholder. The Participant shall have no rights as a stockholder of the Company with respect to any shares of Common Stock that may be issuable with respect to the RSUs until the issuance of the shares of Common Stock to the Participant following the vesting of the RSUs.

7. Provisions of the Plan. This Agreement is subject to the provisions of the Plan, a copy of which is furnished to the Participant with this Agreement. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Plan.

8. Tax Matters.

(a) Acknowledgments; No Section 83(b) Election. The Participant acknowledges that he or she is responsible for obtaining the advice of the Participant’s own tax advisors with respect to the award of RSUs and the Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents with respect to the tax consequences relating to the RSUs. The Participant understands that the Participant (and not the Company) shall be responsible for the Participant’s tax liability that may arise in connection with the acquisition, vesting and/or disposition of the RSUs. The Participant acknowledges that no election under Section 83(b) of the Internal Revenue Code of 1986, as amended, (the “Code”) is available with respect to RSUs.

(b) Withholding. The Participant acknowledges and agrees that the Company has the right to deduct from payments of any kind otherwise due to the Participant any federal, state, local or other taxes or social security contributions of any kind required by law to be withheld with respect to the vesting of the RSUs or otherwise in connection with the RSUs. On each Vesting Date (or other date or time at which the Company is required to withhold taxes or social security contributions associated with the RSUs), the Company will retain from the RSU Shares otherwise issuable on such date a number of shares of Common Stock having a Fair Market Value equal to the Company’s minimum statutory withholding obligation with respect to such taxable event. If the Company is unable to retain sufficient shares of Common Stock to satisfy such tax withholding obligation, the Participant acknowledges and agrees that the Company or an affiliate of the Company shall be entitled to immediate payment from the Participant of the amount of any tax required to be withheld by the Company. The Company shall not deliver any RSU Shares to the Participant until it is satisfied that all required withholdings have been made.

(c) Australian Participants. Subdivision 83A-C of the Australian Income Tax Assessment Act 1997 (the “Australian Income Tax Act”) applies to the Plan and this Agreement in relation to RSUs awarded to Participants who are subject to Australian taxes (subject to the requirement of the Australian Income Tax Act).

9. Miscellaneous.

(a) Section 409A. The RSUs awarded pursuant to this Agreement are intended to be exempt from or comply with the requirements of Section 409A of the Code and the Treasury Regulations issued thereunder (“Section 409A”). The delivery of RSU Shares on the vesting of the RSUs may not be accelerated or deferred to dates or events other than those set forth herein, unless permitted or required by Section 409A.

(b) Participant's Acknowledgements. The Participant acknowledges that he or she: (i) has read this Agreement; (ii) has been represented in the preparation, negotiation and execution of this Agreement by legal counsel of the Participant's own choice or has voluntarily declined to seek such counsel; (iii) understands the terms and consequences of this Agreement; (iv) can read and understand English and does not require this Agreement, the Plan or any related documentation to be translated into any other language; (v) is fully aware of the legal and binding effect of this Agreement; and (vi) agrees that in accepting this award, he or she will be bound by any clawback policy that the Company may adopt in the future. Neither the Company nor any employee of the MicroStrategy group can advise the Participant on whether the Participant should participate in the Plan or accept the grant of the RSUs, or provide the Participant with any legal, tax or financial advice with respect to the grant of RSUs. To accept this award, the Participant acknowledges that they must accept this Agreement within six (6) months of the Grant Date. If this Agreement is not accepted within six (6) months of the Grant Date, the Company's offer to grant RSUs under this Agreement will be withdrawn and cease to be in effect and the Participant shall have no rights to any RSUs under this Agreement.

(c) No Compensation. In no circumstances shall the Participant, on ceasing to hold employment or office with his or her employer, be entitled to any compensation for any loss of any right or benefit or prospective right or benefit under the Plan or this Agreement which he or she might otherwise have enjoyed, whether such compensation is claimed by way of damages for wrongful dismissal or other breach of contract or by way of compensation for loss of office or otherwise.

(d) Severance Pay. The grant of the RSUs (including any cash payment made in lieu of RSU Shares) and the Plan shall be disregarded for the purposes of calculating any end-of-service severance or other termination payment, to the extent such end-of-service severance or termination payment is due to the Participant.

10. Data Privacy.

(a) Personal Information. In connection with this Agreement and the grant of RSUs, the Company may collect, process, use and/or disclose personal information about the Participant. Any such information will be collected, processed, used and/or disclosed in accordance with the Privacy Policy provided to the Participant and available from the Company's legal department (the "Privacy Policy"). In relation to Participants who reside in Poland, Italy, Germany, Spain or France, the processing of personal information in order to implement, administer, and manage the Plan is justified by reasons other than consent, as explained in the Privacy Policy. Participants who reside in Argentina, the United Arab Emirates, Republic of Korea, Japan and Singapore hereby give explicit consent to the collection, processing, use and/or disclosure of any such personal information. Participants who reside in Australia hereby give consent to the collection, processing, use and/or disclosure of their Tax File Number in order to implement, administer, and manage the Plan, for the purposes of the Privacy Act 1988 (Cth).

(b) Transfer of Personal Information. In connection with this Agreement and the grant of RSUs, the Company may transfer any personal information referred to in Section 10(a) above outside, or within the country in which the Participant works or is employed, including, with respect to non-U.S. resident Participants, to the United States of America, to transferees as described in the Privacy Policy. In relation to Participants who reside in Poland, Italy, Germany, Spain or France, the transfer of personal information in order to implement, administer, and manage the Plan is justified by reasons other than consent, as explained in the Privacy Policy. Participants who reside in Argentina, Singapore, Japan or the United Arab Emirates hereby give explicit consent to the transfer of any such personal information. Participants who reside in Singapore may object to the collection, use, disclosure, processing or transfer of personal information by notifying the general counsel of the Company in writing, but understand that such objection may impair his or her ability to participate in the Plan. Participants who reside in Australia hereby

give consent to the transfer of their Tax File Number to entities in the United States of America. Where participants are based in Brazil, for the purposes of the transfer, the Company is relying on Article 33, IV of the Brazilian General Data Protection Act (Law n. 13,709/2018).

11. PRC Participants. Without limiting the generality of the foregoing, participation in the Plan by the Participants in the People's Republic of China ("PRC") shall be subject to such additional or substitute terms as are set forth in the Annex for PRC Participants attached hereto.

The terms and conditions of this Agreement have been accepted by:

###PARTICIPANT_NAME###

Dated: ###ACCEPTANCE_DATE###

ANNEX FOR PRC PARTICIPANTS

This Annex for PRC Participants (“Annex”) includes special terms and conditions applicable to Participants in the PRC. These terms and conditions are in addition to those set forth in the Plan and the Agreement. To the extent there are any inconsistencies between these terms and conditions and those set forth in the Plan or the Agreement, the terms and conditions in this Annex shall prevail. Unless otherwise defined, any capitalized term used in this Annex shall have the meaning ascribed to it as in the Plan and the Agreement.

The provisions of this Annex provide, for PRC foreign exchange purposes, additional definitions and conditions applicable to employees of the Company’s PRC affiliates participating in the Plan who are (i) Chinese citizens (including Hong Kong, Taiwan and Macao residents) **or** (ii) foreign nationals who have resided consecutively in the PRC for no less than one year. For avoidance of doubt, the Company’s PRC affiliates include MicroStrategy China Technology Center Ltd. and its Shanghai branch, and any other entities which may be established in the future.

1.1 Exchange Control Requirements. The Participant’s ability to receive any RSUs shall be contingent upon the Company or its PRC affiliates completing registration with or otherwise obtaining approval from the PRC State Administration of Foreign Exchange or its local counterparts (“SAFE”) for the Participant’s participation in the Plan (to the extent required as determined by the Company in its sole discretion) and for the establishment of a SAFE-approved bank account (“SAFE Account”) by the Company’s PRC affiliates. By entering into the Agreement, the Participant shall acknowledge that he/she understands, agrees and consents that:

- (i) an offshore broker (“Broker”) designated by the Company will administer and execute the exercise, purchase and sale and other relevant transactions in relation to the RSUs held by such Participant outside the PRC;
- (ii) as PRC individual income tax (“IIT”) is triggered upon vesting of the RSUs, certain vested RSU Shares will be sold by such Broker to satisfy the Company’s minimum statutory withholding obligation for PRC IIT filing purposes with respect to such taxable event;
- (iii) the Plan Administrator (as defined below), in its sole discretion, will determine the number of vested RSU Shares to be sold by the Broker based on the PRC IIT withholding requirements, the Fair Market Value of the Common Stock as of the end of the trading day on the Vesting Date or, if the Vesting Date is not a trading day, the Fair Market Value of the common stock as of the end of the immediately preceding trading day, and the volatility of the Common Stock;
- (iv) such shares will be sold as soon as reasonably practicable after the Vesting Date at the then-prevailing market price of the Common Stock on the principal stock market exchange for the Common Stock and the net proceeds will be repatriated to the SAFE Account in the PRC for PRC IIT withholding and reporting purposes;
- (v) if the proceeds from any such sale are not sufficient to satisfy the Participant’s PRC IIT or any other withholding requirements, the Participant will be solely responsible and liable for any such additional amounts due;
- (vi) for the avoidance of doubt, all RSU Shares for a vested award are deemed to be issued to the Participant (i.e., both the RSU Shares to be sold to satisfy the PRC IIT withholding obligations and the remaining RSU Shares which Participant will ultimately receive);

- (vii) the Participant will be required to immediately repatriate the proceeds gained from the sale of any other RSU Shares to the PRC pursuant to SAFE requirements;
- (viii) proceeds from the sale of RSU Shares (including the proceeds of any sale of RSU Shares in excess of PRC IIT amounts) may be transferred to the SAFE Account prior to being delivered to the Participant's personal bank account in the PRC;
- (ix) due to SAFE approval requirements, there may be delays in delivering the proceeds to the Participant;
- (x) the Participant shall bear any exchange rate-related risk during the period between vesting/sale and the time when the proceeds are delivered to him/her;
- (xi) the Participant may be required to open a U.S. dollar bank account in the PRC to receive the proceeds, if needed;
- (xii) the Participant may be required to pay the Company or its affiliates, or authorize the Company or an affiliate to withhold from the Participant any salary or other benefit payable to him/her, and the taxes due in connection with the grant, vesting or exercise of the RSUs or the proceeds thereof, as required by the applicable laws;
- (xiii) the Participant shall execute such other documentation as the Company reasonably determines is necessary or advisable to ensure compliance with the PRC IIT laws or the U.S. federal securities laws (the "Required Documentation");
- (xiv) to accept this award, the Participant must execute this Agreement and the Required Documentation when the Participant is not otherwise in possession of material non-public information and (i) if the Company is in an open trading window in accordance with the Company's insider trading policy as then in effect (an "Open Trading Window") as of when the Company first makes this Agreement available to the Participant to be executed, no later than immediately prior to the termination of the current Open Trading Window, or (ii) if the Company is not in an Open Trading Window as of when the Company first makes this Agreement available to the Participant to be executed, no earlier than the commencement of the next occurring Open Trading Window and no later than immediately prior to the termination of the next occurring Open Trading Window;
- (xv) if this Agreement and the Required Documentation are not executed within the timeframe set forth in Section 1.1(xiv) of this Annex, the Company's offer to grant RSUs under this Agreement will be withdrawn and cease to be in effect and the Participant shall have no rights to any RSUs under this Agreement; and
- (xvi) the Company may include other restrictions and requirements in relation to the RSUs pursuant to the requirements of the applicable laws or from SAFE.

