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, 2021

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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 22, 2021, the registrant had 7,783,443 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, 2021 (unaudited)	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 56,399	$ 59,675
Restricted cash	1,205	1,084
Accounts receivable, net	131,516	197,461
Prepaid expenses and other current assets	19,338	14,400
Total current assets	208,458	272,620
Digital assets	2,051,039	1,054,302
Property and equipment, net	39,659	42,975
Right-of-use assets	70,340	73,597
Deposits and other assets	15,756	15,615
Deferred tax assets, net	239,107	6,503
Total assets	$ 2,624,359	$ 1,465,612
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable, accrued expenses, and operating lease liabilities	$ 41,236	$ 45,119
Accrued compensation and employee benefits	50,944	49,249
Deferred revenue and advance payments	182,818	191,250
Total current liabilities	274,998	285,618
Long-term debt, net	2,150,927	486,366
Deferred revenue and advance payments	7,262	14,662
Operating lease liabilities	80,900	84,328
Other long-term liabilities	31,040	33,382
Deferred tax liabilities	1,813	8,211
Total liabilities	2,546,940	912,567
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock undesignated, $0.001 par value; 5,000 shares authorized; no shares issued or outstanding	0	0
Class A common stock, $0.001 par value; 330,000 shares authorized; 16,468 shares issued and 7,784 shares outstanding, and 16,307 shares issued and 7,623 shares outstanding, respectively	16	16
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	697,274	763,051
Treasury stock, at cost; 8,684 shares and 8,684 shares, respectively	(782,104)	(782,104)
Accumulated other comprehensive loss	(5,324)	(3,885)
Retained earnings	167,555	575,965
Total stockholders' equity	77,419	553,045
Total liabilities and stockholders' equity	$ 2,624,359	$ 1,465,612

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, 2021 (unaudited)	Three Months Ended June 30, 2020 (unaudited)
Revenues:		
Product licenses	$ 22,151	$ 14,816
Subscription services	10,342	8,021
Total product licenses and subscription services	32,493	22,837
Product support	71,027	70,038
Other services	21,831	17,709
Total revenues	125,351	110,584
Cost of revenues:		
Product licenses	419	514
Subscription services	3,810	3,792
Total product licenses and subscription services	4,229	4,306
Product support	4,862	6,837
Other services	13,947	12,846
Total cost of revenues	23,038	23,989
Gross profit	102,313	86,595
Operating expenses:		
Sales and marketing	40,321	34,951
Research and development	28,548	25,867
General and administrative	22,917	19,449
Digital asset impairment losses	424,774	0
Total operating expenses	516,560	80,267
(Loss) income from operations	(414,247)	6,328
Interest (expense) income, net	(4,401)	563
Other expense, net	(897)	(1,995)
(Loss) income before income taxes	(419,545)	4,896
(Benefit from) provision for income taxes	(120,198)	1,509
Net (loss) income	$ (299,347)	$ 3,387
Basic (loss) earnings per share (1)	$ (30.71)	$ 0.35
Weighted average shares outstanding used in computing basic (loss) earnings per share	9,746	9,739
Diluted (loss) earnings per share (1)	$ (30.71)	$ 0.35
Weighted average shares outstanding used in computing diluted (loss) earnings per share	9,746	9,741

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

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

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

	Six Months Ended June 30, 2021 (unaudited)	Six Months Ended June 30, 2020 (unaudited)
Revenues:		
Product licenses	$ 43,431	$ 27,400
Subscription services	20,368	15,989
Total product licenses and subscription services	63,799	43,389
Product support	141,676	141,196
Other services	42,778	37,423
Total revenues	248,253	222,008
Cost of revenues:		
Product licenses	907	1,184
Subscription services	7,438	7,856
Total product licenses and subscription services	8,345	9,040
Product support	9,674	13,555
Other services	27,568	25,939
Total cost of revenues	45,587	48,534
Gross profit	202,666	173,474
Operating expenses:		
Sales and marketing	78,519	74,469
Research and development	58,031	51,968
General and administrative	44,646	40,781
Digital asset impairment losses	618,869	0
Total operating expenses	800,065	167,218
(Loss) income from operations	(597,399)	6,256
Interest (expense) income, net	(6,797)	2,418
Other income (expense), net	367	(1,561)
(Loss) income before income taxes	(603,829)	7,113
(Benefit from) provision for income taxes	(194,462)	3,069
Net (loss) income	$ (409,367)	$ 4,044
Basic (loss) earnings per share (1)	$ (42.22)	$ 0.41
Weighted average shares outstanding used in computing basic (loss) earnings per share	9,697	9,858
Diluted (loss) earnings per share (1)	$ (42.22)	$ 0.41
Weighted average shares outstanding used in computing diluted (loss) earnings per share	9,697	9,886

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

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

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(in thousands)

	Three Months Ended June 30,	
	2021	**2020**
	(unaudited)	(unaudited)
Net (loss) income	$ (299,347)	$ 3,387
Other comprehensive income (loss), net of applicable taxes:		
Foreign currency translation adjustment	397	1,457
Unrealized loss on short-term investments	0	(446)
Total other comprehensive income	397	1,011
Comprehensive (loss) income	$ (298,950)	$ 4,398

	Six Months Ended June 30,	
	2021	**2020**
	(unaudited)	(unaudited)
Net (loss) income	$ (409,367)	$ 4,044
Other comprehensive (loss) income, net of applicable taxes:		
Foreign currency translation adjustment	(1,439)	286
Unrealized gain on short-term investments	0	178
Total other comprehensive (loss) income	(1,439)	464
Comprehensive (loss) income	$ (410,806)	$ 4,508

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

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

		Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Retained Earnings
	Total	**Shares**	**Amount**	**Shares**	**Amount**		**Shares**	**Amount**		
Balance at January 1, 2020	$ 508,559	15,888	$ 16	2,035	$ 2	$ 593,583	(7,807)	$ (658,880)	$ (9,651)	$ 583,489
Net income	657	0	0	0	0	0	0	0	0	657
Other comprehensive loss	(547)	0	0	0	0	0	0	0	(547)	0
Issuance of class A common stock under stock option plans	340	3	0	0	0	340	0	0	0	0
Purchases of treasury stock	(50,747)	0	0	0	0	0	(355)	(50,747)	0	0
Share-based compensation expense	3,164	0	0	0	0	3,164	0	0	0	0
Balance at March 31, 2020	$ 461,426	15,891	$ 16	2,035	$ 2	$ 597,087	(8,162)	$ (709,627)	$ (10,198)	$ 584,146
Net income	3,387	0	0	0	0	0	0	0	0	3,387
Other comprehensive income	1,011	0	0	0	0	0	0	0	1,011	0
Issuance of class A common stock under stock option plans	1,562	12	0	0	0	1,562	0	0	0	0
Purchases of treasury stock	(11,128)	0	0	0	0	0	(90)	(11,128)	0	0
Share-based compensation expense	2,202	0	0	0	0	2,202	0	0	0	0
Balance at June 30, 2020	$ 458,460	15,903	$ 16	2,035	$ 2	$ 600,851	(8,252)	$ (720,755)	$ (9,187)	$ 587,533
Net loss	(14,229)	0	0	0	0	0	0	0	0	(14,229)
Other comprehensive income	2,287	0	0	0	0	0	0	0	2,287	0
Conversion of class B to class A common stock	0	21	0	(21)	0	0	0	0	0	0
Issuance of class A common stock under stock option plans	1,714	13	0	0	0	1,714	0	0	0	0
Purchases of treasury stock	(61,349)	0	0	0	0	0	(432)	(61,349)	0	0
Share-based compensation expense	2,409	0	0	0	0	2,409	0	0	0	0
Balance at September 30, 2020	$ 389,292	15,937	$ 16	2,014	$ 2	$ 604,974	(8,684)	$ (782,104)	$ (6,900)	$ 573,304
Net income	2,661	0	0	0	0	0	0	0	0	2,661
Other comprehensive income	3,015	0	0	0	0	0	0	0	3,015	0
Conversion of class B to class A common stock	0	50	0	(50)	0	0	0	0	0	0
Issuance of class A common stock under stock option plans	47,466	320	0	0	0	47,466	0	0	0	0
Share-based compensation expense	2,801	0	0	0	0	2,801	0	0	0	0
Equity component of convertible senior notes, net of issuance cost and deferred tax liability	107,810	0	0	0	0	107,810	0	0	0	0
Balance at December 31, 2020	$ 553,045	16,307	$ 16	1,964	$ 2	$ 763,051	(8,684)	$ (782,104)	$ (3,885)	$ 575,965
Opening balance adjustment due to the adoption of ASU 2020-06	(106,853)	0	0	0	0	(107,810)	0	0	0	957
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 under stock option plans	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	$ 365,038	16,466	$ 16	1,964	$ 2	$ 685,943	(8,684)	$ (782,104)	$ (5,721)	$ 466,902
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 under stock option plans	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	$ 77,419	16,468	$ 16	1,964	$ 2	$ 697,274	(8,684)	$ (782,104)	$ (5,324)	$ 167,555

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, 2021 (unaudited)	Six Months Ended June 30, 2020 (unaudited)
Operating activities:		
Net (loss) income	$ (409,367)	$ 4,044
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	5,997	5,828
Reduction in carrying amount of right-of-use assets	4,204	4,085
Credit losses and sales allowances	365	990
Deferred taxes	(197,383)	273
Share-based compensation expense	18,807	5,337
Digital asset impairment losses	618,869	0
Amortization of issuance costs on long-term debt	2,977	0
Changes in operating assets and liabilities:		
Accounts receivable	11,197	21,022
Prepaid expenses and other current assets	(4,080)	(493)
Deposits and other assets	(1,071)	195
Accounts payable and accrued expenses	(7,633)	(1,823)
Accrued compensation and employee benefits	1,368	(8,708)
Deferred revenue and advance payments	37,825	347
Operating lease liabilities	(5,147)	(4,662)
Other long-term liabilities	(253)	86
Net cash provided by operating activities	76,675	26,521
Investing activities:		
Purchases of digital assets	(1,615,606)	0
Proceeds from redemption of short-term investments	0	10,000
Purchases of property and equipment	(1,342)	(1,162)
Purchases of short-term investments	0	(9,928)
Net cash used in investing activities	(1,616,948)	(1,090)
Financing activities:		
Proceeds from convertible senior notes	1,050,000	0
Issuance costs paid for convertible senior notes	(24,742)	0
Proceeds from senior secured notes	500,000	0
Issuance costs paid for senior secured notes	(11,269)	0
Proceeds from sale of class A common stock under exercise of employee stock options	24,098	1,902
Purchases of treasury stock	0	(61,875)
Net cash provided by (used in) financing activities	1,538,087	(59,973)
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	(969)	(1,154)
Net decrease in cash, cash equivalents, and restricted cash	(3,155)	(35,696)
Cash, cash equivalents, and restricted cash, beginning of period	60,759	457,816
Cash, cash equivalents, and restricted cash, end of period	$ 57,604	$ 422,120

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

(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.

As discussed in Note 2, Recent Accounting Standards, to the Consolidated Financial Statements, the Company adopted 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"), effective January 1, 2021. Comparative prior period Consolidated Financial Statements have not been restated for ASU 2020-06 and are not directly comparable to the current period Consolidated Financial Statements.

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, 2020. During 2021, the Company made the following significant changes in its accounting policies, which are discussed further below:

- the accounting policies related to senior secured notes;
- changes to the expected stock price volatility assumption in the Black-Scholes valuation model used to determine the fair value of certain awards granted under the 2013 Stock Incentive Plan (as amended, the "2013 Equity Plan");
- the grant date fair value under the 2021 Employee Stock Purchase Plan (the "2021 ESPP"), and updated accounting policies for the 2021 ESPP; and
- adoption of ASU 2020-06 and its impact on accounting for convertible debt arrangements and diluted earnings per share calculations.

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.

(b) Debt Arrangements

As discussed in Note 6, Long-term Debt, to the Consolidated Financial Statements, the Company issued convertible senior notes in December 2020 and February 2021 and senior secured notes in June 2021. The embedded conversion features in each of the convertible notes are indexed to the Company's own stock and meet the criteria for classification in stockholders' equity, and therefore derivative accounting does not apply. The Company records the aggregate principal amount of each of the convertible and secured notes as a liability on its Consolidated Balance Sheet, offset by the issuance costs associated with each offering. The issuance costs are amortized to interest expense using the effective interest method over the expected term of each of the notes.

(c) Share-based Compensation

The Company maintains the 2013 Equity Plan, under which the Company's employees, officers, directors, and other eligible participants may be awarded various types of share-based compensation, including options to purchase shares of the Company's class A common stock, restricted stock units, and other stock-based awards. During the first quarter of 2021, the Company adopted the 2021 ESPP, and in May 2021, the Company's stockholders approved the 2021 ESPP, under which eligible employees of the Company and certain of its subsidiaries may be provided with opportunities to purchase shares of the Company's class A common stock.

The Company recognizes share-based compensation expense associated with the 2013 Equity Plan and the 2021 ESPP on a straight-line basis over the requisite service period (generally, the vesting period for awards under the 2013 Equity Plan and the offering period under the 2021 ESPP). For options and other stock-based awards, the share-based compensation expense is based on the fair value of the awards on the date of grant, as estimated using the Black-Scholes valuation model. For the 2021 ESPP, the share-based compensation expense is based on the grant date fair value, which consists of the intrinsic value of any purchase discount and the fair value of the look-back provision using the Black-Scholes valuation model. For restricted stock units, the share-based compensation expense is based on the fair value of the Company's class A common stock on the date of grant.

The Black-Scholes valuation model requires the input of certain management assumptions, including the expected term, expected stock price volatility, risk-free interest rate, and expected dividend yield. Beginning in 2021, the Company estimates the expected stock price volatility by calculating a blended rate from the historical stock price volatility of its class A common stock and the implied volatility of the Company's traded financial instruments with similar terms to the respective award. For stock options granted prior to 2021, the Company relied exclusively on its historical stock price volatility to estimate the expected stock price volatility over the expected term because the Company believed at the date of grant that future volatility was unlikely to differ from the past. The remaining assumptions in the Black-Scholes valuation model have not changed significantly since December 31, 2020. These assumptions are based on management's best judgment, and changes to these assumptions could materially affect the fair value estimates and amount of share-based compensation expense recognized.

See Note 10, Share-based Compensation, to the Consolidated Financial Statements for further information regarding the 2013 Equity Plan, the 2021 ESPP, related share-based compensation expense, and assumptions used in determining fair value.

(d) Basic and Diluted Earnings Per Share

Basic earnings per share is determined by dividing the net income attributable to common stockholders by the weighted average number of common shares and participating securities outstanding during the period. Participating securities are included in the basic earnings per share calculation when dilutive. Diluted earnings per share is determined by dividing the net income attributable to common stockholders by the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares are included in the diluted earnings per share calculation when dilutive. Potential common shares consisting of class A common stock issuable upon the exercise of outstanding employee stock options, the vesting of restricted stock units, and in connection with the 2021 ESPP are computed using the treasury stock method. Upon the adoption of ASU 2020-06, potential common shares consisting of class A common stock issuable upon conversion of the Company's convertible senior notes are computed using the if-converted method. Prior to the adoption of ASU 2020-06, potential common shares consisting of class A common stock issuable upon conversion of the Company's convertible senior notes were computed using the treasury stock method. See Note 2, Recent Accounting Standards, to the Consolidated Financial Statements for further information regarding the differences in the if-converted and treasury stock methods.

(2) Recent Accounting Standards

Accounting for Convertible Instruments

The Company early adopted ASU 2020-06 effective as of January 1, 2021 using the modified retrospective method, which resulted in a cumulative-effect adjustment to the opening balance of retained earnings on the date of adoption, recorded as follows (in thousands):

Consolidated Balance Sheet	December 31, 2020 As Reported	Effect of the Adoption of ASU 2020-06	January 1, 2021 As Adjusted
Deferred tax liabilities (assets)	$ 8,211	$ (41,693)	$ (33,482)
Convertible senior notes, net	486,366	148,546	634,912
Additional paid-in-capital	763,051	(107,810)	655,241
Retained earnings	575,965	957	576,922

The following significant accounting changes occurred as result of the adoption of ASU 2020-06:

(i) *Elimination of the cash conversion model*. Under previous GAAP, instruments that may be partially settled in cash were in the scope of the "cash conversion" model, which required conversion features to be separately reported in equity. Upon the adoption of ASU 2020-06, the cash conversion model was eliminated and the Company no longer records conversion features in equity and instead accounts for its convertible senior notes as single units of debt. As a result, there is no longer a debt discount or subsequent amortization to be recognized as interest expense. Similarly, the Company no longer allocates a portion of the related issuance costs to equity. As a result of these changes, temporary differences between the Company's book and tax bases have been eliminated and the Company no longer records any related net deferred tax liability.

(ii) *Use of the "if-converted" method for calculating diluted earnings per share*. Under previous GAAP, the Company utilized the "treasury stock" method for computing the diluted earnings per share impact of its convertible senior notes. Under the treasury stock method, only the excess of the average stock price of the Company's class A common stock for the reporting period over the conversion price was used in determining the impact to the diluted earnings per share denominator. Upon the adoption of ASU 2020-06, the Company may no longer use the treasury stock method for instruments with flexible settlement arrangements. Instead, the Company is required to use the if-converted method, which requires all underlying shares be included in the denominator regardless of the average stock price for the reporting period, in addition to adding back to the numerator the related interest expense from the stated coupon and the amortization of issuance costs, if dilutive.

Accounting for income taxes

The Company adopted Accounting Standards Update No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12") effective as of January 1, 2021. ASU 2019-12 simplifies the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities related to outside basis differences. ASU 2019-12 requires certain amendments to be applied prospectively and others retrospectively. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations, or cash flows. Prior periods have not been adjusted and no cumulative-effect adjustment to retained earnings was made.

(3) Digital Assets

The Company accounts for its digital assets 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. During the six months ended June 30, 2021, the Company purchased approximately 34,616 bitcoins for $1.616 billion in cash, including cash from the net proceeds related to the issuance of its convertible senior notes due 2027 and its senior secured notes due 2028. During the three and six months ended June 30, 2021, the Company incurred $424.8 million and $618.9 million, respectively, of impairment losses on its bitcoin, which were recognized as "Digital asset impairment losses" in the Company's Consolidated Statement of Operations. As of June 30, 2021, the carrying value of the Company's approximately 105,085 bitcoins was $2.051 billion, which reflects cumulative impairments of $689.6 million. As of December 31, 2020, the carrying value of the Company's approximately 70,469 bitcoins was $1.054 billion, which reflected cumulative impairments of $70.7 million. 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, 2021 or December 31, 2020, respectively, and not as of June 30, 2021 or December 31, 2020, respectively. The Company did not sell any of its bitcoins during the three and six months ended June 30, 2021.

(4) 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, 2021	December 31, 2020
Billed and billable	$ 133,913	$ 200,221
Less: allowance for credit losses	(2,397)	(2,760)
Accounts receivable, net	$ 131,516	$ 197,461

Changes in the allowance for credit losses were not material for the three and six months ended June 30, 2021. In estimating its allowance for credit losses as of June 30, 2021, the Company considered the impact from the pandemic caused by a novel strain of coronavirus ("COVID-19") and established additional risk pools and reserves relating to customers in certain geographic areas and industries, in addition to separately assessing the reserves for certain customers that have been granted extended payment terms.

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, 2021 and 2020, 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 $0.9 million and $1.1 million in accrued sales and usage-based royalty revenue as of June 30, 2021 and December 31, 2020, 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 contracts 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, 2021	December 31, 2020
Current:		
Deferred product licenses revenue	$ 544	$ 1,495
Deferred subscription services revenue	25,916	26,258
Deferred product support revenue	150,963	156,216
Deferred other services revenue	5,395	7,281
Total current deferred revenue and advance payments	$ 182,818	$ 191,250
Non-current:		
Deferred product licenses revenue	$ 76	$ 139
Deferred subscription services revenue	712	8,758
Deferred product support revenue	5,920	5,055
Deferred other services revenue	554	710
Total non-current deferred revenue and advance payments	$ 7,262	$ 14,662

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. During the three and six months ended June 30, 2020, the Company recognized revenues of $53.9 million and $123.2 million, respectively, from amounts included in the total deferred revenue and advance payments balances at the beginning of 2020. For the three and six months ended June 30, 2021 and 2020, 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 remaining performance obligation disclosure. As of June 30, 2021, the Company had an aggregate transaction price of $215.3 million allocated to remaining performance obligations related to product support, subscription services, other services, and, in limited cases, product licenses contracts. The Company expects to recognize $187.6 million within the next 12 months and the remainder thereafter.

(5) Leases

The Company leases office space in the United States and foreign locations under operating lease agreements. Office space is the Company’s only material underlying asset class under operating lease agreements. The Company has no material finance leases.

Under the Company’s office space lease agreements, fixed payments and variable payments that depend on an index or rate are typically comprised of base rent and parking fees. Additionally, under these agreements the Company is generally responsible for certain variable payments that typically include certain taxes, utilities and maintenance costs, and other fees. These variable lease payments are generally based on the Company’s occupation or usage percentages and are subject to adjustments by the lessor.

As of June 30, 2021, the Company’s right-of-use (“ROU”) assets and total lease liabilities were $59.8 million and $79.4 million, respectively, for leases in the United States and $10.5 million and $11.5 million, respectively, for foreign leases. As of December 31, 2020, the Company’s ROU assets and total lease liabilities were $ 62.2 million and $82.9 million, respectively, for leases in the United States and $11.4 million and $12.2 million, respectively, for foreign leases. The Company’s most significant lease is for its corporate headquarters in Northern Virginia. The ROU asset and total lease liability related to the Company’s corporate headquarters lease were

$57.1 million and $76.7 million, respectively, as of June 30, 2021, and $59.0 million and $79.7 million, respectively, as of December 31, 2020. During the six months ended June 30, 2021, $1.8 million of ROU assets were obtained in exchange for new operating lease liabilities. During the six months ended June 30, 2020, $0.7 million of ROU assets were obtained in exchange for new operating lease liabilities.

(6) Long-term Debt

As of June 30, 2021, the net carrying value of the Company's long-term debt consisted of the following (in thousands):

	June 30, 2021	
2025 Convertible Notes	$	636,392
2027 Convertible Notes		1,027,262
2028 Secured Notes		487,273
Total	$	2,150,927

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 Indenture"). 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 0% Convertible Senior Notes due 2027 (the "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 (the "2027 Convertible Notes Indenture"). 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 2025 Convertible Notes and 2027 Convertible Notes (collectively, the "Convertible Notes") are senior unsecured obligations and rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to any of the Company's unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of the Company's subsidiaries.

The Convertible Notes are convertible into shares of the Company's class A common stock at initial conversion rates of 2.5126 shares and 0.6981 shares per $1,000 principal amount of Convertible Notes for the 2025 Convertible Notes and 2027 Convertible Notes, respectively (equivalent to an initial conversion price of approximately $397.99 per share and $1,432.46 per share of class A common stock for the 2025 Convertible Notes and 2027 Convertible Notes, respectively). The conversion rates are subject to customary anti-dilution adjustments. In addition, following certain events that may occur prior to the respective maturity dates or if the Company delivers a notice of redemption, the Company will increase the conversion rate for a holder who elects to convert its Convertible Notes in connection with such corporate event or notice of redemption, as the case may be, in certain circumstances as provided in the 2025 Convertible Notes Indenture and the 2027 Convertible Notes Indenture (collectively, the "Convertible Notes Indentures"), respectively. As of June 30, 2021, 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.

Prior to June 15, 2025 and August 15, 2026 for the 2025 Convertible Notes and 2027 Convertible Notes, respectively, the Convertible Notes are convertible only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2021 and June 30, 2021 for the 2025 Convertible Notes and 2027 Convertible Notes, respectively (and only during such calendar quarter), if the last reported sale price of the Company's class A common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price of the 2025 Convertible Notes or

2027 Convertible Notes, respectively, on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the "trading price" (as defined in the Convertible Notes Indentures) per $1,000 principal amount of the 2025 Convertible Notes or 2027 Convertible Notes, respectively, for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's class A common stock and the applicable conversion rate on each such trading day; (3) if the Company calls any or all of the 2025 Convertible Notes or 2027 Convertible Notes, respectively, for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; and (4) upon occurrence of specified corporate events as described in the Convertible Notes Indentures.

On or after June 15, 2025 or August 15, 2026 for the 2025 Convertible Notes and 2027 Convertible Notes, respectively, until the close of business on the second scheduled trading day immediately preceding the maturity dates of the 2025 Convertible Notes or 2027 Convertible Notes, respectively, holders may convert the 2025 Convertible Notes or 2027 Convertible Notes, respectively, at any time. Upon conversion of the Convertible Notes, the Company will pay or deliver, as the case may be, cash, shares of the Company's class A common stock, or a combination of cash and shares of class A common stock, at the Company's election.

Prior to December 20, 2023 or February 20, 2024 for the 2025 Convertible Notes and 2027 Convertible Notes, respectively, the Company may not redeem the Convertible Notes. The Company may redeem for cash all or a portion of the 2025 Convertible Notes or 2027 Convertible Notes, at its option, on or after December 20, 2023 or February 20, 2024, respectively, if the last reported sale price of the Company's class A common stock has been at least 130% of the conversion price of the 2025 Convertible Notes or 2027 Convertible Notes, respectively, then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company provides a notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption. The redemption price will be equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

If the Company undergoes a "fundamental change," as defined in the Convertible Notes Indentures, prior to maturity, subject to certain conditions, holders may require the Company to repurchase for cash all or any portion of their Convertible Notes at a fundamental change repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The Convertible Notes Indentures contain customary terms and covenants, including that upon certain events of default occurring and continuing, either the Trustee or the holders of at least 25% in principal amount of the outstanding 2025 Convertible Notes or 2027 Convertible Notes, respectively, may declare 100% of the principal of, and accrued and unpaid interest, if any, on, all the 2025 Convertible Notes or 2027 Convertible Notes, respectively, to be due and payable.

During the three months ended June 30, 2021, the 2025 Convertible Notes were convertible at the option of the holders of the 2025 Convertible Notes as the last reported sale price of the Company's class A common stock for at least 20 trading days during the 30 consecutive trading days ending on, and including, March 31, 2021 was greater than or equal to 130% of the conversion price of the 2025 Convertible Notes on each applicable trading day. However, no conversions of the 2025 Convertible Notes occurred during the three and six months ended June 30, 2021. During the three and six months ended June 30, 2021, none of the conversion features of the 2027 Convertible Notes were triggered and no conversions of the 2027 Convertible Notes occurred during the three and six months ended June 30, 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 discussed in Note 2, Recent Accounting Standards, to the Consolidated Financial Statements, the Company adopted ASU 2020-06 effective January 1, 2021. Although the Convertible Notes each contain embedded conversion features, the Company accounts for each of the Convertible Notes in its entirety as a liability because the conversion features are indexed to the Company's own stock and meet the criteria for classification in stockholders' equity and therefore do not qualify for separate derivative accounting.