1.2 Termination of Employment or Service Relationship. Notwithstanding the provisions in the Plan or the Agreement, upon termination of such Participant's employment or service relationship with the Company's PRC affiliates, the treatment of the RSUs or relevant RSU Shares of the Company under the Plan shall be in accordance with PRC foreign exchange control laws and regulations and the requirements of SAFE. Without limiting the foregoing, all the RSU Shares of the Company issued in respect of the Plan held by such Participant must be sold within six (6) months following Participant's termination of employment or service relationship (whichever applicable), or within

such other period determined by the Company in light of the SAFE requirements. The Company may, in its sole discretion, require the Participant to sell such RSU Shares at any time during this six (6)-month period.

- 1.3 Data Privacy. In connection with this Agreement and the grant of RSUs, the Company may collect, process, use and/or disclose personal information about the Participant in accordance with the Privacy Policy. In particular:

- (i) the Company's PRC affiliates may, pursuant to the Privacy Policy, transfer the Participant's personal information to the following offshore entities:

Entity Name	Country	Contact details
The Company and its subsidiaries	USA	1850 Towers Crescent Plaza, Tysons Corner, VA 22182 +1 (703) 848-8600 benefits@microstrategy.com
Shareworks by Morgan Stanley, our Plan Administrator, as well as any replacement providers	USA	58 South River Drive, Suite 401, Tempe, AZ 85281

- (ii) the Participant can exercise the same rights as set out in the Privacy Policy against the Company and any of the offshore data recipients above.
- (iii) the Company may also process the Participant's sensitive personal information, including but not limited to identification information, salary, bank account details etc. This is necessary in order for the Company to implement, administer and manage the Plan. If the Company is not able to process such sensitive personal information, the Company would not be able to perform its obligations under the Plan and this may accordingly affect the Participant's ability to participate in the Plan.
- (iv) the Participant agrees to sign below as a confirmation of his/her explicit consent for the processing of his/her personal information.

CONSENT TO PROCESSING PERSONAL INFORMATION

I consent to the processing of my personal information in accordance with the Privacy Policy.

Name:

Date:

In particular, I consent to:

The Company processing my sensitive personal information in accordance with the Privacy Policy and this Annex.

Name:

Date:

The Company's PRC affiliates transferring my personal information (including my sensitive personal information) outside of the PRC for the purposes described in the Privacy Policy and this Annex.

Name:

Date:

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this “Agreement”) is entered into, effective as of June 12, 2022 (the “Effective Date”) by and between Michael J. Saylor (the “Indemnitor”) and MicroStrategy Incorporated, a Delaware corporation (the “Company”).

WHEREAS, it is essential to the Company to retain and attract as directors and officers the most capable persons available;

WHEREAS, the Indemnitor and the Company recognize the increased risk of litigation and other claims currently being asserted and that may be asserted in the future against directors and officers of corporations;

WHEREAS, the Company is obligated to indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was, or has agreed to become, a director or officer of the corporation, or is or was serving, or has agreed to serve, at the request of the corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) (each such person, an “Indemnitee”) under Article EIGHT of the Company’s Second Amended and Restated Certificate of Incorporation and to pay or advance expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by or on behalf of an Indemnitee in connection with such action, suit or proceeding and any appeal therefrom (“Expenses”) of each such person arising from any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was, or has agreed to become, a director or officer of the corporation, or is or was serving, or has agreed to serve, at the request of the corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including an employee benefit plan) (each, an “Indemnifiable Event”) to the maximum extent permitted by law;

WHEREAS, in addition to the indemnification provided under the Company’s Certificate of Incorporation, the Company has purchased from time to time in the past directors’ and officers’ liability insurance to indemnify Indemnitees prior to a Change in Control from certain losses and expenses not otherwise indemnifiable by the Company pursuant to applicable laws;

WHEREAS, the indicative quote proposal for directors’ and officers’ liability insurance most recently obtained by the Company in May 2022 would have required the payment of a significant amount of premiums to third parties that the Company deemed at such time to be unreasonably disproportionate to the amount of coverage provided;

WHEREAS, in recognition of each Indemnitee’s need for substantial protection against personal liability in order to enhance such Indemnitee’s continued and effective service to the Company and/or its subsidiaries as a director and/or officer, the Indemnitor, subject to the terms herein, desires to agree, in his individual capacity, to indemnify each Indemnitee for Expenses of such Indemnitee arising from an Indemnifiable Event, and solely to the extent that the Company is

unable to do so, in order to provide assurance to the Indemnitees of the availability of funds to make payments that the Indemnitees would, but for such inability of the Company, be entitled to pursuant to any future indemnification agreement that an Indemnatee may enter into with the Company or a directors' and officers' liability insurance policy; and

WHEREAS, the Company and its Board of Directors (the "Board") believe it to be in the best interests of the Company and its stockholders to enter into this Agreement.

NOW, THEREFORE, in consideration of the above premises and covenants herein and for good and valuable consideration, the sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

1. Certain Definitions.

(a) "Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "***control***," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms "***controlling***," "***controlled by***" and "***under common control with***" have correlative meanings.

(b) "Change in Control" shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company's then outstanding voting securities other than Michael J. Saylor or any of his Affiliates and any "group" within the meaning of Section 13(d) of the Exchange Act of which Michael J. Saylor or his Affiliates collectively beneficially own more than 50% of the voting Equity Interests beneficially owned by such "group".

(c) "Person" means any individual, corporation, partnership, joint venture, association, joint-stock Issuer, trust, unincorporated organization, limited liability company or government or other entity.

(d) "Proceeding" or "claim" shall mean any threatened, pending, or completed action, suit, or proceeding or any alternative dispute resolution mechanism (including an action by or in the right of the Company), or any inquiry, hearing, or investigation, whether conducted by the Company or any other party, that Indemnatee in good faith believes might lead to the institution of any such action, suit, or proceeding, whether civil, criminal, administrative, investigative, or other.

(e) "Term" shall have the meaning specified in Section 8 herein.

2. Agreement to Indemnify.

(a) General Agreement. Subject to Section 5, in the event an Indemnitee was, is, or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Proceeding by reason of (or arising in part out of) an Indemnifiable Event, the Indemnitor shall indemnify Indemnitee from and against any and all Expenses (or portion thereof) arising from any claims made on or after the Effective Date, arising out of Indemnifiable Events that occurred prior to the Effective Date or during the Term, and that are not otherwise indemnified or indemnifiable by the Company and certified by the Company as such. The parties hereto intend that this Agreement shall provide for indemnification in excess of that expressly permitted by statute, including, without limitation, any indemnification provided or required to be provided by the Company pursuant to an applicable Indemnification Agreement, the Company's Certificate of Incorporation, its Bylaws, vote of its stockholders or disinterested directors, or applicable law.

(b) Claims Made. Notwithstanding anything in this Agreement to the contrary, the Indemnitor shall only be liable under this Agreement to indemnify and make payments in connection with Proceedings first instituted, or claims first made, against an Indemnitee during the Term and in connection with Proceedings first instituted, or claims first made, against an Indemnitee after the Term but that arises out of an Indemnifiable Event that occurred during the Term.

(c) Initiation of Proceeding. Notwithstanding anything in this Agreement to the contrary, no Indemnitee shall be entitled to indemnification pursuant to this Agreement in connection with any Proceeding or part thereof initiated by such Indemnitee against Indemnitor, the Company or any other director or officer of the Company unless (i) the Company has joined in or the Board has consented to the initiation of such Proceeding or part thereof; or (ii) the Proceeding or part thereof is one to enforce indemnification rights under this Agreement.

(d) Expense Advances. Subject to Section 5, if so requested by an Indemnitee prior to it being established that an Indemnitee is entitled to indemnification from the Indemnitor under this Agreement, the Indemnitor shall advance (within thirty business days following such request any and all Expenses incurred by such Indemnitee (an "Expense Advance"), provided that such Expense Advance may be conditioned upon the receipt by the Indemnitor of a written undertaking by such Indemnitee to repay such Expense Advances to the Indemnitor if and to the extent that it is ultimately determined by a court of competent jurisdiction in a final judgment, not subject to appeal, that such Indemnitee is not entitled to be indemnified by the Indemnitor hereunder.

(e) Mandatory Indemnification. Subject to Section 2(a) and Section 5 of this Agreement, notwithstanding any other provision of this Agreement, to the extent that any Indemnitee has been successful on the merits or otherwise in defense of any Proceeding relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, such Indemnitee shall be indemnified by Indemnitor against all Expenses incurred in connection therewith.

(f) Prohibited Indemnification. No indemnification pursuant to this Agreement shall be paid by the Indemnitor on account of any Proceeding in which judgment is rendered against any Indemnitee for an accounting of profits made from the purchase or sale by such Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Exchange Act, or similar provisions of any federal, state, or local laws.

3. Indemnification Payment. Indemnatee shall receive payment of any Expenses as to which such Indemnatee is entitled to indemnification from the Indemnitor in accordance with this Agreement within ten (10) business days after Indemnatee has made a valid written demand on the Indemnitor for indemnification.

4. Notification and Defense of Proceeding. Notwithstanding anything to the contrary in this Agreement, in no event shall the Indemnitor be obligated to indemnify an Indemnatee for any Expenses or make any Expense Advances to such Indemnatee unless such Indemnatee has complied with: (i) in the case of any Expenses or Expense Advances as to which the Company would otherwise be obligated to indemnify such Indemnatee pursuant to the Company's Certificate of Incorporation, all provisions in such Certificate of Incorporation relating to the notification to the Company of, defense and settlement of any Proceeding relating to such Expenses (the "Notice and Defense Provisions"), and (ii) in the case of all other Expenses or Expense Advances as to which the Indemnitor is obligated to indemnify such Indemnatee hereunder, all Notice and Defense Provisions as if they applied to such Expenses or Expense Advances and replacing the rights and powers of Company with those of the Indemnitor, *mutatis mutandis*.

5. Limits on Indemnification.

(a) Notwithstanding anything to the contrary herein, in no event shall Indemnitor be required to make any payment or advance under this Agreement in excess of \$40,000,000 in the aggregate with all payments and advances made by Indemnitor hereunder, net of any amounts repaid to the Indemnitor other than the fee amounts paid pursuant to Section 6 or Section 8.

(b) The Indemnitor shall not be liable under this Agreement to make any payment in connection with any claim made against any Indemnatee to the extent Indemnatee has otherwise received payment (under an Indemnification Agreement, any insurance policy, Bylaw, or otherwise) of the amounts otherwise indemnifiable hereunder. Notwithstanding anything to the contrary herein, the Indemnitor may condition the payment of any amount to an Indemnatee under this Agreement on the receipt of a written undertaking from such Indemnatee to repay to the Indemnitor any amounts that are duplicative of any other payment that is ultimately received by such Indemnatee from the Company, any insurance policy or other source of funds or contribution.

6. Obligations of the Company. In exchange for Indemnitor's agreement to indemnify pursuant to this Agreement and the other obligations of Indemnitor set forth herein, the Company agrees to pay Indemnitor a one-time fee of \$388,945 within two (2) business days following the date on which this Agreement becomes effective (the "90-Day Fee Amount").

7. Amendment of this Agreement. No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing by Indemnitor and the Company with the approval of the Board. No waiver of any of the provisions of this Agreement shall be binding unless in the form of a writing signed by the party against whom enforcement of the waiver is sought, and no such waiver shall operate as a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver. Except as specifically provided herein, no failure to exercise or any delay in exercising any right or remedy hereunder shall constitute a waiver thereof.

8. Term. This Agreement shall be effective as of the Effective Date and shall remain in effect for 90 days, unless sooner terminated by the mutual agreement of the Indemnitor and the Company with the approval of the Board (the "Term"). At the option of the Company, exercisable by providing written notice to the Indemnitor at least thirty (30) days prior to expiration of the end of the then current Term, the Company may elect to extend the Term for an additional 90-day period for up to a total of seven (7) additional 90-day periods, in each case upon the payment in connection with each such extension of an additional amount equal to the 90-Day Fee Amount at the time of such exercise of such option. Expiration or termination of this Agreement shall operate prospectively only, so that all provisions of this Agreement shall remain in full force and effect as to any claim asserted against an Indemnatee during the Term, and as to any claim asserted against an Indemnatee after the Term but that arises from an Indemnifiable Event that occurred during the Term.

9. Binding Effect. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns, spouses, heirs, and personal and legal representatives. The indemnification provided under this Agreement shall continue as to Indemnatee for any action taken or not taken while Indemnatee was serving in an indemnified capacity pertaining to an Indemnifiable Event even though s/he may have ceased to serve in such capacity at the time of any Proceeding.

10. Severability. If any provision (or portion thereof) of this Agreement shall be held by a court of competent jurisdiction to be invalid, void, or otherwise unenforceable, the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of this Agreement containing any provision held to be invalid, void, or otherwise unenforceable, that is not itself invalid, void, or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, void, or unenforceable.

11. Third-Party Beneficiaries. Each Indemnatee is an express third-party beneficiary of this Agreement, and may specifically enforce the Indemnitor's or the Company's obligations hereunder as though a party hereunder, subject to the limitations specified herein.

12. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Virginia applicable to contracts made and to be performed in such State without giving effect to its principles of conflicts of laws.

13. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement effective as of the date and time specified above.

MICROSTRATEGY INCORPORATED

a Delaware corporation

By: /s/ Phong Le

Name: Phong Le

Title: President

MICHAEL J. SAYLOR,

as Indemnitor

/s/ Michael J. Saylor

Michael J. Saylor

Certain identified information has been excluded from this exhibit because it is both (i) not material and (ii) is the type of information that the registrant treats as private or confidential. Triple asterisks denote omissions.

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this “Agreement”) is entered into, effective as of the inception date and time of the Primary New D&O Policy as defined below (the “Effective Date”) by and between Michael J. Saylor (the “Indemnitor”) and MicroStrategy Incorporated, a Delaware corporation (the “Company”).

WHEREAS, it is essential to the Company to retain and attract as directors and officers the most capable persons available;

WHEREAS, the Indemnitor and the Company recognize the increased risk of litigation and other claims currently being asserted and that may be asserted in the future against directors and officers of corporations;

WHEREAS, the Company is obligated to indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was, or has agreed to become, a director or officer of the corporation, or is or was serving, or has agreed to serve, at the request of the corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) (each such person, an “Indemnitee”) under Article EIGHT of the Company’s Second Amended and Restated Certificate of Incorporation and to pay or advance expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by or on behalf of an Indemnitee in connection with such action, suit or proceeding and any appeal therefrom (“Expenses”) of each such person arising from any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was, or has agreed to become, a director or officer of the corporation, or is or was serving, or has agreed to serve, at the request of the corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including an employee benefit plan) (each, an “Indemnifiable Event”) to the maximum extent permitted by law;

WHEREAS, in addition to the indemnification provided under the Company’s Certificate of Incorporation, the Company has purchased from time to time in the past directors’ and officers’ liability insurance to indemnify Indemnitees prior to a Change in Control from certain losses and expenses not otherwise indemnifiable by the Company pursuant to applicable laws;

WHEREAS, the Company has arranged directors’ and officers’ liability insurance covering claims made based on acts or omissions on or after the Effective Date in policies comprised of a primary policy issued by [***] (the “Primary New D&O Policy”) and layers of excess coverage;

WHEREAS, in recognition of each Indemnitee’s need for protection against personal liability with respect to claims not covered by the Company’s directors’ and officers’ liability insurance in order

to enhance such Indemnitee's willingness to continue service to the Company and/or its subsidiaries as a director and/or officer, the Indemnitor, subject to the terms herein, desires to agree, in his individual capacity, to indemnify each Indemnitee for Expenses of such Indemnitee arising from an Indemnifiable Event arising from an actual or alleged act, error, omission, misstatement, misleading statement, or breach of duty ("Act") prior to the Effective Date, including Acts on or after the Effective Date which have as a common nexus with an Act prior to the Effective Date any fact, circumstance, situation, event, transaction or series of facts, circumstances, situations, events of transactions ("Interrelated Acts"), and solely to the extent that the Company is unable to do so, in order to provide assurance to the Indemnitees of the availability of funds to make payments that the Indemnitees would, but for such inability of the Company, be entitled to pursuant to any future indemnification agreement that an Indemnitee may enter into with the Company or a directors' and officers' liability insurance policy; and

WHEREAS, the Company and its Board of Directors (the "Board") believe it to be in the best interests of the Company and its stockholders to enter into this Agreement.

NOW, THEREFORE, in consideration of the above premises and covenants herein and for good and valuable consideration, the sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

1. Certain Definitions.

(a) "Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "**control**," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms "**controlling**," "**controlled by**" and "**under common control with**" have correlative meanings.

(b) "Change in Control" shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company's then outstanding voting securities other than Michael J. Saylor or any of his Affiliates and any "group" within the meaning of Section 13(d) of the Exchange Act of which Michael J. Saylor or his Affiliates collectively beneficially own more than 50% of the voting Equity Interests beneficially owned by such "group".

(c) "Person" means any individual, corporation, partnership, joint venture, association, joint-stock Issuer, trust, unincorporated organization, limited liability company or government or other entity.

(d) "Proceeding" or "claim" shall mean any threatened, pending, or completed action, suit, or proceeding or any alternative dispute resolution mechanism (including an action by or in the right

of the Company), or any inquiry, hearing, or investigation, whether conducted by the Company or any other party, that Indemnatee in good faith believes might lead to the institution of any such action, suit, or proceeding, whether civil, criminal, administrative, investigative, or other.

(e) “Term” shall have the meaning specified in Section 8 herein.

2. Agreement to Indemnify.

(a) General Agreement. Subject to Section 5, in the event an Indemnatee was, is, or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Proceeding by reason of (or arising in part out of) an Indemnifiable Event arising from an actual or alleged Act prior to the Effective Date or any actual or alleged Interrelated Act on or after the Effective Date, the Indemnitor shall indemnify Indemnatee from and against any and all Expenses (or portion thereof) arising therefrom and that are not otherwise indemnified or indemnifiable by the Company and certified by the Company as such. The parties hereto intend that this Agreement shall provide for indemnification in excess of that expressly permitted by statute, including, without limitation, any indemnification provided or required to be provided by the Company pursuant to an applicable Indemnification Agreement, the Company’s Certificate of Incorporation, its Bylaws, vote of its stockholders or disinterested directors, or applicable law.

(b) Claims Made. Notwithstanding anything in this Agreement to the contrary, the Indemnitor shall only be liable under this Agreement to indemnify and make payments in connection with Proceedings first instituted, or claims first made, against an Indemnatee during the Term and arising from an actual or alleged Act prior to the Effective Date, or any actual or alleged Interrelated Act on or after the Effective Date.

(c) Initiation of Proceeding. Notwithstanding anything in this Agreement to the contrary, no Indemnatee shall be entitled to indemnification pursuant to this Agreement in connection with any Proceeding or part thereof initiated by such Indemnatee against Indemnitor, the Company or any other director or officer of the Company unless (i) the Company has joined in or the Board has consented to the initiation of such Proceeding or part thereof; or (ii) the Proceeding or part thereof is one to enforce indemnification rights under this Agreement.

(d) Expense Advances. Subject to Section 5, if so requested by an Indemnatee prior to it being established that an Indemnatee is entitled to indemnification from the Indemnitor under this Agreement, the Indemnitor shall advance (within thirty business days following such request) any and all Expenses incurred by such Indemnatee (an “Expense Advance”), provided that such Expense Advance may be conditioned upon the receipt by the Indemnitor of a written undertaking by such Indemnatee to repay such Expense Advances to the Indemnitor if and to the extent that it is ultimately determined by a court of competent jurisdiction in a final judgment, not subject to appeal, that such Indemnatee is not entitled to be indemnified by the Indemnitor hereunder.

(e) Mandatory Indemnification. Subject to Section 2(a) and Section 5 of this Agreement, notwithstanding any other provision of this Agreement, to the extent that any Indemnatee has been successful on the merits or otherwise in defense of any Proceeding relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, such Indemnatee shall be indemnified by Indemnitor against all Expenses incurred in connection therewith.

(f) Prohibited Indemnification. No indemnification pursuant to this Agreement shall be paid by the Indemnitor on account of any Proceeding in which judgment is rendered against any Indemnatee for an accounting of profits made from the purchase or sale by such Indemnatee of securities of the Company pursuant to the provisions of Section 16(b) of the Exchange Act, or similar provisions of any federal, state, or local laws.

3. Indemnification Payment. Indemnatee shall receive payment of any Expenses as to which such Indemnatee is entitled to indemnification from the Indemnitor in accordance with this Agreement within ten (10) business days after Indemnatee has made a valid written demand on the Indemnitor for indemnification.

4. Notification and Defense of Proceeding. Notwithstanding anything to the contrary in this Agreement, in no event shall the Indemnitor be obligated to indemnify an Indemnatee for any Expenses or make any Expense Advances to such Indemnatee unless such Indemnatee has complied with: (i) in the case of any Expenses or Expense Advances as to which the Company would otherwise be obligated to indemnify such Indemnatee pursuant to the Company's Certificate of Incorporation, all provisions in such Certificate of Incorporation relating to the notification to the Company of, defense and settlement of any Proceeding relating to such Expenses (the "Notice and Defense Provisions"), and (ii) in the case of all other Expenses or Expense Advances as to which the Indemnitor is obligated to indemnify such Indemnatee hereunder, all Notice and Defense Provisions as if they applied to such Expenses or Expense Advances and replacing the rights and powers of Company with those of the Indemnitor, *mutatis mutandis*.

5. Limits on Indemnification.

(a) Notwithstanding anything to the contrary herein, in no event shall Indemnitor be required to make any payment or advance under this Agreement in excess of \$40,000,000 in the aggregate with all payments and advances made by Indemnitor hereunder, net of any amounts repaid to the Indemnitor other than the fee amounts paid pursuant to Section 6 or Section 8.

(b) The Indemnitor shall not be liable under this Agreement to make any payment in connection with any claim made against any Indemnatee to the extent Indemnatee has otherwise received payment (under an Indemnification Agreement, any insurance policy, Bylaw, or otherwise) of the amounts otherwise indemnifiable hereunder. Notwithstanding anything to the contrary herein, the Indemnitor may condition the payment of any amount to an Indemnatee under this Agreement on the receipt of a written undertaking from such Indemnatee to repay to the Indemnitor any amounts that are duplicative of any other payment that is ultimately received by such Indemnatee from the Company, any insurance policy or other source of funds or contribution.