The Company incurred approximately $15.3 million and $24.2 million in customary offering expenses associated with the 2025 Convertible Notes and 2027 Convertible Notes, respectively ("issuance costs"). The Company accounts for these issuance costs as a reduction to the principal amount of the 2025 Convertible Notes and 2027 Convertible Notes, respectively, and amortizes the issuance costs to interest expense over the contractual term of the 2025 Convertible Notes and 2027 Convertible Notes, respectively, at an effective interest rate of 1.23% and 0.39%, respectively.

As of June 30, 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 Sheet. The following is a summary of the Company's convertible debt instruments as of June 30, 2021 (in thousands):

	Principal Amount	Unamortized Issuance Costs	Net Carrying Value	Fair Value	
				Amount	Leveling
2025 Convertible Notes	$ 650,000	$ (13,608)	$ 636,392	$ 1,163,416	Level 2
2027 Convertible Notes	1,050,000	(22,738)	1,027,262	792,750	Level 2
Total	$ 1,700,000	$ (36,346)	$ 1,663,654	$ 1,956,166	

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

	Three Months Ended June 30, 2021			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	$ 1,219	$ 741	$ 1,960	$ 2,438	$ 1,480	$ 3,918
2027 Convertible Notes	0	999	999	0	1,432	1,432
Total	$ 1,219	$ 1,740	$ 2,959	$ 2,438	$ 2,912	$ 5,350

For the three and six months ended June 30, 2021, the Company paid $2.5 million in interest expense related to the 2025 Convertible Notes.

Senior Secured Notes

On June 14, 2021, the Company issued $500.0 million aggregate principal amount of 6.125% Senior Secured Notes due 2028 (the "2028 Secured Notes"). The 2028 Secured Notes were sold under a purchase agreement, dated as of June 8, 2021, entered into by and among the Company, MicroStrategy Services Corporation, a wholly owned subsidiary of the Company (the "Guarantor"), and Jefferies LLC, for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to persons outside the United States pursuant to Regulation S under the Securities Act. The terms of the 2028 Secured Notes are governed by an indenture, dated as of June 14, 2021 (the "2028 Secured Notes Indenture"), among the Company, the Guarantor, and U.S. Bank National Association, as trustee and collateral agent.

The 2028 Secured Notes are unconditionally guaranteed, jointly and severally, on a senior secured basis by the Guarantor and certain subsidiaries of the Company that may be formed or acquired on or after June 14, 2021 (collectively, the "Subsidiary Guarantors"). 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 as discussed further below. 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 and the related guarantees are secured, on a senior secured basis with the Company's existing and future senior indebtedness, by a pledge of 65% of the equity interests of the Company's MicroStrategy International Limited subsidiary and security interests on substantially all of the Company's and the Subsidiary Guarantors' assets, including any bitcoins or other digital assets acquired on or after June 14, 2021, but excluding the Company's bitcoins acquired before June 14, 2021, as well as bitcoins and digital assets acquired with the proceeds from bitcoins acquired before June 14, 2021 and bitcoins acquired from proceeds of debt secured by such bitcoins (the "Collateral").

The 2028 Secured Notes and the related guarantees are the general senior secured obligations of the Company and the Subsidiary Guarantors and rank pari passu in right of payment with the Company's and the Subsidiary Guarantors' existing and future senior indebtedness, are senior in right of payment to all future subordinated indebtedness of the Company and the Subsidiary Guarantors, and are effectively senior to any existing and future unsecured indebtedness of the Company and the Subsidiary Guarantors (including the Convertible Notes) to the extent of the value of the Collateral (after giving effect to the sharing of such Collateral with holders of equal or prior ranking liens on the Collateral).

The 2028 Secured Notes and the guarantees are (i) secured on a first priority basis by liens on the Collateral (subject to certain permitted liens and certain other exceptions, as provided in the 2028 Secured Notes Indenture) or to the extent there is outstanding ABL Indebtedness (as defined in the 2028 Secured Notes Indenture), secured on a first priority basis by the Notes Priority Collateral (as defined in the 2028 Secured Notes Indenture) and on a second priority basis by liens on the ABL Priority Collateral (as defined in the 2028 Secured Notes Indenture) (subject to certain permitted liens and certain other exceptions), and (ii) effectively subordinated to any future ABL Indebtedness to the extent of the value of the ABL Priority Collateral securing such indebtedness, are effectively subordinated to any existing and future indebtedness of the Company or any Subsidiary Guarantor that is secured by liens on assets that do not constitute a part of the Collateral, and are structurally subordinated to any existing and future indebtedness and other liabilities of MacroStrategy LLC (the Company's subsidiary that holds the Company's bitcoins acquired before June 14, 2021) and any other Company subsidiaries that are not Subsidiary Guarantors, other than indebtedness and liabilities owed to the Company or a Subsidiary Guarantor.

At any time and from time to time prior to June 15, 2024, the Company may redeem some or all of the 2028 Secured Notes at a redemption price equal to 100% of the principal amount of the 2028 Secured Notes being redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, plus a "make-whole" premium as set forth in the 2028 Secured Notes Indenture. At any time and from time to time on or after June 15, 2024, the Company may redeem some or all of the 2028 Secured Notes at the redemption prices described in the Indenture, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. At any time prior to June 15, 2024, but not more than once during each consecutive twelve-month period, the Company may redeem up to 10% of the aggregate principal amount of the 2028 Secured Notes at a redemption price equal to 103% of the principal amount of the 2028 Secured Notes being redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. At any time prior to June 15, 2024, the Company may redeem, on one or more occasions, up to 40% of the aggregate principal amount of the 2028 Secured Notes with the proceeds of certain equity offerings, at a redemption price equal to 106.125% of the principal amount of the 2028 Secured Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

If the Company experiences a Change of Control or Fundamental Change (each as defined in the 2028 Secured Notes Indenture), the Company may be required to offer to repurchase the 2028 Secured Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to, but excluding, the repurchase date. In certain circumstances, the Company must use certain of the proceeds from a sale of assets to make an offer to repurchase 2028 Secured Notes at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to, but excluding, the repurchase date.

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 2028 Secured Notes Indenture) 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 2028 Secured Notes Indenture contains 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, 2021.

The Company incurred approximately $12.8 million in customary offering expenses associated with the 2028 Secured Notes. The Company accounts for these issuance costs as a reduction to the principal amount of the 2028 Secured Notes and amortizes the issuance costs to interest expense over the contractual term of the 2028 Secured Notes at an effective interest rate of 6.58%. As of June 30, 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 Sheet. The following is a summary of the Company's 2028 Secured Notes as of June 30, 2021 (in thousands):

	Principal Amount	Unamortized Issuance Costs	Net Carrying Value	Fair Value	
				Amount	Leveling
2028 Secured Notes	$ 500,000	$ (12,727)	$ 487,273	$ 501,440	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 and six months ended June 30, 2021, interest expense related to the 2028 Secured Notes was as follows (in thousands):

	Three months ended June 30, 2021			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	$ 1,361	$ 65	$ 1,426	$ 1,361	$ 65	$ 1,426

Contractual Obligations

The following table shows the future contractual payments related to the Company's debt instruments (semi-annual interest payments and principal upon maturity), based on the expected due dates of the various installments as of June 30, 2021 (in thousands). The contractual principal payments related to the 2028 Secured Notes are included in the table below based on their stated maturity date of June 15, 2028 and the Company's expectation 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	Total
2022	$ 4,875	$ 0	$ 30,710	$ 35,585
2023	4,875	0	30,625	35,500
2024	4,875	0	30,625	35,500
2025	4,875	0	30,625	35,500
2026	652,451	0	30,625	683,076
Thereafter	0	1,050,000	561,250	1,611,250
Total	$ 671,951	$ 1,050,000	$ 714,460	$ 2,436,411

(7) 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, 2021 or December 31, 2020.

See Note 5, Leases, to the Consolidated Financial Statements for information regarding the Company's commitments that are related to lease agreements.

See Note 6, Long-term Debt, to the Consolidated Financial Statements for information regarding the Company's commitments related to the Convertible Notes, which may be converted, redeemed, or repurchased prior to their respective maturity dates in accordance with their terms, and the 2028 Secured Notes, which may be redeemed or repurchased prior to their maturity date in accordance with their terms.

See Note 9, Income Taxes, to the Consolidated Financial Statements for information regarding the Company's commitments that are related to a mandatory deemed repatriation transition tax ("Transition Tax") imposed under the U.S. Tax Cuts and Jobs Act (the "Tax Act").

(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 has 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 have been subject to the freezing of assets and other measures, including a former reseller and a former employee 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, or approximately $2.3 million. On May 22, 2020, these bank accounts of the Company's Brazilian subsidiary were unfrozen on the basis of a court decision that found the alleged illicit origin of the amounts was not sufficiently evidenced. On May 25, 2020, the Federal Prosecution Office presented an appeal to this decision, but the accounts will remain unfrozen pending the outcome of the appeal. 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 the 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. The investigation has since been concluded. Criminal penalties may be imposed against individuals; however, neither employees of the Company's Brazilian subsidiary nor the subsidiary itself were 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 early stages of discovery and the parties filed claim construction briefs with the court requesting the court construe the asserted claim terms of the patent. The court conducted a claim construction hearing on July 15, 2021 and indicated that it plans to set a Status Conference after the court makes a ruling on the disputed claim terms. 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.

(8) 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, 2021, the Company did not repurchase any shares of its class A common stock pursuant to the Share Repurchase Program. During the three months ended June 30, 2020, the Company repurchased an aggregate of 90,136 shares of its class A common stock at an average price per share of $123.45 and an aggregate cost of $11.1 million pursuant to the Share Repurchase Program. During the six months ended June 30, 2020, the Company repurchased an aggregate of 444,769 shares of its class A common stock at an average price per share of $139.12 and an aggregate cost of $61.9 million pursuant to the Share Repurchase Program. As of June 30, 2021, 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, 2021, $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.

(9) Income Taxes

The Company and its subsidiaries conduct business in the United States and various foreign countries and are subject to taxation in numerous domestic and foreign jurisdictions. As a result of its business activities, the Company files tax returns that are subject to examination by various U.S. federal, state, and local, and foreign tax authorities. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or foreign income tax examination by tax authorities for years before 2016. However, due to the Company's use of state net operating loss ("NOL") carryovers in the United States, state tax authorities may attempt to reduce or fully offset the amount of state NOL carryovers from tax years ended 2011 and forward that the Company used in later tax years. The Company's major foreign tax jurisdictions and tax years that remain subject to potential examination are Poland for tax years 2015 and forward, Germany and Italy for tax years 2016 and forward, and Spain and the United Kingdom for tax years 2017 and forward. To date there have been no material assessments related to audits in any of the applicable foreign jurisdictions.

As of June 30, 2021, the Company had unrecognized tax benefits of $4.7 million, which are recorded in "Other long-term liabilities" in the Company's Consolidated Balance Sheet. If recognized, $4.4 million of these unrecognized tax benefits would impact the Company's effective tax rate. The Company recognizes estimated accrued interest related to unrecognized income tax benefits in the (benefit from) provision for income tax accounts. Penalties relating to income taxes, if incurred, would also be recognized as a component of the Company's (benefit from) provision for income taxes. Over the next 12 months, the amount of the Company's liability for unrecognized tax benefits is not expected to change by a material amount. As of June 30, 2021, the amount of cumulative accrued interest expense on unrecognized income tax benefits was approximately $0.4 million.

The following table summarizes the Company's deferred tax assets, net of deferred tax liabilities and valuation allowance (in thousands), as of:

	June 30, 2021	December 31, 2020
Deferred tax assets, net of deferred tax liabilities	$ 238,592	$ (449)
Valuation allowance	(1,298)	(1,259)
Deferred tax assets, net of deferred tax liabilities and valuation allowance	$ 237,294	$ (1,708)

The valuation allowances as of June 30, 2021 and December 31, 2020 primarily related to certain foreign tax credit carryforwards that, in the Company's present estimation, more likely than not will not be realized.

In determining its tax provision or benefit from income taxes, the Company estimates its annual effective tax rate for the full fiscal year and applies that rate to its income or loss before income taxes for the current reporting period. The Company also records discrete items in each respective period as appropriate. 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 (e.g., non-deductible expenses). 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, 2021, the Company recorded a benefit from income taxes of $194.5 million that resulted in an effective tax rate of 32.2%, as compared to a provision for income taxes of $3.1 million that resulted in an effective tax rate of 43.1% for the six months ended June 30, 2020. The change in the effective tax rate in 2021 is mainly due to certain discrete items and the change in the expected proportion of U.S. versus foreign income between periods.

In the United States, the Tax Act reduced the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018. Additionally, the Tax Act requires certain Global Intangible Low Taxed Income ("GILTI") earned by controlled foreign corporations ("CFCs") to be included in the gross income of the CFCs' U.S. shareholder. The Company has elected the "period cost method" and treats taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred. The Tax Act allows a U.S. corporation a deduction equal to a certain percentage of its foreign-derived intangible income ("FDII"). The Company estimated the impact of the GILTI tax and FDII deduction in determining its 2021 annual effective tax rate that is reflected in its benefit from income taxes for the six months ended June 30, 2021.