6. Obligations of the Company. In exchange for Indemnitor's agreement to indemnify pursuant to this Agreement and the other obligations of Indemnitor set forth herein, the Company agrees to pay Indemnitor a one-time fee of \$150,000 within two (2) business days following the Effective Date (the "90-Day Fee Amount").

7. Amendment of this Agreement. No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing by Indemnitor and the Company with the approval of the Board. No waiver of any of the provisions of this Agreement shall be binding

unless in the form of a writing signed by the party against whom enforcement of the waiver is sought, and no such waiver shall operate as a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver. Except as specifically provided herein, no failure to exercise or any delay in exercising any right or remedy hereunder shall constitute a waiver thereof.

8. Term. This Agreement shall be effective as of the Effective Date and shall remain in effect for 90 days, unless sooner terminated by the mutual agreement of the Indemnitor and the Company with the approval of the Board (the “Term”). At the option of the Company, exercisable by providing written notice to the Indemnitor at least thirty (30) days prior to expiration of the end of the then current Term, the Company may elect to extend the Term: (i) for an additional 90-day period for up to a total of twenty-three (23) additional 90-day periods, in each case upon the payment in connection with each such extension of an additional amount equal to the 90-Day Fee Amount at the time of such exercise of such option; or (ii) until six years after the Effective Date upon payment of an addition amount equal to the 90-Day Fee amount multiplied by the number of 90-day periods remaining in the six years after the Effective Date. Expiration or termination of this Agreement shall operate prospectively only, so that all provisions of this Agreement shall remain in full force and effect as to any claim arising from an actual or alleged Act prior to the Effective Date or actual or alleged Interrelated Act on or after the Effective Date, asserted against an Indemnitee during the Term.

9. Binding Effect. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof, including the Indemnification Agreement dated June 16, 2021, and the Indemnification Agreement dated June 12, 2022. This Agreement does not supersede or have any effect upon the other Indemnification Agreement of even date providing \$10 million in indemnification subject to its terms and conditions. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns, spouses, heirs, and personal and legal representatives. The indemnification provided under this Agreement shall continue as to Indemnitee for any action taken or not taken while Indemnitee was serving in an indemnified capacity pertaining to an Indemnifiable Event even though s/he may have ceased to serve in such capacity at the time of any Proceeding.

10. Severability. If any provision (or portion thereof) of this Agreement shall be held by a court of competent jurisdiction to be invalid, void, or otherwise unenforceable, the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of this Agreement containing any provision held to be invalid, void, or otherwise unenforceable, that is not itself invalid, void, or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, void, or unenforceable.

11. Third-Party Beneficiaries. Each Indemnitee is an express third-party beneficiary of this Agreement, and may specifically enforce the Indemnitor’s or the Company’s obligations hereunder as though a party hereunder, subject to the limitations specified herein.

12. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Virginia applicable to contracts made and to be performed in such State without giving effect to its principles of conflicts of laws.

13. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement effective as of the date and time specified above.

MICROSTRATEGY INCORPORATED

a Delaware corporation

By: /s/ Phong Le
Name: Phong Le
Title: President

MICHAEL J. SAYLOR,

as Indemnitor

/s/ Michael J. Saylor
Michael J. Saylor

Certain identified information has been excluded from this exhibit because it is both (i) not material and (ii) is the type of information that the registrant treats as private or confidential. Triple asterisks denote omissions.

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this “Agreement”) is entered into, effective as of the inception date and time of the Primary New D&O Policy as defined below (the “Effective Date”) by and between Michael J. Saylor (the “Indemnitor”) and MicroStrategy Incorporated, a Delaware corporation (the “Company”).

WHEREAS, it is essential to the Company to retain and attract as directors and officers the most capable persons available;

WHEREAS, the Indemnitor and the Company recognize the increased risk of litigation and other claims currently being asserted and that may be asserted in the future against directors and officers of corporations;

WHEREAS, the Company is obligated to indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was, or has agreed to become, a director or officer of the corporation, or is or was serving, or has agreed to serve, at the request of the corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) (each such person, an “Indemnitee”) under Article EIGHT of the Company’s Second Amended and Restated Certificate of Incorporation and to pay or advance expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by or on behalf of an Indemnitee in connection with such action, suit or proceeding and any appeal therefrom (“Expenses”) of each such person arising from any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was, or has agreed to become, a director or officer of the corporation, or is or was serving, or has agreed to serve, at the request of the corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including an employee benefit plan) (each, an “Indemnifiable Event”) to the maximum extent permitted by law;

WHEREAS, in addition to the indemnification provided under the Company’s Certificate of Incorporation, the Company has purchased from time to time in the past directors’ and officers’ liability insurance to indemnify Indemnitees prior to a Change in Control from certain losses and expenses not otherwise indemnifiable by the Company pursuant to applicable laws;

WHEREAS, the Company has arranged directors’ and officers’ liability insurance covering claims made based on acts or omissions on or after the Effective Date in policies with an aggregate limit of \$30 million;

WHEREAS, this aggregate amount of policy limit is \$10 million less than the aggregate amount of policy limit that the Company wished to arrange;

WHEREAS, the \$30 million aggregate amount of directors' and officers' liability insurance policy limit arranged by the company is comprised of a primary policy issued by [***] (the "Primary New D&O Policy") and layers of excess coverage proving in the aggregate [***] in excess directors' and officers' liability insurance, as reflected in the chart attached hereto as Exhibit A (the "Excess New D&O Policies"). As reflected on Exhibit A, [***] and [***] together are providing policies providing [***] excess of [***] in excess directors' and officers' liability insurance (the "Senior Excess New D&O Policies");

WHEREAS, the Indemnitor has agreed to indemnify and advance Expenses to the Indemnitees to the same extent as would be required of an insurer underwriting a policy excess the Senior Excess New D&O Policies and comprising the same terms and conditions of those policies, except as set forth below; and

WHEREAS, the Company and its Board of Directors (the "Board") believe it to be in the best interests of the Company and its stockholders to enter into this Agreement.

NOW, THEREFORE, in consideration of the above premises and covenants herein and for good and valuable consideration, the sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

1. Certain Definitions.

(a) Definitions of capitalized terms herein shall have the same as those in or incorporated in the Senior Excess New D&O policies.

(b) "Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "**control**," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms "**controlling**," "**controlled by**" and "**under common control with**" have correlative meanings.

(c) "Change in Control" shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company's then outstanding voting securities other than Michael J. Saylor or any of his Affiliates and any "group" within the meaning of Section 13(d) of the Exchange Act of which Michael J. Saylor or his Affiliates collectively beneficially own more than 50% of the voting Equity Interests beneficially owned by such "group".

(d) "Person" means any individual, corporation, partnership, joint venture, association, joint-stock Issuer, trust, unincorporated organization, limited liability company or government or other entity.

(e) “Proceeding” shall mean any threatened, pending, or completed action, suit, or proceeding or any alternative dispute resolution mechanism (including an action by or in the right of the Company), or any inquiry, hearing, or investigation, whether conducted by the Company or any other party, that Indemnitee in good faith believes might lead to the institution of any such action, suit, or proceeding, whether civil, criminal, administrative, investigative, or other.

(f) “Term” shall have the meaning specified in Section 8 herein.

2. Agreement to Indemnify.

(a) General Agreement. Subject to Section 5 and except as set forth below, Indemnitor shall advance and indemnify Indemnitees for all Loss, Inquiry Costs, Facilitation Costs, Policy Costs, Access to Policy Costs, Mitigation Costs, Personal Asset Costs, Personal Reputation Costs, Foreign Accommodation Costs, and Costs, Charges and Expenses, to the same extent as an insurer underwriting a policy excess of the Senior Excess New D&O Policies and comprising the same terms and conditions of those policies, that are not otherwise indemnified or indemnifiable by the Company and certified by the Company as such. The parties hereto intend that this Agreement shall provide for indemnification in excess of that expressly permitted by statute, including, without limitation, any indemnification provided or required to be provided by the Company pursuant to an applicable Indemnification Agreement, the Company’s Certificate of Incorporation, its Bylaws, vote of its stockholders or disinterested directors, or applicable law.

(b) Claims Made. Notwithstanding anything in this Agreement to the contrary, the Indemnitor shall only be liable under this Agreement to indemnify and make payments not advanced or indemnified by the Company in connection with Claims and Inquiries first made or commenced in the Term which arise from Wrongful Acts upon or after the commencement of the Term. For the avoidance of doubt, Interrelated Wrongful Acts related to a Wrongful Act that occurred prior to the Term shall not be considered Wrongful Acts upon or after the commencement of the Term.

(c) Initiation of Proceeding. Notwithstanding anything in this Agreement to the contrary, no Indemnitee shall be entitled to indemnification pursuant to this Agreement in connection with any Proceeding or part thereof initiated by such Indemnitee against Indemnitor, the Company or any other director or officer of the Company unless (i) the Company has joined in or the Board has consented to the initiation of such Proceeding or part thereof; or (ii) the Proceeding or part thereof is one to enforce indemnification rights under this Agreement.

(f) Prohibited Indemnification. No indemnification pursuant to this Agreement shall be paid by the Indemnitor on account of any Proceeding in which judgment is rendered against any Indemnitee for an accounting of profits made from the purchase or sale by such Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Exchange Act, or similar provisions of any federal, state, or local laws.

3. Indemnification Payment.

Indemnitee shall receive payment of any Expenses as to which such Indemnitee is entitled to indemnification from the Indemnitor in accordance with this Agreement within ten (10) business days after Indemnitee has made a valid written demand on the Indemnitor for indemnification.

4. Notification and Defense of Proceeding. Notwithstanding anything to the contrary in this Agreement, in no event shall the Indemnitor be obligated to indemnify an Indemnitee for any Expenses or make any Expense Advances to such Indemnitee unless such Indemnitee has complied with: (i) in the case of any Expenses or Expense Advances as to which the Company would otherwise be obligated to indemnify such Indemnitee pursuant to the Company's Certificate of Incorporation, all provisions in such Certificate of Incorporation relating to the notification to the Company of, defense and settlement of any Proceeding relating to such Expenses (the "Notice and Defense Provisions"), and (ii) in the case of all other Expenses or Expense Advances as to which the Indemnitor is obligated to indemnify such Indemnitee hereunder, all Notice and Defense Provisions as if they applied to such Expenses or Expense Advances and replacing the rights and powers of Company with those of the Indemnitor, *mutatis mutandis*.

5. Limits on Indemnification.

(a) Notwithstanding anything to the contrary herein, in no event shall Indemnitor be required to make any payment or advance under this Agreement: (i) in excess of \$10,000,000 in the aggregate with all payments and advances made by Indemnitor hereunder, net of any amounts repaid to the Indemnitor other than the fee amounts paid pursuant to Section 6 or Section 8; or (ii) prior to the exhaustion by payment of the policy limits of the Primary New D&O Policy and Excess New D&O Policies.