The Tax Act also imposed a Transition Tax on previously untaxed accumulated and current earnings and profits of certain foreign subsidiaries of the Company. As a result of the Tax Act, the Company recorded a final tax expense of $37.2 million related to the Transition Tax, comprised of a provisional Transition Tax obligation of $40.3 million in 2017 and a subsequent $(3.1) million measurement period adjustment in 2018. As of June 30, 2021, $25.1 million of the Transition Tax was unpaid, of which $22.1 million was recorded in "Other long-term liabilities" and $3.0 million was recorded in "Accounts payable, accrued expenses, and operating lease liabilities" in the Company's Consolidated Balance Sheet. The Company has elected to pay the Transition Tax over an eight-year period beginning in 2018, as permitted under the Tax Act.

As of June 30, 2021 and December 31, 2020, the amount of cash and cash equivalents held by the Company's U.S. entities was $13.0 million and $13.7 million, respectively, and by the Company's non-U.S. entities was $43.4 million and $46.0 million, respectively. The Company earns a significant amount of its revenues outside the United States. The Company repatriated foreign earnings and profits of $186.6 million during 2020 and $42.5 million during the first half of 2021. As of June 30, 2021, the accumulated undistributed foreign earnings and profits is estimated to be $108.5 million. Beginning in the third quarter of 2020, the Company determined to no longer permanently reinvest its foreign earnings and profits. Therefore, the Company accrued for foreign withholding tax and U.S. state income taxes on undistributed foreign earnings in addition to the Transition Tax and GILTI tax described above.

In determining the Company's (benefit from) provision for income taxes, net deferred tax assets, liabilities, and valuation allowances, management is required to make estimates and judgments related to projections of domestic and foreign profitability, the timing and extent of the utilization of NOL carryforwards, applicable tax rates, transfer pricing methods, and prudent and feasible tax planning strategies. As a multinational company, the Company is required to calculate and provide for estimated income tax liabilities for each of the tax jurisdictions in which it operates. This process involves estimating current tax obligations and exposures in each jurisdiction, as well as making judgments regarding the future recoverability of deferred tax assets. Changes in the estimated level of annual pre-tax income, changes in tax laws, particularly changes related to the utilization of NOLs in various jurisdictions, and changes resulting from tax audits can all affect the overall effective income tax rate, which, in turn, impacts the overall level of income tax expense or benefit and net income. According to the guidance under ASC 740, *Income Taxes*, certain items or events related to continuing operations are specifically excluded from the estimated annual effective tax rate, and their related tax effects are recognized discretely, because these items or events are not estimable. The Company's digital asset impairment losses of $618.9 million incurred during the six months ended June 30, 2021 were excluded on this basis from the Company's estimated full year pre-tax book income in calculating the Company's estimated annual effective tax rate. A tax benefit of $173.3 million related to the impairment losses was recorded as a discrete item during the six months ended June 30, 2021. In addition, the Company had an excess tax benefit of $22.3 million from stock option exercises, which was also recorded as a discrete item during the six months ended June 30, 2021.

Estimates and judgments related to the Company's projections and assumptions are inherently uncertain. Therefore, actual results could differ materially from projections. Currently, the Company expects to use its deferred tax assets, subject to Internal Revenue Code limitations, within the carryforward periods. Valuation allowances have been established where the Company has concluded that it is more likely than not that such deferred tax assets are not realizable. If the Company is unable to regain or increase profitability in future periods, it may be required to increase the valuation allowance against the deferred tax assets, which could result in a charge that would materially adversely affect net income in the period in which the charge is incurred.

(10) Share-based Compensation

2013 Stock Incentive Plan

The Company's 2013 Equity Plan authorizes the issuance of various types of share-based awards to the Company's employees, officers, directors, and other eligible participants. In April 2021, the Board of Directors authorized, and in May 2021, the Company's stockholders approved an amendment to the 2013 Equity Plan to increase the total number of shares of the Company's class A common stock authorized for issuance under the 2013 Equity Plan from 2,300,000 shares to 2,750,000 shares. As of June 30, 2021, there were 561,588 shares of class A common stock reserved and available for future issuance under the 2013 Equity Plan.

Stock option awards

As of June 30, 2021, there were options to purchase 1,280,179 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, 2021:

	Stock Options Outstanding			
	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Years)
Balance as of April 1, 2021	1,273	$ 259.39		
Granted	20	$ 470.00		
Exercised	(2)	$ 129.90	$ 643	
Forfeited/Expired	(11)	$ 504.66		
Balance as of June 30, 2021	1,280	$ 260.71		
Exercisable as of June 30, 2021	587	$ 132.35	$ 312,395	3.8
Expected to vest as of June 30, 2021	693	$ 369.48	$ 211,992	8.9
Total	1,280	$ 260.71	$ 524,387	6.5

Stock options outstanding as of June 30, 2021 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, 2021		
Range of Exercise Prices per Share	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)
$121.43 - $200.00	988	$ 137.78	5.6
$400.01 - $500.00	20	$ 470.00	9.9
$600.01 - $700.00	269	$ 691.23	9.7
$700.01 - $756.55	3	$ 756.55	9.7
Total	1,280	$ 260.71	6.5

An aggregate of 25,000 stock options with an aggregate grant date fair value of $1.3 million vested during the three months ended June 30, 2021. The weighted average grant date fair value of stock option awards using the Black-Scholes pricing model was $252.81 and $42.50 for each share subject to a stock option granted during the three months ended June 30, 2021 and 2020, respectively, based on the following assumptions:

	Three months ended June 30,	
	2021	2020
Expected term of options in years	6.3	6.3
Expected volatility	56.8%	34.4%
Risk-free interest rate	1.1%	0.4%
Expected dividend yield	0.0%	0.0%

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. For the three and six months ended June 30, 2020, the Company recognized approximately $2.2 million and $5.4 million, respectively, in share-based compensation expense from stock options granted under the 2013 Equity Plan. As of June 30, 2021, there was approximately $116.0 million of total unrecognized share-based compensation expense related to unvested stock options. The Company expects to recognize this remaining share-based compensation expense over a weighted average vesting period of approximately 3.5 years.

Restricted stock units

As of June 30, 2021, there were 86,150 restricted stock units outstanding under the 2013 Equity Plan, which the Company intends to settle in shares. The following table summarizes the Company's restricted stock unit activity (in thousands) for the periods indicated:

	Restricted Stock Units Outstanding	
	Units	Aggregate Intrinsic Value
Balance as of April 1, 2021	90	
Granted	1	
Vested	0	$ 0
Forfeited	(5)	
Balance as of June 30, 2021	86	
Expected to vest as of June 30, 2021	86	$ 57,247

No restricted stock units vested during the three months ended June 30, 2021. The weighted average grant date fair value of restricted stock units granted during the three months ended June 30, 2021 was $616.88 based on the fair value of the Company's class A common stock. 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 restricted stock units granted under the 2013 Equity Plan. No restricted stock units were granted under the 2013 Equity Plan prior to the fourth quarter of 2020. As of June 30, 2021, there was approximately $22.2 million of total unrecognized share-based compensation expense related to unvested restricted stock units. As of June 30, 2021, the Company expects to recognize this remaining share-based compensation expense over a weighted average vesting period of approximately 3.5 years.

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

During the three months ended June 30, 2021, the Company granted no "other stock-based awards" under the 2013 Equity Plan. As of June 30, 2021, there were a total of 10,250 other stock-based awards outstanding under the 2013 Equity Plan. These other stock-based awards are similar to stock options, except these awards are settled in cash only and not in shares of the Company's class A common stock.

During the three months ended June 30, 2021, the Company granted no cash-settled restricted stock units under the 2013 Equity Plan. As of June 30, 2021, there were a total of 900 cash-settled restricted stock units outstanding under the 2013 Equity Plan. These cash-settled restricted stock units are similar to the Company's other restricted stock units, except they are settled in cash only and not in shares of the Company's class A common stock.

Both the other stock-based awards and the cash-settled restricted stock units are classified as liabilities in the Company's Consolidated Balance Sheets due to the required cash settlement feature and the fair value of the awards is remeasured each quarterly reporting period. For the three months ended June 30, 2021, the Company recognized an immaterial 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. For the three and six months ended June 30, 2020, share-based compensation expense from other stock-based awards was not material. No cash-settled restricted stock units were granted under the 2013 Equity Plan prior to the first quarter of 2021. As of June 30, 2021, there was approximately $4.1 million of total unrecognized share-based compensation expense related to other stock-based awards and cash-settled restricted stock units. The Company expects to recognize this remaining share-based compensation expense over a weighted average vesting period of approximately 3.2 years, subject to additional fair value adjustments through the earlier of settlement or expiration.

2021 ESPP

During the first quarter of 2021, the Company adopted the 2021 ESPP, and in May 2021, the Company's stockholders approved 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. An aggregate of 100,000 shares of the Company's class A common stock has been authorized for issuance under the 2021 ESPP.

Unless otherwise determined by the Board of Directors, shares are purchased at a price equal to 85% of the lesser of the closing price of the Company's class A common stock on the first or last business day of the offering period, respectively. Share-based compensation expense is based on the grant date fair value, which consists of the intrinsic value of the 15% discounted share purchase rights and the fair value of the look-back provision using the Black-Scholes valuation model, recognized on a straight-line basis over the offering period. The grant date is the offering period commencement date.

The first offering period under the 2021 ESPP commenced on February 16, 2021 and will end on August 15, 2021. 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, 2021, there was approximately $0.4 million of total unrecognized share-based compensation expense related to the 2021 ESPP. The Company expects to recognize this remaining share-based compensation expense over a period of approximately 0.1 years. As of June 30, 2021, no shares have been issued in connection with the 2021 ESPP.

(11) Common Equity and Earnings 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, 2021 and December 31, 2020, there were no shares of preferred stock issued or outstanding.

Potential shares of common stock are included in the diluted earnings per share calculation when dilutive. Potential shares of class A common stock issuable upon the exercise of outstanding stock options, the vesting of outstanding restricted stock units, and in connection with the 2021 ESPP are calculated using the treasury stock method. Potential shares of class A common stock issuable upon conversion of the Convertible Notes are calculated 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, 2021 and 2020, the following weighted average shares of potential class A common stock were excluded from the diluted (loss) earnings per share calculation because their impact would have been anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Stock Options	1,275	1,014	1,243	1,050
Restricted Stock Units	88	0	85	0
Employee Stock Purchase Plan	5	0	4	0
2025 Convertible Notes	1,633	0	1,633	0
2027 Convertible Notes	733	0	535	0
Total	3,734	1,014	3,500	1,050

Open Market Sale Agreement

On June 14, 2021, the Company entered into an Open Market Sale Agreement (the "Sale Agreement") with Jefferies LLC, as agent ("Jefferies"), pursuant to which the Company may issue and sell shares of its class A common stock having an aggregate offering price of up to $1.0 billion from time to time through Jefferies (the "Open Market Offering").

Under the Sale Agreement, any sales of shares will be made by methods deemed to be an "at the market offering" as defined in Rule 415(a)(4) promulgated under the Securities Act of 1933, as amended. Any sales of shares under the Sale Agreement will be made in amounts and at times to be determined by the Company from time to time subject to the terms and conditions of the Sale Agreement, but the Company has no obligation to sell any of the shares in an Open Market Offering.

The Company or Jefferies may suspend or terminate the Open Market Offering upon notice to the other party and subject to other conditions. The Company has agreed to pay Jefferies commissions for its services in acting as agent in the sale of the shares in the amount of up to 2.0% of gross proceeds from the sale of shares pursuant to the Sale Agreement. The Company has also agreed to provide Jefferies with customary indemnification and contribution rights.

The Company did not sell any shares under the Sale Agreement during the three and six months ended June 30, 2021.

(12) 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, excluding long-term deferred tax assets, (in thousands) according to geographic region:

Geographic regions:	Domestic	EMEA	Other Regions	Consolidated
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
Three months ended June 30, 2020				
Total revenues	$ 62,066	$ 37,478	$ 11,040	$ 110,584
Gross profit	$ 48,069	$ 29,856	$ 8,670	$ 86,595
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
Six months ended June 30, 2020				
Total revenues	$ 127,555	$ 72,951	$ 21,502	$ 222,008
Gross profit	$ 99,511	$ 57,032	$ 16,931	$ 173,474
As of June 30, 2021				
Long-lived assets	$ 2,157,370	$ 11,074	$ 8,350	$ 2,176,794
As of December 31, 2020				
Long-lived assets	$ 1,165,283	$ 11,441	$ 9,765	$ 1,186,489

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 months ended June 30, 2021, no individual foreign country other than Germany accounted for 10% or more of total consolidated revenues. For the six months ended June 30, 2021 and the three and six months ended June 30, 2020, no individual foreign country accounted for 10% or more of total consolidated revenues.

For the three and six months ended June 30, 2021 and 2020, no individual customer accounted for 10% or more of total consolidated revenues.

As of June 30, 2021 and December 31, 2020, no individual foreign country accounted for 10% or more of total consolidated assets.

(13) 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 with the Company for an initial term of 90 days. The indemnification agreement provides that Mr. Saylor will provide during the term of the agreement, from his personal funds, directors' and officers' indemnity coverage to the Company for the benefit of the directors and officers of the Company and its subsidiaries in the event such coverage is not indemnifiable by the Company, up to a total of $40 million. In return, the Company paid Mr. Saylor a one-time fee of $388,945 for the initial 90-day term. At the option of the Company, the Company may elect to extend the term for an additional 90-day period for up to a total of three additional 90-day periods. The Company will pay an additional amount of $388,945 to Mr. Saylor for each additional 90-day term that the Company exercises.

Prior to entering into the indemnification agreement with Mr. Saylor, the Company obtained and considered binding market quotes for directors' and officers' liability insurance policies. The Company determined that these policies would have provided insufficient coverage and would have required substantial premiums.

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 a key differentiator of MicroStrategy is our two, interdependent corporate strategies in the operation of our business.

In the first quarter of 2021, we determined to pursue as part of our overall corporate strategy, a strategy of 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 in capital raising transactions with the objective of using the proceeds to purchase 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. We also believe that bitcoin offers additional opportunity for appreciation in value with increasing adoption due to its limited supply. Under this corporate strategy, we also periodically engage in activities to educate the market regarding bitcoin. We believe that our bitcoin acquisition strategy is complementary to our enterprise analytics software and services 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 offerings. We are also exploring opportunities to apply bitcoin-related technologies such as blockchain analytics into our software offerings.

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 have not targeted any specific amount of bitcoin holdings, and we will continue to monitor market conditions in determining whether to conduct debt or equity financings to purchase additional bitcoin.

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, and from time to time, subject to market conditions, issuing debt or equity securities in capital raising transactions with the objective of using the proceeds to purchase bitcoin.

As part of our bitcoin acquisition strategy, we purchased a total of approximately 34,616 bitcoins at an aggregate purchase price of approximately $1.616 billion during the six months ended June 30, 2021 for an average purchase price of approximately $46,673 per bitcoin, inclusive of fees and expenses. These purchases included purchases of bitcoin using the net proceeds from our issuance of $1.050 billion aggregate principal amount of 0% Convertible Senior Notes due 2027 (the "2027 Convertible Notes") in the first quarter of 2021 and our issuance of $500.0 million aggregate principal amount of 6.125% Senior Secured Notes due 2028 (the "2028 Secured Notes") in the second quarter of 2021.

At June 30, 2021, we carried $2.051 billion of digital assets on our balance sheet, consisting of approximately 105,085 bitcoins and reflecting $689.6 million in cumulative impairment losses attributable to bitcoin trading price fluctuations. For the three months ended June 30, 2021, digital asset impairment losses of $424.8 million represented 82.2% of our operating expenses, compared to no digital asset impairment losses in the three months ended June 30, 2020, contributing to our net loss of $299.3 million for the three months ended June 30, 2021 compared to net income of $3.4 million for the three months ended June 30, 2020. For the six months ended June 30, 2021, digital asset impairment losses of $618.9 million represented 77.4% of our operating expenses, compared to no digital asset impairment losses in the six months ended June 30, 2020, contributing to our net loss of $409.4 million for the six months ended June 30, 2021 compared to net income of $4.0 million for the six months ended June 30, 2020.

As of July 28, 2021, we held approximately 105,085 bitcoins that were acquired at an aggregate purchase price of $2.741 billion and an average purchase price of approximately $26,080 per bitcoin, inclusive of fees and expenses.

Our Enterprise Analytics Software Business

As a global leader in enterprise analytics software and services, our vision is to enable Intelligence Everywhere. Our core offering, MicroStrategy 2021™, helps achieve this vision by delivering actionable intelligence and modern analytics on an open, comprehensive enterprise platform. MicroStrategy 2021 allows our customers to build high-performance, governed, and secure applications that can scale across their enterprises.

Our core product offering is our software platform. In December 2020, we released MicroStrategy 2021, the newest release of our flagship enterprise analytics platform, which provides customers with the following features:

- ***Modern Analytics:*** We offer a modern analytics experience by delivering insights across multiple devices to users via our HyperIntelligence® products, visualization and reporting capabilities, mobility features, and custom applications developed on our platform.
    - *HyperIntelligence*—Our platform improves business processes by providing cards with contextual intelligence, suggestions, and workflows directly within the websites, applications, and mobile devices that people rely on every day. For example, users can simply hover over a highlighted word on a website to instantly bring up relevant, contextual insights on key data.
    - *Data Visualization and Reporting*—Our platform uses Dossier®, our self-service dashboarding tool, that provides users with the formatting, layout, and input controls they need to build beautiful analytics applications.
    - *Transformational Mobility*—Our platform empowers the increasingly mobile workforce to make decisions and take action quickly on-the-go. It delivers more ways for organizations to quickly deploy mobile productivity apps for a variety of business functions and roles on any standard device.
    - *Custom Applications*—Our platform enables users to create highly customized web and mobile applications using the Document tool.
- ***Open, Federated Architecture:*** Our strategy is to embrace innovation and deliver the most open analytics platform on the market.
    - *Federated Analytics*—Our platform provides analysts and data scientists with seamless access to trusted, governed data directly within their favorite tools. MicroStrategy 2021 includes integrations with Microsoft Excel, Power BI, and Tableau to provide users with the flexibility to leverage trusted data from MicroStrategy directly within the client applications they are accustomed to. MicroStrategy 2021 also provides integrations for Jupyter and R Studio to enable data scientists to connect to published MicroStrategy data, leverage it in their tools, and publish updated data back into MicroStrategy 2021—all without leaving Jupyter or R Studio.
    - *APIs and Gateways*—Our gateways, application programming interfaces ("APIs"), and connectors enable MicroStrategy 2021 to integrate with the most popular enterprise platforms and tools. In addition to over 200 connectors to popular drivers and gateways to enterprise assets, we offer a comprehensive set of Representational State Transfer APIs that makes it easy to embed the platform in packaged and custom applications, workflows, and devices.
    - *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 hosted and managed by us.

- ***Enterprise Platform:*** Our platform is designed to securely scale analytics across the enterprise. MicroStrategy 2021 has the tools 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. The Enterprise Semantic Graph allows users to have a consistent and secure view across multiple data sources to deliver a single version of truth.
    - o *Scalability*—Our platform powers some of the largest business intelligence deployments in the world. Our 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 for superior administration, security, and architecture, including role-based access to both row and column data. We offer integrated digital identity solutions designed to deliver seamless, user-friendly authentication and real-time telemetry applications for location intelligence.

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 recent months in the development and distribution of vaccines. It has already disrupted global travel and supply chains and adversely impacted global commercial activity. 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. The travel restrictions, limits on hours of operations and/or closures of non-essential businesses, and other efforts to curb the spread of COVID-19 have significantly disrupted business activity globally and there is uncertainty as to when these disruptions will fully subside.

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, 2021 were not materially impacted by COVID-19, we believe our revenues may be negatively impacted in future periods until the effects of the pandemic 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 have adapted our operations to meet the challenges of this uncertain and rapidly evolving situation, including establishing remote working arrangements for our employees, limiting non-essential business travel, and cancelling or shifting our customer, employee, and industry events to a virtual-only format for the foreseeable future.

We have received, and may continue to receive, government assistance from various relief packages available in countries where we operate. For example, in the United States, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted on March 27, 2020 to provide broad-based economic relief to various sectors of the U.S. economy through a variety of means, including payroll and income tax deferrals and employee retention credits. We deferred payment of $4.6 million of our employer portion of U.S. social security taxes accrued through December 31, 2020, half of which we expect to pay by December 31, 2021 and the remainder by December 31, 2022. Where taxes payable to government entities have been deferred to a later date, no reduction of expenses has been recorded.

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; and decreases in product licenses revenues driven by channel partners. 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, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues				
Product licenses	$ 22,151	$ 14,816	$ 43,431	$ 27,400
Subscription services	10,342	8,021	20,368	15,989
Total product licenses and subscription services	32,493	22,837	63,799	43,389
Product support	71,027	70,038	141,676	141,196
Other services	21,831	17,709	42,778	37,423
Total revenues	**125,351**	**110,584**	**248,253**	**222,008**
Cost of revenues				
Product licenses	419	514	907	1,184
Subscription services	3,810	3,792	7,438	7,856
Total product licenses and subscription services	4,229	4,306	8,345	9,040
Product support	4,862	6,837	9,674	13,555
Other services	13,947	12,846	27,568	25,939
Total cost of revenues	**23,038**	**23,989**	**45,587**	**48,534**
Gross profit	**102,313**	**86,595**	**202,666**	**173,474**
Operating expenses				
Sales and marketing	40,321	34,951	78,519	74,469
Research and development	28,548	25,867	58,031	51,968
General and administrative	22,917	19,449	44,646	40,781
Digital asset impairment losses	424,774	0	618,869	0
Total operating expenses	**516,560**	**80,267**	**800,065**	**167,218**
(Loss) income from operations	**$ (414,247)**	**$ 6,328**	**$ (597,399)**	**$ 6,256**

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 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, 2021, we had a total of 2,034 employees, of whom 809 were based in the United States and 1,225 were based internationally. The following table summarizes employee headcount as of the dates indicated:

	June 30, 2021	December 31, 2020	June 30, 2020
Subscription services	56	49	64
Product support	160	154	189
Consulting	388	393	421
Education	38	37	43
Sales and marketing	470	479	573
Research and development	663	642	684
General and administrative	259	243	285
Total headcount	2,034	1,997	2,259

Share-based Compensation Expense

As discussed in Note 10, 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, 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,	
	2021	2020	2021	2020
Cost of subscription services revenues	$ 40	$ 16	$ 89	$ 33
Cost of product support revenues	293	(50)	442	74
Cost of consulting revenues	105	0	184	0
Cost of education revenues	22	67	32	133
Sales and marketing	3,255	384	5,639	806
Research and development	2,523	574	4,590	1,212
General and administrative	4,858	1,235	7,831	3,079
Total share-based compensation expense	$ 11,096	$ 2,226	$ 18,807	$ 5,337

As of June 30, 2021, we estimated that an aggregate of approximately $142.7 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 3.5 years.

Non-GAAP Financial Measures

We are providing supplemental financial measures for (i) non-GAAP income from operations that excludes the impact of our share-based compensation expense and impairment losses and gains on sale from intangible assets, which include our digital assets, (ii) non-GAAP net income and non-GAAP diluted earnings per share that exclude the impact of our share-based compensation expense, impairment losses and gains on sale from intangible assets, which include our digital assets, interest expense arising from the amortization of debt issuance costs on our long-term debt, and related income tax effects, (iii) non-GAAP digital asset cost basis as reported excluding cumulative impairment losses and a non-GAAP calculation of market value of our bitcoin holdings based on the market price of one bitcoin in our principal market at 4:00 p.m. Eastern Time on the last day of each period (see below for a more detailed explanation of the calculation and limitations applicable to this market value metric), and (iv) 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 (i) 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 and (ii) significant impairment losses and gains on sale from intangible assets, which include our bitcoin. The second set of supplemental financial measures excludes the impact of (i) share-based compensation expense, (ii) impairment losses and gains on sale from intangible assets, which include our bitcoin, (iii) non-cash interest expense arising from the amortization of debt issuance costs related to our long-term debt, and (iv) related income tax effects. The third set of supplemental financial measures provides our digital asset balances, as reported excluding non-cash cumulative impairment losses and discloses a non-GAAP calculation of market value of our bitcoin holdings based on the market price of one bitcoin in our principal market at 4:00 p.m. Eastern Time on the last day of each period (see below for a more detailed explanation of the calculation and limitations applicable to this market value metric). We believe this is useful to investors and analysts in comparing the value of our bitcoin holdings. The fourth 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. We have also excluded impairment losses and gains on sale from intangible assets from the first two non-GAAP financial measures, either of which may occur in future periods as a result of our continued holdings of significant amounts of bitcoin. 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 income from operations, which excludes the impact of (i) share-based compensation expense and (ii) impairment losses and gains on sale from intangible assets, which include our digital assets, to its most directly comparable GAAP measures (in thousands) for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Reconciliation of non-GAAP income from operations:				
(Loss) income from operations	$ (414,247)	$ 6,328	$ (597,399)	$ 6,256
Share-based compensation expense	11,096	2,226	18,807	5,337
Digital asset impairment losses	424,774	0	618,869	0
Non-GAAP income from operations	$ 21,623	$ 8,554	$ 40,277	$ 11,593

The following are reconciliations of our non-GAAP net income and non-GAAP diluted earnings per share, in each case excluding the impact of (i) share-based compensation expense (ii) impairment losses and gains on sale from intangible assets, which include our digital assets, (iii) interest expense arising from the amortization of debt issuance costs on our long-term debt, and (iv) 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,	
	2021	2020	2021	2020
Reconciliation of non-GAAP net income:				
Net (loss) income	$ (299,347)	$ 3,387	$ (409,367)	$ 4,044
Share-based compensation expense	11,096	2,226	18,807	5,337
Digital asset impairment losses	424,774	0	618,869	0
Interest expense arising from amortization of debt issuance costs	1,805	0	2,977	0
Income tax effects (1)	(121,587)	274	(199,671)	436
Non-GAAP net income	$ 16,741	$ 5,887	$ 31,615	$ 9,817
Reconciliation of non-GAAP diluted earnings per share:				
Diluted (loss) earnings per share	$ (30.71)	$ 0.35	$ (42.22)	$ 0.41
Share-based compensation expense (per diluted share)	1.14	0.22	1.94	0.54
Digital asset impairment losses (per diluted share)	43.58	0.00	63.82	0.00
Interest expense arising from amortization of debt issuance costs (per diluted share)	0.19	0.00	0.31	0.00
Income tax effects (per diluted share)	(12.48)	0.03	(20.59)	0.04
Non-GAAP diluted earnings per share	$ 1.72	$ 0.60	$ 3.26	$ 0.99

(1) Income tax effects reflect the net tax effects of stock-based compensation expense, digital asset impairment losses, and interest expense for amortization of debt issuance costs.