(b) The Indemnitor shall not be liable under this Agreement to make any payment in connection with any claim made against any Indemnitee to the extent Indemnitee has otherwise received payment (under an Indemnification Agreement, any insurance policy, Bylaw, or otherwise) of the amounts otherwise indemnifiable hereunder. Notwithstanding anything to the contrary herein, the Indemnitor may condition the payment of any amount to an Indemnitee under this Agreement on the receipt of a written undertaking from such Indemnitee to repay to the Indemnitor any amounts that are duplicative of any other payment that is ultimately received by such Indemnitee from the Company, any insurance policy or other source of funds or contribution.

6. Obligations of the Company. In exchange for Indemnitor's agreement to indemnify pursuant to this Agreement and the other obligations of Indemnitor set forth herein, the Company agrees to pay Indemnitor a one-time fee of \$600,000 within two (2) business days following the Effective Date (the "Fee Amount").

7. Amendment of this Agreement. No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing by Indemnitor and the Company with the approval of the Board. No waiver of any of the provisions of this Agreement shall be binding unless in the form of a writing signed by the party against whom enforcement of the waiver is sought, and no such waiver shall operate as a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver. Except as specifically provided herein, no failure to exercise or any delay in exercising any right or remedy hereunder shall constitute a waiver thereof.

8. Term. This Agreement shall be effective as of the Effective Date and shall remain in effect for one year, unless sooner terminated by the mutual agreement of the Indemnitor and the Company with the approval of the Board (the "Term"). Expiration or termination of this

Agreement shall operate prospectively only, so that all provisions of this Agreement shall remain in full force and effect as to any claim arising from Wrongful Acts upon or after the commencement of the Term, asserted against an Indemnitee during the Term.

9. Binding Effect. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof, including the Indemnification Agreement dated June 16, 2021, and the Indemnification Agreement dated June 12, 2022. This Agreement does not supersede or have any effect upon the other Indemnification Agreement of even date providing \$40 million in indemnification subject to its terms and conditions. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns, spouses, heirs, and personal and legal representatives. The indemnification provided under this Agreement shall continue as to Indemnitee for any action taken or not taken while Indemnitee was serving in an indemnified capacity pertaining to an Indemnifiable Event even though s/he may have ceased to serve in such capacity at the time of any Proceeding.

10. Severability. If any provision (or portion thereof) of this Agreement shall be held by a court of competent jurisdiction to be invalid, void, or otherwise unenforceable, the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of this Agreement containing any provision held to be invalid, void, or otherwise unenforceable, that is not itself invalid, void, or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, void, or unenforceable.

11. Third-Party Beneficiaries. Each Indemnitee is an express third-party beneficiary of this Agreement, and may specifically enforce the Indemnitor's or the Company's obligations hereunder as though a party hereunder, subject to the limitations specified herein.

12. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Virginia applicable to contracts made and to be performed in such State without giving effect to its principles of conflicts of laws.

13. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement effective as of the date and time specified above.

MICROSTRATEGY INCORPORATED

a Delaware corporation

By: /s/ Phong Le

Name: Phong Le

Title: President

MICHAEL J. SAYLOR,

as Indemnitor

/s/ Michael J. Saylor

Michael J. Saylor

Exhibit A

Policy Structure

[***]

July 7, 2022

Sent via E-Mail

MacroStrategy LLC
Attn: Phong Le
1850 Tower Crescent Plaza
Tysons Corner, VA 22182
E: #####

Loan No. #####

Dear Mr. Le,

With regard to the loan referenced above (the "Loan"), Silvergate Bank ("Bank," "we," "us," and "our") is providing this letter to you ("Borrower," "you," and "your") to confirm our agreement to modify certain terms contained in the Loan Documents evidencing your Loan (this "Letter Agreement"). Capitalized terms not otherwise defined herein shall have the same meanings given to them in that certain Credit and Security Agreement dated March 23, 2022 (the "Loan Agreement"), entered into by and between you and the Bank.

As previously discussed, during the Bank's customary loan documentation review process, we determined that certain aspects of how your Loan was being administered differed slightly from the express terms of the Loan Documents. The modifications set forth below are necessary to ensure your Loan is administered in a manner that's consistent with the terms of your Loan Documents. We believe it is in our collective best interests to maintain the Loan Documents in a manner which reflects the mutual understandings between the Bank and you, as our customer. Accordingly, and as consideration for Borrower's agreements as set forth herein, the Loan Agreement is hereby modified as follows:

1. Modification of I. DEFINITIONS., Section 1.2. General Terms. "Collateral Value" is hereby replaced in its entirety by the following:

"Collateral Value" means, as of any date of determination, the value in Dollars of bitcoin held in the Collateral Account, in each case as reasonably determined by Lender as of 1:00 p.m. Pacific Time ("PT") on the Business Day of valuation ("Valuation Time") under the Valuation Method. For clarity, Lender shall only determine the Collateral Value on Business Days occurring during the Term and will not determine the Collateral Value on non-Business Days. In the absence of fraud or manifest error, any valuations prepared by Custodian using the Valuation Method shall be deemed reasonable for purposes of this paragraph. In determining the Collateral Value, Lender may exclude from the calculation of Collateral Value any bitcoin that Lender determines, acting reasonably and in good faith creates an unreasonable material risk relating to OFAC, BSA/AML compliance or similar matters based on Lender's blockchain analytics analysis and other diligence; *provided* that Lender is making substantially the same exclusions for other similarly situated borrowers in its portfolio that are utilizing bitcoin as collateral. Lender shall provide Borrower with ten (10) Business Days' prior written notice before any such exclusion and adjustment is made effective; provided, that if Lender is required by Applicable Law or other governmental or regulatory directive to immediately exclude any assets from the determination of Collateral Value, Lender may immediately do so, but shall undertake commercially reasonable efforts to provide Borrower with as prompt notice as possible regarding any such required exclusion and adjustment. Lender shall

provide Borrower a written certification that it is making substantially the same exclusions for other similarly situated borrowers in its portfolio that are utilizing bitcoin as collateral, and such certification shall be conclusive evidence of such fact.

2. Modification of II. TERM LOAN, PAYMENTS., Section 2.4 Collateral Shortfall and Section 2.6 Return of Excess Collateral. Sections 2.4. and 2.6. are hereby replaced in their entirety by the following:

2.4 Collateral Shortfall. If, on any Business Day, the LTV Ratio is equal to or greater than the Maximum Advance Rate (a "Collateral Shortfall"), the Borrower shall cause the LTV Ratio to be less than or equal to the Minimum Advance Rate, or for so long as Borrower elects to pay Mid-Point Additional Interest in accordance with Section 3.3 below, the Mid-Point Advance Rate, at the valuation time (1 p.m. PST) on the next Business Day. If the LTV Ratio is not less than or equal to the Minimum Advance Rate or Mid-Point Advance Rate, as applicable, as determined at the valuation time (1 p.m. PST) on that next Business Day after the occurrence of a Collateral Shortfall, an Event of Default shall be deemed to exist, in which case Lender shall be entitled to exercise any and all rights and remedies under Article XI and/or applicable law. For the avoidance of doubt, after Borrower reduces the LTV ratio as a result of a Collateral Shortfall to be less than or equal to the Minimum Advance Rate or Mid-Point Advance Rate, as applicable, Borrower shall have no obligation to maintain the LTV Ratio at such Minimum Advance Rate or Mid-Point Advance Rate, as applicable, for so long as no subsequent Collateral Shortfall occurs.

2.6 Return of Excess Collateral. If, on any Business Day, the LTV Ratio is less than the Minimum Advance Rate as a result of excess Collateral in the Collateral Account (the "Excess Collateral"), Borrower may, but not more frequently than once per Business Day, request a return of some or all of the Excess Collateral. Requests for a return of Excess Collateral must be in writing (which may be delivered by email) and be for a minimum amount of at least \$5,000,000.00 (or equivalent amount of BTC calculated in accordance with the Valuation Method). Borrower shall deliver written requests to the Custodian and Lender. Lender shall use commercially reasonable efforts to authorize the Custodian to process such requests within one (1) Business Day (and shall, in any case, so authorize the Custodian within two (2) Business Days) after Lender's receipt of the request. In no event shall Borrower be entitled to a return of any Collateral, if, after giving effect to the return of that Collateral, the LTV Ratio would exceed the Minimum Advance Rate. Upon any return of such Collateral, the Lender's Lien and security interest granted under this Agreement shall be automatically released and of no further force or effect with respect to the Excess Collateral returned to Borrower.

3. Modification of IX. INFORMATION AS TO BORROWER., Section 9.4. Collateral Account Reports. Section 9.4. is hereby replaced in its entirety by the following:

9.4 Collateral Account Reports. Solely to the extent the Custodian fails to provide Lender with electronic access to daily account information, including asset balances, for the Collateral Account, then, upon written request by Lender, at or prior to 8:00 a.m. PT each Business Day during an Availability Period, the Borrower shall make available a report to the Lender that sets forth the total amount of bitcoin subject to the Collateral Account, in each case as of 8:00 a.m. PT.

Again, this revision is intended to conform your Loan Documents to the manner in which your Loan is already being administered, including with respect to the determination of any Collateral Shortfalls or Advances and to ensure that valuation times under the Loan Agreement are consistent with the Bank's operational practices and course of performance between you and us.

In order to effect this change, please confirm your agreement with the terms of this Letter Agreement by signing below and returning a copy of the signed Letter Agreement to the undersigned. We would greatly appreciate if you could return the signed Letter Agreement within ten (10) days after your receipt.

The Effective Date of the Loan Agreement remains unchanged by the revision noted herein, and all other terms and conditions for the Loan Agreement and the Loan Documents evidencing the Loan made to you by the Bank remain unchanged. Please retain this Letter Agreement after signing and place it with your original loan documentation.

Silvergate Bank values your relationship and thanks you for having allowed us to service your banking needs. Should you have any questions concerning the contents of this letter, please contact the undersigned at #####.

This agreement may be executed in two or more counterparts, which may contain facsimile or electronic copies of signatures. Each of such counterparts will be deemed to be an original copy of this agreement. Signature by facsimile or electronic transmission shall bind the parties hereto. The words "execution," "signed," "signature," and words of similar import in this agreement shall be deemed to include electronic or digital signatures or the keeping of records in electronic form, each of which shall be of the same effect, validity, and enforceability as manually executed signatures or a paper-based recordkeeping system, as the case may be, to the extent and as provided for under applicable law, including the Electronic Signatures in Global and National Commerce Act of 2000 (15 USC § 7001 et seq.) or any other similar state laws based on the Uniform Electronic Transactions Act.