The following reconciliation of our non-GAAP digital asset cost basis, as reported excluding cumulative impairment losses, discloses the non-GAAP calculation of market value of our bitcoin holdings based on the market price of one bitcoin in our principal market at 4:00 p.m. Eastern Time on the last day of each period.

The amounts reported as "Market Value" in the following table represent only a mathematical calculation consisting of the price for one bitcoin reported in our principal market at 4:00 p.m. Eastern Time on the last day of each period multiplied by the number of bitcoins held by us at the end of the applicable period. The Securities and Exchange Commission has previously made findings 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 below 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" indicated below, at the market price as reported in our principal market on the date of sale or at all.

	As Reported				Market Value	
	Digital Asset Carrying Value (in thousands)	Add Back: Digital Asset Impairment Losses (in thousands)	Digital Asset Original Cost Basis (in thousands)	Approximate Number of Bitcoins Held	Market Price Per Bitcoin	Market Value of Bitcoin Held (in thousands)
Reconciliation of digital asset cost basis:						
Balance at June 30, 2020	**$ 0**	**$ 0**	**$ 0**	**0**	**n/a**	**n/a**
Digital asset purchases	425,000		425,000	38,250		
Digital asset impairment losses	(44,242)	44,242				
Balance at September 30, 2020	**$ 380,758**	**$ 44,242**	**$ 425,000**	**38,250**	**$ 10,706.00**	**$ 409,505**
Digital asset purchases	700,000		700,000	32,219		
Digital asset impairment losses	(26,456)	26,456				
Balance at December 31, 2020	**$ 1,054,302**	**$ 70,698**	**$ 1,125,000**	**70,469**	**$ 29,181.00**	**$ 2,056,356**
Digital asset purchases	1,086,375		1,086,375	20,857		
Digital asset impairment losses	(194,095)	194,095				
Balance at March 31, 2021	**$ 1,946,582**	**$ 264,793**	**$ 2,211,375**	**91,326**	**$ 58,601.28**	**$ 5,351,820**
Digital asset purchases	529,231		529,231	13,759		
Digital asset impairment losses	(424,774)	424,774				
Balance at June 30, 2021	**$ 2,051,039**	**$ 689,567**	**$ 2,740,606**	**105,085**	**$ 34,763.47**	**$ 3,653,119**

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	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	$ 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%

	GAAP	Foreign Currency Exchange Rate Impact (1)	Non-GAAP Constant Currency (2)	GAAP	GAAP % Change	Non-GAAP Constant Currency % Change (3)
	2020	2020	2020	2019	2020	2020
Product licenses revenues	$ 14,816	$ (655)	$ 15,471	$ 20,121	-26.4%	-23.1%
Subscription services revenues	8,021	(46)	8,067	7,104	12.9%	13.6%
Product support revenues	70,038	(1,165)	71,203	72,978	-4.0%	-2.4%
Other services revenues	17,709	(243)	17,952	17,534	1.0%	2.4%
Cost of product support revenues	6,837	(99)	6,936	7,721	-11.4%	-10.2%
Cost of other services revenues	12,846	(404)	13,250	13,588	-5.5%	-2.5%
Sales and marketing expenses	34,951	(1,095)	36,046	48,273	-27.6%	-25.3%
Research and development expenses	25,867	(251)	26,118	27,764	-6.8%	-5.9%
General and administrative expenses	19,449	(224)	19,673	21,180	-8.2%	-7.1%

	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)
	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%

	GAAP	Foreign Currency Exchange Rate Impact (1)	Non-GAAP Constant Currency (2)	GAAP	GAAP % Change	Non-GAAP Constant Currency % Change (3)
	2020	2020	2020	2019	2020	2020
Product licenses revenues	$ 27,400	$ (1,196)	$ 28,596	$ 38,412	-28.7%	-25.6%
Subscription services revenues	15,989	(82)	16,071	14,248	12.2%	12.8%
Product support revenues	141,196	(2,341)	143,537	144,428	-2.2%	-0.6%
Other services revenues	37,423	(498)	37,921	36,015	3.9%	5.3%
Cost of product support revenues	13,555	(178)	13,733	14,788	-8.3%	-7.1%
Cost of other services revenues	25,939	(693)	26,632	28,577	-9.2%	-6.8%
Sales and marketing expenses	74,469	(2,105)	76,574	97,033	-23.3%	-21.1%
Research and development expenses	51,968	(465)	52,433	55,979	-7.2%	-6.3%
General and administrative expenses	40,781	(423)	41,204	43,784	-6.9%	-5.9%

(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 Policies

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. These estimates, particularly estimates relating to revenue recognition and, in the prior year only, to our Convertible Notes prior to the adoption of ASU 2020-06, have a material impact on our Consolidated Financial Statements. Actual results and outcomes could differ from these estimates and assumptions.

The section "Critical Accounting Policies" included in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2020 provides a more detailed explanation of the judgments made and a discussion of our accounting estimates and policies relating to revenue recognition. There have been no significant changes in such estimates and policies since December 31, 2020.

Results of Operations

Comparison of the three and six months ended June 30, 2021 and 2020

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,		%	Six Months Ended June 30,		%
	2021	2020	Change	2021	2020	Change
Product Licenses and Subscription Services Revenues:						
Product Licenses						
Domestic	$ 10,019	$ 5,678	76.5%	$ 23,265	$ 12,663	83.7%
International	12,132	9,138	32.8%	20,166	14,737	36.8%
Total product licenses revenues	22,151	14,816	49.5%	43,431	27,400	58.5%
Subscription Services						
Domestic	7,596	6,160	23.3%	15,065	12,128	24.2%
International	2,746	1,861	47.6%	5,303	3,861	37.3%
Total subscription services revenues	10,342	8,021	28.9%	20,368	15,989	27.4%
Total product licenses and subscription services revenues	$ 32,493	$ 22,837	42.3%	$ 63,799	$ 43,389	47.0%

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,	
	2021	2020	2021	2020
Product Licenses Transactions with Recognized Licenses Revenue in the Applicable Period:				
More than $1.0 million in licenses revenue recognized	2	1	4	1
Between $0.5 million and $1.0 million in licenses revenue recognized	7	4	12	7
Total	9	5	16	8
Domestic:				
More than $1.0 million in licenses revenue recognized	1	0	3	0
Between $0.5 million and $1.0 million in licenses revenue recognized	4	1	6	3
Total	5	1	9	3
International:				
More than $1.0 million in licenses revenue recognized	1	1	1	1
Between $0.5 million and $1.0 million in licenses revenue recognized	3	3	6	4
Total	4	4	7	5

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,		%
	2021	2020	Change	2021	2020	Change
Product Licenses Revenue Recognized in the Applicable Period:						
More than $1.0 million in licenses revenue recognized	$ 4,036	$ 3,195	26.3%	$ 10,139	$ 3,195	217.3%
Between $0.5 million and $1.0 million in licenses revenue recognized	4,838	2,342	106.6%	7,891	4,644	69.9%
Less than $0.5 million in licenses revenue recognized	13,277	9,279	43.1%	25,401	19,561	29.9%
Total	22,151	14,816	49.5%	43,431	27,400	58.5%
Domestic:						
More than $1.0 million in licenses revenue recognized	1,603	0	n/a	7,706	0	n/a
Between $0.5 million and $1.0 million in licenses revenue recognized	2,663	525	407.2%	4,077	1,833	122.4%
Less than $0.5 million in licenses revenue recognized	5,753	5,153	11.6%	11,482	10,830	6.0%
Total	10,019	5,678	76.5%	23,265	12,663	83.7%
International:						
More than $1.0 million in licenses revenue recognized	2,433	3,195	-23.8%	2,433	3,195	-23.8%
Between $0.5 million and $1.0 million in licenses revenue recognized	2,175	1,817	19.7%	3,814	2,811	35.7%
Less than $0.5 million in licenses revenue recognized	7,524	4,126	82.4%	13,919	8,731	59.4%
Total	$ 12,132	$ 9,138	32.8%	$ 20,166	$ 14,737	36.8%

Product licenses revenues increased $7.3 million and $16.0 million for the three and six months ended June 30, 2021, respectively, as compared to the same periods in the prior year. For the three months ended June 30, 2021 and 2020, product licenses transactions with more than $0.5 million in recognized revenue represented 40.1% and 37.4%, respectively, of our product licenses revenues. For the six months ended June 30, 2021, our top three product licenses transactions totaled $8.9 million in recognized revenue, or 20.6% of total product licenses revenues, compared to $5.0 million, or 18.1% of total product licenses revenues, for the six months ended June 30, 2020.

Domestic product licenses revenues. Domestic product licenses revenues increased $4.3 million for the three months ended June 30, 2021, as compared to the same period in the prior year, primarily due to an increase in the number of transactions with more than $0.5 million in recognized revenue and an increase in the average deal size of transactions with less than $0.5 million in recognized revenue. Domestic product licenses revenues increased $10.6 million for the six months ended June 30, 2021, as compared to the same period in the prior year, primarily due to an increase in the number of transactions with more than $0.5 million in recognized revenue and an increase in the average deal size of transactions with less than $0.5 million in recognized revenue.

International product licenses revenues. International product licenses revenues increased $3.0 million for the three months ended June 30, 2021, as compared to the same period in the prior year, primarily due to an increase in the number of transactions with less than $0.5 million in recognized revenue, partially offset by a decrease in the average deal size of transactions with more than $1.0 million in recognized revenue. International product licenses revenues increased $5.4 million for the six months ended June 30, 2021, as compared to the same period in the prior year, primarily due to an increase in the number of transactions with less than $1.0 million in recognized revenue and a $0.5 million favorable foreign currency exchange impact, partially offset by a decrease in the average deal size of transactions with more than $1.0 million in recognized revenue.

Subscription services revenues. Subscription services revenues are derived from the MicroStrategy Cloud Environment, a cloud subscription service, that are recognized ratably over the service period in the contract. Subscription services revenues increased $2.3 million for the three months ended June 30, 2021, as compared to the same period in the prior year, primarily due to an increase in the use of subscription services by existing customers and, to a lesser extent, conversions to cloud-based subscriptions from existing on-premises customers. Subscription services revenues increased $4.4 million for the six months ended June 30, 2021, as compared to the same period in the prior year, primarily due to an increase in the use of subscription services by existing customers and, to a lesser extent, conversions to cloud-based subscriptions from existing on-premises customers and a $0.5 million favorable foreign currency exchange impact.

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,				%	Six Months Ended June 30,				%
	2021		2020		Change	2021		2020		Change
Product Support Revenues:										
Domestic	$	40,739	$	41,631	-2.1%	$	80,829	$	84,428	-4.3%
International		30,288		28,407	6.6%		60,847		56,768	7.2%
Total product support revenues	$	71,027	$	70,038	1.4%	$	141,676	$	141,196	0.3%

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 did not materially change for the three months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $2.4 million favorable foreign currency exchange impact, partially offset by certain existing customers converting from perpetual product licenses with separate support contracts to our subscription services or term product licenses offerings. Product support revenues did not materially change for the six months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $4.3 million favorable foreign currency exchange impact, partially offset by 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,				%	Six Months Ended June 30,				%
	2021		2020		Change	2021		2020		Change
Other Services Revenues:										
Consulting										
Domestic	$	9,810	$	7,987	22.8%	$	18,526	$	17,012	8.9%
International		10,812		8,591	25.9%		21,807		18,007	21.1%
Total consulting revenues		20,622		16,578	24.4%		40,333		35,019	15.2%
Education		1,209		1,131	6.9%		2,445		2,404	1.7%
Total other services revenues	$	21,831	$	17,709	23.3%	$	42,778	$	37,423	14.3%

Consulting revenues. Consulting revenues are derived from helping customers plan and execute the deployment of our software. Consulting revenues increased $4.0 million for the three months ended June 30, 2021, as compared to the same period in the prior year, primarily due to an increase in billable hours worldwide and a $0.7 million favorable foreign currency exchange impact, partially offset by a decrease in average bill rates and a decrease in billable travel and entertainment expenditures. Consulting revenues increased $5.3 million for the six months ended June 30, 2021, as compared to the same period in the prior year, primarily due to an increase in billable hours worldwide and a $1.3 million favorable foreign currency exchange impact, partially offset by a decrease in average bill rates and a decrease in billable travel and entertainment expenditures.

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, 2021, 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,		%
	2021	2020	Change	2021	2020	Change
Cost of Revenues:						
Product licenses and subscription services:						
Product licenses	$ 419	$ 514	-18.5%	$ 907	$ 1,184	-23.4%
Subscription services	3,810	3,792	0.5%	7,438	7,856	-5.3%
Total product licenses and subscription services	4,229	4,306	-1.8%	8,345	9,040	-7.7%
Product support	4,862	6,837	-28.9%	9,674	13,555	-28.6%
Other services:						
Consulting	12,438	10,168	22.3%	24,770	21,596	14.7%
Education	1,509	2,678	-43.7%	2,798	4,343	-35.6%
Total other services	13,947	12,846	8.6%	27,568	25,939	6.3%
Total cost of revenues	$ 23,038	$ 23,989	-4.0%	$ 45,587	$ 48,534	-6.1%

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, 2021, 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 decreased 12.5% to 56 at June 30, 2021 from 64 at June 30, 2020. Cost of subscription services revenues did not materially change for the three months ended June 30, 2021, as compared to the same period in the prior year. Cost of subscription services revenues decreased $0.4 million for the six months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $1.0 million decrease in compensation and related costs due to a decrease in staffing levels, partially offset by a $0.6 million increase in technology infrastructure costs.