Sincerely,

/s/ Chris McDonagh
Chris McDonagh
Senior Digital Asset Lending Officer
Silvergate Bank

Acknowledged and Accepted:

MacroStrategy LLC,
a Delaware limited liability company

Signature: /s/ Phong Le

Dated: 7/7/2022

Name: Phong Le
Title: Vice President & Treasurer

CERTIFICATION

I, Michael J. Saylor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MicroStrategy Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 2, 2022

/s/ Michael J. Saylor

Michael J. Saylor

Chairman of the Board of Directors & Chief Executive Officer

CERTIFICATION

I, Andrew Kang, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MicroStrategy Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 2, 2022

/s/ Andrew Kang

Andrew Kang

Senior Executive Vice President & Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of MicroStrategy Incorporated (the “Company”) for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, the Chief Executive Officer of the Company and the Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge on the date hereof:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 2, 2022

/s/ Michael J. Saylor

Michael J. Saylor

Chairman of the Board of Directors & Chief Executive Officer

Dated: August 2, 2022

/s/ Andrew Kang

Andrew Kang

Senior Executive Vice President & Chief Financial Officer

Contact:

MicroStrategy Incorporated
Shirish Jajodia
Investor Relations
ir@microstrategy.com
(703) 848-8600

MicroStrategy Announces Separation of Chairman and CEO Roles and Second Quarter 2022 Financial Results;**Michael Saylor to Assume the Role of Executive Chairman and****Phong Le to Serve as Chief Executive Officer**

TYSONS CORNER, Va., August 2, 2022 - [MicroStrategy® Incorporated](#) (Nasdaq: MSTR) (“MicroStrategy” or the “Company”), the largest independent publicly-traded business intelligence company, announced today that, as of August 8, 2022, Michael Saylor will assume the new role of Executive Chairman and Phong Le, the Company’s President, will also serve as the Company’s new Chief Executive Officer and as a member of the Board of Directors. Mr. Saylor will remain the Chairman of the Board of Directors and an executive officer of the Company.

Michael Saylor has served as Chief Executive Officer and Chairman of the Board since founding MicroStrategy in 1989 and taking it public in 1998. Under Mr. Saylor’s leadership, MicroStrategy has become a global leader in business intelligence, serving the largest most respected enterprises and government organizations in the world. It has also been a technology pioneer in the fields of relational, web, mobile, and cloud analytics. More recently, MicroStrategy became the first publicly traded company to adopt bitcoin, a revolutionary financial technology, as its primary treasury reserve asset. As Executive Chairman, Mr. Saylor will focus primarily on innovation and long-term corporate strategy, while continuing to provide oversight of the Company’s bitcoin acquisition strategy as head of the Board’s Investments Committee.

“I believe that splitting the roles of Chairman and CEO will enable us to better pursue our two corporate strategies of acquiring and holding bitcoin and growing our enterprise analytics software business. As Executive Chairman I will be able to focus more on our bitcoin acquisition strategy and related bitcoin advocacy initiatives, while Phong will be empowered as CEO to manage overall corporate operations,” said Mr. Saylor.

Phong Le has served as President since July 2020 and has also served in various other senior executive positions since joining MicroStrategy in 2015, including Chief Financial Officer and Chief Operating Officer. Mr. Le has successfully managed the operations of the Company, delivering one of the best operational and financial years in the history of the Company’s software business in 2021. He has successfully led the transition of the software business to the cloud, driven growth in enterprise and embedded analytics, and led the implementation of the Company’s pioneering bitcoin acquisition strategy. Mr. Le has a passion for engaging with customers and employees, and has built a high-performing, experienced, and stable leadership team. As President & Chief Executive Officer, Mr. Le will lead the day- to-day execution of the Company’ corporate strategies and manage all business operations.

“I’m honored and excited to continue leading this truly innovative organization, as President & CEO. Our people and our brand carry incredible momentum. I would like to reinforce our commitment to our customers, shareholders, partners and employees, and I look forward to leading the organization for the long-term health and growth of our enterprise software and bitcoin acquisition strategies,” said Mr. Le.

The Company also announced today financial results for the second quarter of its fiscal year 2022, or the three month period ended June 30, 2022.

“We continue to see the durability of our enterprise analytics business and the attractiveness of our cloud platform in our results this past quarter. With total revenue growth on a constant currency basis, and 36% year-over-year growth in subscription services revenues, our business remains resilient even in light of the continuing macroeconomic uncertainties,” said Mr. Le.

Second Quarter 2022 Financial Highlights

- **Revenues:** Total revenues for the second quarter of 2022 were \$122.1 million, a 2.6% decrease, or a 1.7% increase on a non-GAAP constant currency basis, compared to the second quarter of 2021. Product licenses and subscription services revenues for the second quarter of 2022 were \$34.1 million, a 5.1% increase, or an 8.4% increase on a non-GAAP constant currency basis, compared to the second quarter of 2021. Product support revenues for the second quarter of 2022 were \$66.5 million, a 6.3% decrease, or a 2.1%

decrease on a non-GAAP constant currency basis, compared to the second quarter of 2021. Other services revenues for the second quarter of 2022 were \$21.4 million, a 1.9% decrease, or a 4.3% increase on a non-GAAP constant currency basis, compared to the second quarter of 2021.

- **Gross Profit:** Gross profit for the second quarter of 2022 was \$96.9 million, representing a 79.4% gross margin, compared to a gross profit of \$102.3 million, representing a gross margin of 81.6%, for the second quarter of 2021.
- **Operating Expenses:** Operating expenses for the second quarter of 2022 were \$1.015 billion, a 96.5% increase compared to the second quarter of 2021. Operating expenses include impairment losses on MicroStrategy's digital assets, which were \$917.8 million during the second quarter of 2022, compared to \$424.8 million in the second quarter of 2021.
- **Loss from Operations and Net Loss:** Loss from operations for the second quarter of 2022 was \$918.1 million, compared to \$414.2 million for the second quarter of 2021. Net loss for the second quarter of 2022 was \$1.062 billion, or \$94.01 per share on a diluted basis, as compared to \$299.3 million, or \$30.71 per share on a diluted basis, for the second quarter of 2021. Digital asset impairment charges of \$917.8 million and \$424.8 million for the second quarter of 2022 and 2021, respectively, were reflected in these amounts.
- **Cash and Cash Equivalents:** As of June 30, 2022, MicroStrategy had cash and cash equivalents of \$69.4 million, as compared to \$63.4 million as of December 31, 2021, an increase of \$6.0 million.
- **Digital Assets:** As of June 30, 2022, the carrying value of MicroStrategy's digital assets (comprised of approximately 129,699 bitcoins) was \$1.988 billion, which reflects cumulative impairment losses of \$1.989 billion since acquisition and an average carrying amount per bitcoin of approximately \$15,326. As of June 30, 2022, the original cost basis and market value of MicroStrategy's bitcoin were \$3.977 billion and \$2.451 billion, respectively, which reflects an average cost per bitcoin of approximately \$30,664 and a market price per bitcoin of \$18,895.02, respectively. Additional information on MicroStrategy's digital asset holdings is included in the "Digital Assets – Additional Information" tables at the end of this press release.

The tables provided at the end of this press release include a reconciliation of the most directly comparable financial measures prepared in accordance with generally accepted accounting principles in the United States ("GAAP") to non-GAAP financial measures for the three and six months ended June 30, 2022 and 2021. An explanation of non-GAAP financial measures is also included under the heading "Non-GAAP Financial Measures" below. Additional non-GAAP financial measures are included in MicroStrategy's "Q2 2022 Earnings Presentation," which will be available under the "Events and Presentations" section of MicroStrategy's investor relations website at <https://www.microstrategy.com/en/investor-relations>.

Non-GAAP Financial Measures

MicroStrategy is providing supplemental financial measures for (i) non-GAAP loss from operations that excludes the impact of share-based compensation expense, (ii) non-GAAP net loss and non-GAAP diluted loss per share that exclude the impacts of share-based compensation expense, interest expense arising from the amortization of debt issuance costs related to MicroStrategy's long-term debt, and related income tax effects, and (iii) non-GAAP constant currency revenues that exclude foreign currency exchange rate fluctuations. These supplemental financial measures are not measurements of financial performance under GAAP and, as a result, these supplemental financial measures may not be comparable to similarly titled measures of other companies. Management uses these non-GAAP financial measures internally to help understand, manage, and evaluate business performance and to help make operating decisions.

MicroStrategy believes that these non-GAAP financial measures are also useful to investors and analysts in comparing its performance across reporting periods on a consistent basis. The first supplemental financial measure excludes a significant non-cash expense that MicroStrategy believes is not reflective of its general business performance, and for which the accounting requires management judgment and the resulting share-based compensation expense could vary significantly in comparison to other companies. The second set of supplemental financial measures excludes the impacts of (i) share-based compensation expense, (ii) non-cash interest expense arising from the amortization of debt issuance costs related to MicroStrategy's long-term debt, and (iii) related income tax effects. The third set of supplemental financial measures excludes changes resulting from fluctuations in foreign currency exchange rates so that results may be compared to the same period in the prior year on a non-GAAP constant currency basis. MicroStrategy believes the use of these non-GAAP financial measures can also facilitate comparison of MicroStrategy's operating results to those of its competitors.

Conference Call

MicroStrategy will be discussing its second quarter 2022 financial results on a live Video Webinar today beginning at approximately 5:00 p.m. ET. The live Video Webinar and accompanying presentation materials will be available under the "Events and Presentations" section of MicroStrategy's investor relations website at <https://www.microstrategy.com/en/investor-relations>. Log-in instructions will

be available after registering for the event. An archived replay of the event will be available beginning approximately two hours after the call concludes.

About MicroStrategy Incorporated

MicroStrategy (Nasdaq: MSTR) is the largest independent publicly-traded analytics and business intelligence company. The MicroStrategy analytics platform is consistently rated as the best in enterprise analytics and is used by many of the world's most admired brands in the Fortune Global 500. We pursue two corporate strategies: (1) grow our enterprise analytics software business to promote our vision of Intelligence Everywhere and (2) acquire and hold bitcoin, which we view as a dependable store of value supported by a robust, public, open-source architecture untethered to sovereign monetary policy. For more information about MicroStrategy, visit www.microstrategy.com.

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

This press release may include statements that may constitute "forward-looking statements," including estimates of future business prospects or financial results and statements containing the words "believe," "estimate," "project," "expect," "will," or similar expressions. Forward-looking statements inherently involve risks and uncertainties that could cause actual results of MicroStrategy Incorporated and its subsidiaries (collectively, the "Company") to differ materially from the forward-looking statements. Factors that could contribute to such differences include: fluctuations in the market price of bitcoin and any associated impairment charges that the Company may incur as a result of a decrease in the market price of bitcoin below the value at which the Company's bitcoins are carried on its balance sheet; gains or losses on any sales of bitcoins; changes in the accounting treatment relating to the Company's bitcoin holdings; changes in securities laws or other laws or regulations, or the adoption of new laws or regulations, relating to bitcoin that adversely affect the price of bitcoin or the Company's ability to transact in or own bitcoin; a decrease in liquidity in the markets in which bitcoin is traded; security breaches, cyberattacks, unauthorized access, loss of private keys, fraud or other circumstances or events that result in the loss of the Company's bitcoins; the level and terms of the Company's substantial indebtedness and its ability to service such debt; the extent and timing of market acceptance of the Company's new product offerings; continued acceptance of the Company's other products in the marketplace; the Company's ability to recognize revenue or deferred revenue through delivery of products or satisfactory performance of services; the timing of significant orders; delays in or the inability of the Company to develop or ship new products; customers shifting from a product license model to a cloud subscription model, which may delay the Company's ability to recognize revenue; fluctuations in tax benefits or provisions; impacts of the COVID-19 pandemic; competitive factors; general economic conditions; currency fluctuations; and other risks detailed in MicroStrategy's registration statements and periodic reports filed with the Securities and Exchange Commission ("SEC"). The Company undertakes no obligation to update these forward-looking statements for revisions or changes after the date of this release.