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 decreased 15.3% to 160 at June 30, 2021 from 189 at June 30, 2020. Cost of product support revenues decreased $2.0 million for the three months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $1.3 million decrease in compensation and related costs due to a decrease in product support staffing levels and a $0.8 million decrease in compensation and related costs attributable to non-product support personnel providing a decreased level of Enterprise Support services. Cost of product support revenues decreased $3.9 million for the six months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $2.8 million decrease in compensation and related costs due to a decrease in product support staffing levels and a $0.9 million decrease in compensation and related costs attributable to non-product support personnel providing a decreased level of Enterprise Support services.

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 decreased 7.8% to 388 at June 30, 2021 from 421 at June 30, 2020. Cost of consulting revenues increased $2.3 million for the three months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $1.3 million increase in subcontractor costs and a $0.6 million increase in compensation and related costs attributable to consulting personnel providing a decreased level of Enterprise Support services. Included in cost of consulting revenues for the three months ended June 30, 2021 is an aggregate $0.5 million unfavorable foreign currency exchange impact. Cost of consulting revenues increased $3.2 million for the six months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $2.3 million increase in subcontractor costs, a $0.8 million increase in compensation and related costs attributable to consulting personnel providing a decreased level of Enterprise Support services, and a $0.7 million increase in variable compensation, partially offset by a $1.0 million decrease in travel and entertainment expenditures. Included in cost of consulting revenues for the six months ended June 30, 2021 is an aggregate $0.8 million unfavorable foreign currency exchange impact.

Cost of education revenues. Cost of education revenues consists of personnel and related overhead costs and technology infrastructure costs. Education headcount decreased 11.6% to 38 at June 30, 2021 from 43 at June 30, 2020. Cost of education revenues decreased $1.2 million for the three months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $0.9 million decrease in technology infrastructure costs associated with education offerings that we made available at no charge for a limited time period during the second quarter of 2020 in response to the COVID-19 pandemic. Cost of education revenues decreased $1.5 million for the six months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a

$0.9 million decrease in technology infrastructure costs associated with education offerings that we made available at no charge for a limited time period during the first half of 2020 in response to the COVID-19 pandemic.

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 18.0% to 470 at June 30, 2021 from 573 at June 30, 2020. The following table sets forth sales and marketing expenses (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
	2021	2020	Change	2021	2020	Change
Sales and marketing expenses	$ 40,321	$ 34,951	15.4%	$ 78,519	$ 74,469	5.4%

Sales and marketing expenses increased $5.4 million for the three months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $4.6 million increase in variable compensation, a $2.9 million net increase in share-based compensation expense, and a $0.6 million increase in marketing and advertising costs, partially offset by a $2.4 million decrease in employee salaries due to a decrease in staffing levels, and a $0.6 million decrease in facility and other related support costs. The $2.9 million net increase in share-based compensation expense is primarily due to the grant of additional awards under the 2013 Equity Plan and the 2021 ESPP, partially offset by the forfeiture of certain stock options. Included in sales and marketing expenses for the three months ended June 30, 2021 is an aggregate $1.0 million unfavorable foreign currency exchange impact.

Sales and marketing expenses increased $4.1 million for the six months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $10.5 million increase in variable compensation, which reflected the cancellation of a sales employee awards event in the first quarter of 2020 as a result of the COVID-19 pandemic, and a $4.8 million net increase in share-based compensation expense, partially offset by a $5.3 million decrease in employee salaries due to a decrease in staffing levels, a $3.2 million decrease in travel and entertainment expenditures, a $1.4 million decrease in facility and other related support costs, and a $1.3 million decrease in marketing and advertising costs. The $4.8 million net increase in share-based compensation expense is primarily due to the grant of additional awards under the 2013 Equity Plan and the 2021 ESPP, partially offset by the forfeiture of certain stock options. Included in sales and marketing expenses for the six months ended June 30, 2021 is an aggregate $1.4 million unfavorable 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 decreased 3.1% to 663 at June 30, 2021 from 684 at June 30, 2020. The following table summarizes research and development expenses (in thousands) and related percentage changes for the periods indicated:

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
	2021	2020	Change	2021	2020	Change
Research and development expenses	$ 28,548	$ 25,867	10.4%	$ 58,031	$ 51,968	11.7%

Research and development expenses increased $2.7 million for the three months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $1.9 million net increase in share-based compensation expense and a $0.9 million increase in variable compensation. 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 and the 2021 ESPP. Included in research and development expenses for the three months ended June 30, 2021 is an aggregate $0.7 million unfavorable foreign currency exchange impact.

Research and development expenses increased $6.1 million for the six months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $3.4 million net increase in share-based compensation expense, a $2.4 million increase in variable compensation, and a $0.9 million increase in technology infrastructure costs. The $3.4 million net increase in share-based compensation expense is primarily due to the grant of additional awards under the 2013 Equity Plan and the 2021 ESPP. Included in research and development expenses for the six months ended June 30, 2021 is an aggregate $1.1 million unfavorable foreign currency exchange impact.

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 decreased 9.1% to 259 at June 30, 2021 from 285 at June 30, 2020. 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,		%
	2021	2020	Change	2021	2020	Change
General and administrative expenses	$ 22,917	$ 19,449	17.8%	$ 44,646	$ 40,781	9.5%

General and administrative expenses increased $3.5 million for the three months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $3.6 million net increase in share-based compensation expense and a $1.2 million increase in legal, consulting, and other advisory costs, partially offset by a $1.8 million decrease in compensation and related costs due to a decrease in staffing levels. The $3.6 million net increase in share-based compensation expense is primarily due to the grant of additional awards under the 2013 Equity Plan.

General and administrative expenses increased $3.9 million for the six months ended June 30, 2021, as compared to the same period in the prior year, primarily due to a $4.8 million net increase in share-based compensation expense and a $3.1 million increase in legal, consulting, and other advisory costs, partially offset by a $2.7 million decrease in compensation and related costs due to a decrease in staffing levels, and a $0.6 million decrease in bad debt expense. The $4.8 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 becoming fully vested.

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,		%
	2021	2020	Change	2021	2020	Change
Digital asset impairment losses	$ 424,774	$ 0	n/a	$ 618,869	$ 0	n/a

We did not sell any of our digital assets during the three and six months ended June 30, 2021.

Other Expense (Income), Net

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. For the three and six months ended June 30, 2020 other expense, net, of $2.0 million and $1.6 million, respectively, were comprised primarily of foreign currency transaction net losses.

(Benefit from) Provision for Income Taxes

In determining our tax provision or benefit from income taxes, we estimate an annual effective tax rate for the full fiscal year and apply that rate to our income or loss before income taxes. We also record discrete items in each respective period as appropriate. 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 (e.g., non-deductible expenses). 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 our period-to-period results, fluctuations in our effective tax rate and respective tax provisions or benefits may occur.

For the six months ended June 30, 2021, we recorded a benefit from income taxes of $194.5 million that resulted in an effective tax rate of 32.2%, as compared to a provision for income taxes of $3.1 million that resulted in an effective tax rate of 43.1% for the six months ended June 30, 2020. The change in the effective tax rate in 2021 is mainly due to certain discrete items and the change in the expected proportion of U.S. versus foreign income between periods.

As of June 30, 2021, we estimated that we had NOL carryforwards, other temporary differences and carryforwards, and credits that resulted in deferred tax assets, net of valuation allowances and deferred tax liabilities, of $237.3 million.

As of June 30, 2021, we had a valuation allowance of $1.3 million related to certain foreign tax credit carryforwards that, in our present estimation, more likely than not will not be realized. If we are unable to regain or increase profitability in future periods, we may be required to increase the valuation allowance against our deferred tax assets, which could result in a charge that would materially adversely affect net income in the period in which the charge is incurred. We will continue to regularly assess the realizability of deferred tax assets.

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

	June 30, 2021	December 31, 2020	June 30, 2020
Current:			
Deferred product licenses revenue	$ 544	$ 1,495	$ 100
Deferred subscription services revenue	25,916	26,258	17,934
Deferred product support revenue	150,963	156,216	142,543
Deferred other services revenue	5,395	7,281	7,066
Total current deferred revenue and advance payments	$ 182,818	$ 191,250	$ 167,643
Non-current:			
Deferred product licenses revenue	$ 76	$ 139	$ 168
Deferred subscription services revenue	712	8,758	90
Deferred product support revenue	5,920	5,055	5,152
Deferred other services revenue	554	710	500
Total non-current deferred revenue and advance payments	$ 7,262	$ 14,662	$ 5,910
Total current and non-current:			
Deferred product licenses revenue	$ 620	$ 1,634	$ 268
Deferred subscription services revenue	26,628	35,016	18,024
Deferred product support revenue	156,883	161,271	147,695
Deferred other services revenue	5,949	7,991	7,566
Total current and non-current deferred revenue and advance payments	$ 190,080	$ 205,912	$ 173,553

Total deferred revenue and advance payments decreased $15.8 million as of June 30, 2021, as compared to December 31, 2020, primarily due to the timing of product support renewals and the presentation of multi-year contracts. The portions of such 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. Included in our international deferred revenue balances at June 30, 2021 is a $2.0 million unfavorable foreign currency impact from the general strengthening of the U.S. dollar compared to the fourth quarter of 2020. Total deferred revenue and advance payments increased $16.5 million as of June 30, 2021, as compared to June 30, 2020, primarily due to an increase in deferred revenue from new product support and subscription services contracts. Included in our international deferred revenue balances at June 30, 2021 is a $4.6 million favorable foreign currency impact from the general weakening of the U.S. dollar compared to the same period in the prior year.

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, 2021, we had an aggregate transaction price of $215.3 million allocated to remaining performance obligations related to product support, subscription services, other services, and in limited cases, product licenses contracts. We expect to recognize approximately $187.6 million of remaining performance obligations 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 to acquire bitcoins, which are classified as indefinite-lived intangible assets.

As of June 30, 2021 and December 31, 2020, the amount of cash and cash equivalents held by our U.S. entities was $13.0 million and $13.7 million, respectively, and by our non-U.S. entities was $43.4 million and $46.0 million, respectively. We earn a significant amount of our revenues outside the United States. We repatriated foreign earnings and profits of $186.6 million during 2020 and $42.5 million during the six months ended June 30, 2021. As of June 30, 2021, the accumulated undistributed foreign earnings and profits is estimated to be $108.5 million. Beginning in the third quarter of 2020, we determined to no longer permanently reinvest our foreign earnings and profits. Therefore, we accrued for foreign withholding tax and U.S. state income taxes on undistributed foreign earnings in addition to the Transition Tax and GILTI tax.

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. As of June 30, 2021, we held approximately 105,085 bitcoins. We do not believe we will need to sell any of our bitcoins within the next twelve months to meet our working capital requirements, although we may from time to time sell bitcoins as part of treasury management operations, including to increase our cash balances. 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.

On June 14, 2021, we entered into an Open Market Sale Agreement (the "Sale Agreement") with Jefferies LLC, as agent ("Jefferies") pursuant to which we may issue and sell shares of our class A common stock having an aggregate offering price of up to $1.0 billion from time to time through Jefferies. We did not sell any shares under the Sale Agreement during the three and six months ended June 30, 2021.

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, 2021	Six Months Ended June 30, 2020	% Change
Net cash provided by operating activities	$ 76,675	$ 26,521	189.1%
Net cash used in investing activities	$ (1,616,948)	$ (1,090)	148243.9%
Net cash provided by (used in) financing activities	$ 1,538,087	$ (59,973)	2,664.6%

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, and income taxes. Non-cash items to further reconcile net (loss) income to net cash provided by operating activities consist primarily of depreciation and amortization, reduction in the carrying amount of ROU lease 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 increased $50.2 million for the six months ended June 30, 2021, as compared to the same period in the prior year, due to a $437.3 million increase from changes in non-cash items, which included digital asset impairment losses of $618.9 million, and a $26.2 million increase from changes in operating assets and liabilities, partially offset by a $413.4 million decrease in net income, which included digital asset impairment losses of $618.9 million.

Net cash used in investing activities. The changes in net cash (used in) provided by investing activities relate to purchases of digital assets, purchases and redemptions of short-term investments, and expenditures on property and equipment. Net cash used in investing activities increased $1.616 billion for the six months ended June 30, 2021, as compared to the same period in the prior year, due to a $1.616 billion purchase of bitcoins, which includes the purchase of bitcoins using the net proceeds from the issuance of our 2027 Convertible Notes and 2028 Secured Notes, and a $10.0 million decrease in proceeds from the redemption of short-term investments, partially offset by a $9.9 million decrease in purchases of short-term investments.