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues				
Product licenses	\$ 20,129	\$ 22,151	\$ 36,642	\$ 43,431
Subscription services	14,017	10,342	26,862	20,368
Total product licenses and subscription services	34,146	32,493	63,504	63,799
Product support	66,521	71,027	133,672	141,676
Other services	21,406	21,831	44,174	42,778
Total revenues	122,073	125,351	241,350	248,253
Cost of revenues				
Product licenses	431	419	908	907
Subscription services	5,498	3,810	10,908	7,438
Total product licenses and subscription services	5,929	4,229	11,816	8,345
Product support	5,127	4,862	10,318	9,674
Other services	14,148	13,947	28,747	27,568
Total cost of revenues	25,204	23,038	50,881	45,587
Gross profit	96,869	102,313	190,469	202,666
Operating expenses				
Sales and marketing	36,862	40,321	70,102	78,519
Research and development	31,790	28,548	65,313	58,031
General and administrative	28,502	22,917	55,208	44,646
Digital asset impairment losses	917,838	424,774	1,087,929	618,869
Total operating expenses	1,014,992	516,560	1,278,552	800,065
Loss from operations	(918,123)	(414,247)	(1,088,083)	(597,399)
Interest expense, net	(13,187)	(4,401)	(24,226)	(6,797)
Other income (expense), net	5,120	(897)	7,345	367
Loss before income taxes	(926,190)	(419,545)	(1,104,964)	(603,829)
Provision for (benefit from) income taxes	136,108	(120,198)	88,085	(194,462)
Net loss	\$ (1,062,298)	\$ (299,347)	\$ (1,193,049)	\$ (409,367)
Basic loss per share (1):	\$ (94.01)	\$ (30.71)	\$ (105.64)	\$ (42.22)
Weighted average shares outstanding used in computing basic loss per share	11,300	9,746	11,294	9,697
Diluted loss per share (1):	\$ (94.01)	\$ (30.71)	\$ (105.64)	\$ (42.22)
Weighted average shares outstanding used in computing diluted loss per share	11,300	9,746	11,294	9,697

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

MICROSTRATEGY INCORPORATED
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	June 30, 2022 (unaudited)	December 31, 2021*
Assets		
Current assets		
Cash and cash equivalents	\$ 69,386	\$ 63,356
Restricted cash	6,155	1,078
Accounts receivable, net	118,645	189,280
Prepaid expenses and other current assets	25,496	14,251
Total current assets	219,682	267,965
Digital assets	1,987,781	2,850,210
Property and equipment, net	34,580	36,587
Right-of-use assets	65,169	66,760
Deposits and other assets	17,786	15,820
Deferred tax assets, net	243,367	319,782
Total Assets	\$ 2,568,365	\$ 3,557,124
Liabilities and Stockholders' (Deficit) Equity		
Current liabilities		
Accounts payable, accrued expenses, and operating lease liabilities	\$ 35,960	\$ 46,084
Accrued compensation and employee benefits	47,773	54,548
Accrued interest	2,269	1,493
Deferred revenue and advance payments	188,098	209,860
Total current liabilities	274,100	311,985
Long-term debt, net	2,374,863	2,155,151
Deferred revenue and advance payments	8,497	8,089
Operating lease liabilities	72,162	76,608
Other long-term liabilities	25,706	26,224
Deferred tax liabilities	105	109
Total liabilities	2,755,433	2,578,166
Stockholders' (Deficit) Equity		
Preferred stock undesignated, \$0.001 par value; 5,000 shares authorized; no shares issued or outstanding	0	0
Class A common stock, \$0.001 par value; 330,000 shares authorized; 18,021 shares issued and 9,337 shares outstanding, and 18,006 shares issued and 9,322 shares outstanding, respectively	18	18
Class B convertible common stock, \$0.001 par value; 165,000 shares authorized; 1,964 shares issued and outstanding, and 1,964 shares issued and outstanding, respectively	2	2
Additional paid-in capital	1,760,288	1,727,143
Treasury stock, at cost; 8,684 shares	(782,104)	(782,104)
Accumulated other comprehensive loss	(13,665)	(7,543)
(Accumulated deficit) retained earnings	(1,151,607)	41,442
Total Stockholders' (Deficit) Equity	(187,068)	978,958
Total Liabilities and Stockholders' (Deficit) Equity	\$ 2,568,365	\$ 3,557,124

* Derived from audited financial statements.

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30,	
	2022 (unaudited)	2021 (unaudited)
Operating activities:		
Net loss	\$ (1,193,049)	\$ (409,367)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,767	5,997
Reduction in carrying amount of right-of-use assets	3,990	4,204
Credit losses and sales allowances	606	365
Deferred taxes	76,109	(197,383)
Share-based compensation expense	29,688	18,807
Digital asset impairment losses	1,087,929	618,869
Amortization of issuance costs on long-term debt	4,297	2,977
Changes in operating assets and liabilities:		
Accounts receivable	9,281	11,197
Prepaid expenses and other current assets	(7,077)	(4,080)
Deposits and other assets	(6,578)	(1,071)
Accounts payable and accrued expenses	(10,216)	(8,940)
Accrued compensation and employee benefits	(9,802)	1,368
Accrued interest	776	1,307
Deferred revenue and advance payments	36,945	37,825
Operating lease liabilities	(4,835)	(5,147)
Other long-term liabilities	32	(253)
Net cash provided by operating activities	22,863	76,675
Investing activities:		
Purchases of digital assets	(225,500)	(1,615,606)
Purchases of property and equipment	(1,519)	(1,342)
Net cash used in investing activities	(227,019)	(1,616,948)
Financing activities:		
Proceeds from convertible senior notes	0	1,050,000
Issuance costs paid for convertible senior notes	0	(24,742)
Proceeds from senior secured notes	0	500,000
Issuance costs paid for senior secured notes	0	(11,269)
Proceeds from secured term loan, net of lender fees	204,693	0
Issuance costs paid for secured term loan, excluding lender fees	(107)	0
Proceeds from other long-term secured debt	11,100	0
Issuance costs paid for other long-term secured debt	(174)	0
Proceeds from exercise of stock options	711	24,098
Proceeds from sales under employee stock purchase plan	2,805	0
Payment of withholding tax on vesting of restricted stock units	(541)	0
Net cash provided by financing activities	218,487	1,538,087
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	(3,224)	(969)
Net increase (decrease) in cash, cash equivalents, and restricted cash	11,107	(3,155)
Cash, cash equivalents, and restricted cash, beginning of period	64,434	60,759
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 75,541</u>	<u>\$ 57,604</u>

MICROSTRATEGY INCORPORATED
REVENUE AND COST OF REVENUE DETAIL
(in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues				
Product licenses and subscription services:				
Product licenses	\$ 20,129	\$ 22,151	\$ 36,642	\$ 43,431
Subscription services	14,017	10,342	26,862	20,368
Total product licenses and subscription services	34,146	32,493	63,504	63,799
Product support	66,521	71,027	133,672	141,676
Other services:				
Consulting	20,273	20,622	41,708	40,333
Education	1,133	1,209	2,466	2,445
Total other services	21,406	21,831	44,174	42,778
Total revenues	122,073	125,351	241,350	248,253
Cost of revenues				
Product licenses and subscription services:				
Product licenses	431	419	908	907
Subscription services	5,498	3,810	10,908	7,438
Total product licenses and subscription services	5,929	4,229	11,816	8,345
Product support	5,127	4,862	10,318	9,674
Other services:				
Consulting	12,837	12,438	26,137	24,770
Education	1,311	1,509	2,610	2,798
Total other services	14,148	13,947	28,747	27,568
Total cost of revenues	25,204	23,038	50,881	45,587
Gross profit	\$ 96,869	\$ 102,313	\$ 190,469	\$ 202,666

MICROSTRATEGY INCORPORATED
DIGITAL ASSETS – ADDITIONAL INFORMATION
ROLLFORWARD OF BITCOIN HOLDINGS
(unaudited)

	Source of Capital Used to Purchase Bitcoin	Digital Asset Original Cost Basis (in thousands)	Digital Asset Impairment Losses (in thousands)	Digital Asset Carrying Value (in thousands)	Approximate Number of Bitcoins Held *	Approximate Average Purchase Price Per Bitcoin
Balance at December 31, 2020		\$ 1,125,000	\$ (70,698)	\$ 1,054,302	70,469	\$ 15,964
Digital asset purchases	(a)	1,086,375		1,086,375	20,857	52,087
Digital asset impairment losses			(194,095)	(194,095)		
Balance at March 31, 2021		\$ 2,211,375	\$ (264,793)	\$ 1,946,582	91,326	\$ 24,214
Digital asset purchases	(b)	529,231		529,231	13,759	38,464
Digital asset impairment losses			(424,774)	(424,774)		
Balance at June 30, 2021		\$ 2,740,606	\$ (689,567)	\$ 2,051,039	105,085	\$ 26,080
Digital asset purchases	(c)	419,865		419,865	8,957	46,876
Digital asset impairment losses			(65,165)	(65,165)		
Balance at September 30, 2021		\$ 3,160,471	\$ (754,732)	\$ 2,405,739	114,042	\$ 27,713
Digital asset purchases	(d)	591,058		591,058	10,349	57,113
Digital asset impairment losses			(146,587)	(146,587)		
Balance at December 31, 2021		\$ 3,751,529	\$ (901,319)	\$ 2,850,210	124,391	\$ 30,159
Digital asset purchases	(e)	215,500		215,500	4,827	44,645
Digital asset impairment losses			(170,091)	(170,091)		
Balance at March 31, 2022		\$ 3,967,029	\$ (1,071,410)	\$ 2,895,619	129,218	\$ 30,700
Digital asset purchases	(f)	10,000		10,000	481	20,790
Digital asset impairment losses			(917,838)	(917,838)		
Balance at June 30, 2022		\$ 3,977,029	\$ (1,989,248)	\$ 1,987,781	129,699	\$ 30,664

*MicroStrategy owns and has purchased bitcoins both directly and indirectly through its wholly-owned subsidiary, MacroStrategy. References to MicroStrategy below refer to MicroStrategy and its subsidiaries on a consolidated basis.

- (a) In the first quarter of 2021, MicroStrategy purchased bitcoin using \$1.026 billion in net proceeds from its issuance of its 0% Convertible Senior Notes due 2027 (the “2027 Convertible Notes” and, together with the 0.750% Convertible Senior Notes due 2025, the “Convertible Notes”) and excess cash.
- (b) In the second quarter of 2021, MicroStrategy purchased bitcoin using \$487.2 million in net proceeds from its issuance of its 6.125% Senior Secured Notes due 2028 and excess cash.
- (c) In the third quarter of 2021, MicroStrategy purchased bitcoin using \$399.5 million in net proceeds from its sale of 555,179 shares of class A common stock offered under an Open Market Sale Agreement (the “Open Market Sale Agreement”) with Jefferies LLC, as agent, and excess cash.
- (d) In the fourth quarter of 2021, MicroStrategy purchased bitcoin using \$591.0 million in net proceeds from its sale of 858,588 shares of class A common stock offered under the Open Market Sale Agreement and excess cash.
- (e) In the first quarter of 2022, MicroStrategy purchased bitcoin using \$190.5 million of the net proceeds from the issuance of the 2025 Secured Term Loan and excess cash.
- (f) In the second quarter of 2022, MicroStrategy purchased bitcoin using excess cash.

MICROSTRATEGY INCORPORATED
DIGITAL ASSETS – ADDITIONAL INFORMATION
MARKET VALUE OF BITCOIN HOLDINGS
(unaudited)

	Approximate Number of Bitcoins Held at End of Quarter *	Lowest Market Price Per Bitcoin During Quarter (a)	Market Value of Bitcoin Held at End of Quarter Using Lowest Market Price (in thousands) (b)	Highest Market Price Per Bitcoin During Quarter (c)	Market Value of Bitcoin Held at End of Quarter Using Highest Market Price (in thousands) (d)	Market Price Per Bitcoin at End of Quarter (e)	Market Value of Bitcoin Held at End of Quarter Using Ending Market Price (in thousands) (f)
December 31, 2020	70,469	\$ 10,363.76	\$ 730,324	\$ 29,321.90	\$ 2,066,285	\$ 29,181.00	\$ 2,056,356
March 31, 2021	91,326	\$ 27,678.00	\$ 2,527,721	\$ 61,788.45	\$ 5,642,892	\$ 58,601.28	\$ 5,351,820
June 30, 2021	105,085	\$ 28,800.00	\$ 3,026,448	\$ 64,899.00	\$ 6,819,911	\$ 34,763.47	\$ 3,653,119
September 30, 2021	114,042	\$ 29,301.56	\$ 3,341,609	\$ 52,944.96	\$ 6,037,949	\$ 43,534.56	\$ 4,964,768
December 31, 2021	124,391	\$ 42,333.00	\$ 5,265,844	\$ 69,000.00	\$ 8,582,979	\$ 45,879.97	\$ 5,707,055
March 31, 2022	129,218	\$ 32,933.33	\$ 4,255,579	\$ 48,240.00	\$ 6,233,476	\$ 45,602.79	\$ 5,892,701
June 30, 2022	129,699	\$ 17,567.45	\$ 2,278,481	\$ 47,469.40	\$ 6,156,734	\$ 18,895.02	\$ 2,450,665

*MicroStrategy owns and has purchased bitcoins both directly and indirectly through its wholly-owned subsidiary, MacroStrategy. References to MicroStrategy below refer to MicroStrategy and its subsidiaries on a consolidated basis.

- (a) The "Lowest Market Price Per Bitcoin During Quarter" represents the lowest market price for one bitcoin reported on the Coinbase exchange during the respective quarter, without regard to when MicroStrategy purchased any of its bitcoin.
- (b) The "Market Value of Bitcoin Held at End of Quarter Using Lowest Market Price" represents a mathematical calculation consisting of the lowest market price for one bitcoin reported on the Coinbase exchange during the respective quarter multiplied by the number of bitcoins held by MicroStrategy at the end of the applicable period.
- (c) The "Highest Market Price Per Bitcoin During Quarter" represents the highest market price for one bitcoin reported on the Coinbase exchange during the respective quarter, without regard to when MicroStrategy purchased any of its bitcoin.
- (d) The "Market Value of Bitcoin Held at End of Quarter Using Highest Market Price" represents a mathematical calculation consisting of the highest market price for one bitcoin reported on the Coinbase exchange during the respective quarter multiplied by the number of bitcoins held by MicroStrategy at the end of the applicable period.
- (e) The "Market Price Per Bitcoin at End of Quarter" represents the market price of one bitcoin on the Coinbase exchange at 4:00 p.m. Eastern Time on the last day of the respective quarter.
- (f) The "Market Value of Bitcoin Held at End of Quarter Using Ending Market Price" represents a mathematical calculation consisting of the market price of one bitcoin on the Coinbase exchange at 4:00 p.m. Eastern Time on the last day of the respective quarter multiplied by the number of bitcoins held by MicroStrategy at the end of the applicable period.

The amounts reported as "Market Value" in the above table represent only a mathematical calculation consisting of the price for one bitcoin reported on the Coinbase exchange (MicroStrategy's principal market for bitcoin) in each scenario defined above multiplied by the number of bitcoins held by MicroStrategy at the end of the applicable period. The SEC has previously stated that there has not been a demonstration that (i) bitcoin and bitcoin markets are inherently resistant to manipulation or that the spot price of bitcoin may not be subject to fraud and manipulation; and (ii) adequate surveillance-sharing agreements with bitcoin-related markets are in place, as bitcoin-related markets are either not significant, not regulated, or both. Accordingly, the Market Value amounts reported above may not accurately represent fair market value, and the actual fair market value of MicroStrategy's bitcoin may be different from such amounts and such deviation may be material. Moreover, (i) the bitcoin market historically has been characterized by significant volatility in price, limited liquidity and trading volumes compared to sovereign currencies markets, relative anonymity, a developing regulatory landscape, potential susceptibility to market abuse and manipulation, and various other risks that are, or may be, inherent in its entirely electronic, virtual form and decentralized network and (ii) MicroStrategy may not be able to sell its bitcoins at the Market Value amounts indicated above, at the market price as reported on the Coinbase exchange (its principal market) on the date of sale, or at all.

MICROSTRATEGY INCORPORATED
RECONCILIATION OF GAAP TO NON-GAAP MEASURES
LOSS FROM OPERATIONS
(in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of non-GAAP loss from operations:				
Loss from operations	\$ (918,123)	\$ (414,247)	\$ (1,088,083)	\$ (597,399)
Share-based compensation expense	15,294	11,096	29,688	18,807
Non-GAAP loss from operations	<u>\$ (902,829)</u>	<u>\$ (403,151)</u>	<u>\$ (1,058,395)</u>	<u>\$ (578,592)</u>

MICROSTRATEGY INCORPORATED
RECONCILIATION OF GAAP TO NON-GAAP MEASURES
NET LOSS AND DILUTED LOSS PER SHARE
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022 (unaudited)	2021 (unaudited)	2022 (unaudited)	2021 (unaudited)
Reconciliation of non-GAAP net loss:				
Net loss	\$ (1,062,298)	\$ (299,347)	\$ (1,193,049)	\$ (409,367)
Share-based compensation expense	15,294	11,096	29,688	18,807
Interest expense arising from amortization of debt issuance costs	2,168	1,805	4,297	2,977
Income tax effects (1)	(3,898)	(2,651)	(7,342)	(26,388)
Non-GAAP net loss	<u>\$ (1,048,734)</u>	<u>\$ (289,097)</u>	<u>\$ (1,166,406)</u>	<u>\$ (413,971)</u>
Reconciliation of non-GAAP diluted loss per share (2):				
Diluted loss per share	\$ (94.01)	\$ (30.71)	\$ (105.64)	\$ (42.22)
Share-based compensation expense (per diluted share)	1.35	1.14	2.63	1.94
Interest expense arising from amortization of debt issuance costs (per diluted share)	0.19	0.19	0.38	0.31
Income tax effects (per diluted share)	(0.34)	(0.28)	(0.65)	(2.72)
Non-GAAP diluted loss per share	<u>\$ (92.81)</u>	<u>\$ (29.66)</u>	<u>\$ (103.28)</u>	<u>\$ (42.69)</u>

- (3) Income tax effects reflect the net tax effects of share-based compensation expense, which includes tax benefits and expenses on exercises of stock options and vesting of share-settled restricted stock units, and interest expense for amortization of debt issuance costs.
- (4) For reconciliation purposes, the non-GAAP diluted earnings (loss) per share calculations use the same weighted average shares outstanding as that used in the GAAP diluted earnings (loss) per share calculations for the same period. For example, in periods of GAAP net loss, otherwise dilutive potential shares of common stock from MicroStrategy's share-based compensation arrangements and Convertible Notes are excluded from the GAAP diluted loss per share calculation as they would be antidilutive, and therefore are also excluded from the non-GAAP diluted earnings or loss per share calculation.

MICROSTRATEGY INCORPORATED
RECONCILIATION OF GAAP TO NON-GAAP MEASURES
CONSTANT CURRENCY
(in thousands)

Three Months Ended
June 30,
(unaudited)

	GAAP	Foreign Currency Exchange Rate Impact (1)	Non-GAAP Constant Currency (2)	GAAP	GAAP % Change	Non-GAAP Constant Currency % Change (3)
	2022	2022	2022	2021	2022	2022
Revenues						
Product licenses	\$ 20,129	\$ (608)	\$ 20,737	\$ 22,151	-9.1%	-6.4%
Subscription services	14,017	(483)	14,500	10,342	35.5%	40.2%
Total product licenses and subscription services	34,146	(1,091)	35,237	32,493	5.1%	8.4%
Product support	66,521	(3,000)	69,521	71,027	-6.3%	-2.1%
Other services	21,406	(1,365)	22,771	21,831	-1.9%	4.3%
Total revenues	122,073	(5,456)	127,529	125,351	-2.6%	1.7%

Six Months Ended
June 30,
(unaudited)

	GAAP	Foreign Currency Exchange Rate Impact (1)	Non-GAAP Constant Currency (2)	GAAP	GAAP % Change	Non-GAAP Constant Currency % Change (3)
	2022	2022	2022	2021	2022	2022
Revenues						
Product licenses	\$ 36,642	\$ (1,096)	\$ 37,738	\$ 43,431	-15.6%	-13.1%
Subscription services	26,862	(688)	27,550	20,368	31.9%	35.3%
Total product licenses and subscription services	63,504	(1,784)	65,288	63,799	-0.5%	2.3%
Product support	133,672	(4,699)	138,371	141,676	-5.6%	-2.3%
Other services	44,174	(2,167)	46,341	42,778	3.3%	8.3%
Total revenues	241,350	(8,650)	250,000	248,253	-2.8%	0.7%

- (1) The “Foreign Currency Exchange Rate Impact” reflects the estimated impact of fluctuations in foreign currency exchange rates on international revenues. It shows the increase (decrease) in international revenues from the same period in the prior year, based on comparisons to the prior year quarterly average foreign currency exchange rates. The term “international” refers to operations outside of the United States and Canada.
- (2) The “Non-GAAP Constant Currency” reflects the current period GAAP amount, less the Foreign Currency Exchange Rate Impact.
- (3) The “Non-GAAP Constant Currency % Change” reflects the percentage change between the current period Non-GAAP Constant Currency amount and the GAAP amount for the same period in the prior year.

MICROSTRATEGY INCORPORATED
DEFERRED REVENUE DETAIL
(in thousands)

	June 30, 2022 (unaudited)	December 31, 2021*	June 30, 2021 (unaudited)
Current:			
Deferred product licenses revenue	\$ 754	\$ 993	\$ 544
Deferred subscription services revenue	40,295	35,589	25,916
Deferred product support revenue	143,524	166,477	150,963
Deferred other services revenue	3,525	6,801	5,395
Total current deferred revenue and advance payments	<u>\$ 188,098</u>	<u>\$ 209,860</u>	<u>\$ 182,818</u>
Non-current:			
Deferred product licenses revenue	\$ 0	\$ 68	\$ 76
Deferred subscription services revenue	2,639	1,064	712
Deferred product support revenue	5,272	6,203	5,920
Deferred other services revenue	586	754	554
Total non-current deferred revenue and advance payments	<u>\$ 8,497</u>	<u>\$ 8,089</u>	<u>\$ 7,262</u>
Total current and non-current:			
Deferred product licenses revenue	\$ 754	\$ 1,061	\$ 620
Deferred subscription services revenue	42,934	36,653	26,628
Deferred product support revenue	148,796	172,680	156,883
Deferred other services revenue	4,111	7,555	5,949
Total current and non-current deferred revenue and advance payments	<u>\$ 196,595</u>	<u>\$ 217,949</u>	<u>\$ 190,080</u>

* Derived from audited financial statements.