Net cash provided by (used in) financing activities. The changes in net cash provided by (used in) financing activities primarily relate to our issuance of long-term debt, the purchase of treasury stock, and the exercise of stock options under the 2013 Equity Plan. Net cash provided by financing activities was $1.538 billion for the six months ended June 30, 2021, while net cash used in financing activities was $60.0 million for the six months ended June 30, 2020. The change in net cash provided by (used in) financing activities was due to $1.050 billion in gross proceeds from our 2027 Convertible Notes, $500.0 million in gross proceeds from our 2028 Secured Notes, a $61.9 million decrease in purchases of treasury stock, and a $22.2 million increase in proceeds from the exercise of stock options under the 2013 Equity Plan, partially offset by $24.7 million of issuance costs paid for our Convertible Notes and $11.3 million of issuance costs paid for our 2028 Secured Notes.

Convertible Senior Notes and 2028 Senior Secured Notes

In December 2020 and February 2021, we issued $650.0 million aggregate principal amount of 0.750% Convertible Senior Notes due 2025 (the "2025 Convertible Notes") and $1.050 billion aggregate principal amount of the 2027 Convertible Notes, respectively (the 2025 Convertible Notes and 2027 Convertible Notes collectively, the "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 6, Long-term Debt, to the Consolidated Financial Statements. For the three and six months ended June 30, 2021, the Company paid $2.5 million in interest expense related to the 2025 Convertible Notes.

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. The terms of the 2028 Secured Notes are discussed more fully in Note 6, Long-term Debt to the Consolidated Financial Statements.

Share repurchases. See "Part II. Item 2. Unregistered Sales of Equity Securities and Use of Proceeds" of this Quarterly Report and Note 8, Treasury Stock, to the Consolidated Financial Statements for further information.

Contractual obligations.

The following table shows future minimum rent payments under noncancellable operating leases with initial terms of greater than one year, payments related to our Convertible Notes and 2028 Secured Notes (semi-annual interest payments and principal upon maturity), payments under purchase agreements with initial terms of greater than one year, and anticipated payments related to the Transition Tax resulting from the Tax Act, based on the expected due dates of the various installments as of June 30, 2021 (in thousands). The contractual principal payments related to the 2028 Secured Notes are included in the table below based on their stated maturity date of June 15, 2028 and our expectation that the springing maturity feature of the 2028 Secured Notes will not be triggered.

	Payments due by period ended June 30,				
	Total	**2022**	**2023-2024**	**2025-2026**	**Thereafter**
Contractual Obligations:					
Operating leases	$ 123,319	$ 15,249	$ 28,796	$ 25,638	$ 53,636
Convertible Notes	1,721,951	4,875	9,750	657,326	1,050,000
2028 Secured Notes	714,460	30,710	61,250	61,250	561,250
Purchase obligations	25,762	12,127	11,567	1,365	703
Transition Tax	25,088	2,952	12,913	9,223	0
Total	$ 2,610,580	$ 65,913	$ 124,276	$ 754,802	$ 1,665,589

Unrecognized tax benefits. As of June 30, 2021, we had $4.7 million of total gross unrecognized tax benefits, including accrued interest, recorded in "Other long-term liabilities." The timing of any payments that could result from these unrecognized tax benefits will depend on a number of factors, and accordingly the amount and period of any future payments cannot be estimated. We do not expect any significant tax payments related to these obligations during 2021.

Off-balance sheet arrangements. As of June 30, 2021, we did not have any off-balance sheet arrangements that had a material impact on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Recent Accounting Standards

See Note 2, Recent Accounting Standards, to the Consolidated Financial Statements for further information.

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 proceeds from our issuance of long-term debt, to acquire bitcoin and, as of June 30, 2021, we held approximately 105,085 bitcoins. The carrying value of our bitcoins as of June 30, 2021 was $2.051 billion, which reflects cumulative impairments of $689.6 million, 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 in our principal market ranged from $27,678.00 - $64,899.00 during the six months ended June 30, 2021, 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, 2021, we incurred an impairment loss of $618.9 million on our bitcoin. As of July 28, 2021, at 4:00 p.m. Eastern Time, the market price of one bitcoin in our principal market was $40,415.60.

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 45.1% and 43.9% of our total revenues for the three months ended June 30, 2021 and 2020, respectively, and 44.0% and 42.5% of our total revenues for the six months ended June 30, 2021 and 2020, 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, 2021 and December 31, 2020, a 10% adverse change in foreign currency exchange rates versus the U.S. dollar would have decreased our aggregate reported cash and cash equivalents and short-term investments by 4.7% and 3.9%, respectively. If average exchange rates during the six months ended June 30, 2021 had changed unfavorably by 10%, our revenues for the six months ended June 30, 2021 would have decreased by 4.0%. During the six months ended June 30, 2021, our revenues were higher by 2.7% as a result of a 7.2% favorable 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, 2021 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 occurs, 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 purchases in future periods, and potential material impairment charges that may be associated therewith;
- 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. Accordingly, any shortfall in revenue may cause significant variation in operating results in any quarter. For example, if our revenues in the future are not sufficient to offset our operating expenses, or we are unable to adjust our operating expenses in a timely manner in response to any shortfall in anticipated revenue, we may incur operating losses.

Based on the above factors, we believe 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, 2021, 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, 2021, we had $239.1 million of deferred tax assets, net of a $1.3 million valuation allowance. If we are unable to regain or increase profitability in the future, we may be required to increase the valuation allowance against these deferred tax assets, which could result in a charge that would materially adversely affect net income in the period in which the charge is incurred.

We 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

In September 2020, our Board of Directors adopted our Treasury Reserve Policy, under which our treasury reserve assets will consist of (i) Cash Assets held by us that exceed working capital requirements and (ii) 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 determined to adopt, in addition to and in conjunction with our Treasury Reserve Policy, a corporate strategy of acquiring and holding bitcoin, and from time to time, subject to market conditions, issuing debt or equity securities in capital raising transactions with the objective of using the proceeds to purchase additional bitcoin.

We have only recently adopted this bitcoin acquisition strategy and are continually examining the risks and rewards of such a strategy. This strategy has not been tested over time or under various market conditions. Some investors and other market participants may disagree with this strategy or actions we undertake to implement it. If bitcoin prices 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.

As of July 28, 2021, we held approximately 105,085 bitcoins that were acquired at an aggregate purchase price of $2.741 billion and an average purchase price of approximately $26,080 per bitcoin, inclusive of fees and expenses. These purchases included purchases of bitcoin using the net proceeds from our issuance of $650.0 million aggregate principal amount of our 2025 Convertible Notes in the fourth quarter of 2020, our issuance of $1.050 billion aggregate principal amount of our 2027 Convertible Notes in the first quarter of 2021, and our issuance of $500.0 million aggregate principal amount of our 2028 Secured Notes in the second quarter of 2021. As part of our overall corporate strategy, we expect to purchase additional bitcoin in future periods, though we may also sell bitcoin in future periods as needed to generate Cash Assets for treasury management purposes.

While our bitcoin is currently owned directly by us or our wholly owned subsidiaries, we are investigating other potential approaches to holding our bitcoin assets. If we change the means by which we hold our bitcoin assets, the accounting treatment for our bitcoin 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.

Bitcoin is a highly volatile asset that has traded below $10,000 per bitcoin and above $60,000 per bitcoin in our principal market in the 12 months preceding the date of this Quarterly Report. Bitcoin does not pay interest or other returns and so our ability to generate cash from our bitcoin holdings depends on sales. The impact of our bitcoin holdings on our financial results and the market price of our class A common stock will increase as we increase our overall holdings of bitcoin in the future. 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 bitcoin holdings.”

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 are likely 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 could be negatively impacted if the price of bitcoin decreased substantially, including as a result of:

- decreased user and investor confidence in bitcoin;
- negative publicity or events relating to bitcoin;
- 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 and governmental 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 crypto assets that exhibit better speed, security, scalability, or other characteristics, or that are backed by governments, including the U.S. government;
- the identification of Satoshi Nakamoto, the pseudonymous person or persons who developed bitcoin, or the transfer of Satoshi’s bitcoin;
- interruptions in service or failures of the principal markets for bitcoin;
- 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; and
- national and international economic and political conditions.

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 regulations to such assets is unclear in certain respects, and it is possible that regulators in the United States or foreign countries may create new regulations or interpret laws in a manner that adversely affects the price of bitcoin. For example, foreign government authorities have recently expanded their efforts to restrict certain activities related to bitcoin and other digital assets. 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. In China, government authorities have announced renewed efforts to restrict bitcoin trading and mining activities. Subsequent to this announcement, regulators in the Inner Mongolia region of China have proposed regulations that, if effected, would create penalties for companies engaged in cryptocurrency mining activities and introduce tougher energy saving requirements on industrial parks, data centers, and power plants providing electricity to cryptocurrency miners. Most recently in Iran, President Hassan Rouhani ordered a ban on all licensed and unlicensed mining of cryptocurrencies throughout the summer of 2021 in response to an increasing number of electricity blackouts. Moreover, the risks of engaging in a bitcoin-focused business strategy also 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 business, such as the unavailability of director and officer liability insurance on acceptable terms.

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 bitcoin holdings

Our historical financial statements, including those for the six months ended June 30, 2021, 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 active exchange that we have determined is 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, 2021, we carried $2.051 billion of digital assets on our balance sheet, consisting of approximately 105,085 bitcoins and reflecting $689.6 million in cumulative impairment losses attributable to bitcoin trading price fluctuations, and held $56.4 million in cash and cash equivalents, compared to no digital assets and $420.9 million in cash and cash equivalents at June 30, 2020, reflecting the shift in our liquid asset holdings following the adoptions of our Treasury Reserve Policy and our corporate strategy to acquire and hold bitcoin. Digital asset impairment losses of $618.9 million incurred during the six months ended June 30, 2021 represented 77.4% of our operating expenses, compared to no digital asset impairment losses for the six months ended June 30, 2020, contributing to our net loss of $409.4 million in the six months ended June 30, 2021 compared to net income of $4.0 million in the six months ended June 30, 2020.

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 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, 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.

If the SEC were to resolve its concerns over surveillance of the bitcoin trading markets, it is possible that the SEC would permit the listing of ETFs specializing in 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, any introduction of bitcoin 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, as digital assets, including bitcoin, have grown in popularity and market size, there has been increasing focus on the extent to which digital assets can be used to launder the proceeds of illegal activities or fund criminal or terrorist activities, or entities subject to sanctions regimes. 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.

In addition, private actors that are wary of bitcoin or the regulatory concerns associated with bitcoin may take actions that may have an adverse effect on 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, they may experience fraud, security failures or operational problems, which may adversely affect the value of our bitcoin

Bitcoin trading venues are relatively new and, in some 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, 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 or temporary shutdown 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 July 28, 2021, we held approximately 105,085 bitcoins that were acquired at an aggregate purchase price of $2.741 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. If there is a significant decrease in the price of bitcoin, we will experience a more pronounced impact on our financial condition than if we used our cash to purchase a more diverse portfolio of assets.

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. 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. If we are unable to sell our bitcoin, 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. 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. Such a loss could have a material adverse effect on our financial condition and results of operations.

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 cryptocurrencies and blockchain technologies, have been, and may in the future be, subject to security breaches, cyberattacks, or other malicious activities.

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, 2021, 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.

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, the majority of our assets are concentrated in our bitcoin holdings, which limits our ability to mitigate risk by purchasing a more diversified portfolio of treasury assets. Accordingly, if there is a significant decrease in the market price of bitcoin, the market value of our bitcoin holdings will experience a significant decline, which may 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. 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, 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 affect the timing of revenue recognition, reduce product licenses and product support revenues, and materially adversely affect our operating results

We offer our analytics platform in the form of a product license or a cloud subscription. 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.

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, 2021, transactions by channel partners for which we recognized revenue accounted for 41.2% 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 $190.1 million as of June 30, 2021. 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 $25.2 million of other remaining performance obligations as of June 30, 2021, 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 advanced 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, 2021, our top three product licenses transactions with recognized revenue totaled $8.9 million, or 20.6% of total product licenses revenues, compared to $5.0 million, or 18.1% of total product licenses revenues, for the six months ended June 30, 2020.

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 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 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. Many governmental authorities have instituted quarantines, work-from-home directives, social distancing mandates, travel restrictions, border closures, limitations on public gatherings, and closures of or operational limitations on non-essential businesses, which are adversely impacting a number of industries such as travel, leisure, hospitality, and retail. 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, 2021 were not materially impacted by COVID-19, we believe our revenues may be negatively impacted in future periods until the effects of the pandemic 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 have established remote working arrangements for our employees, limited non-essential business travel, and cancelled or shifted our customer, employee, and industry events to a virtual-only format for the foreseeable future. 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. Although we continue to actively monitor the situation and may take further actions as may be required by government authorities or as more information and public health guidance become available, 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, 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 45.1% and 43.9% of our total revenues for the three months ended June 30, 2021 and 2020, respectively, and 44.0% and 42.5% of our total revenues for the six months ended June 30, 2021 and 2020, 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.

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 agreements the United Kingdom may make in the future to retain access to European Union markets post their separation. 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. In addition, the Trump administration called for substantial changes to U.S. foreign trade policy, including the imposition of greater restrictions on international trade and significant increases in tariffs on goods imported into the United States, and increased tariffs on certain goods imported into the United States from a number of foreign markets, following which retaliatory tariffs were imposed on exports of certain U.S. goods to those markets. 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 and it is unclear to what extent the Biden administration will maintain the increased tariffs imposed, or undertake any of the changes proposed, by the prior administration.

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 U.K. 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 criminal penalties, including substantial fines or prohibitions 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 and a number of state and local governments and government agencies. There are a variety of risks in doing business with government entities, including:

Procurement. Contracting with public sector customers is highly competitive and can be time-consuming and expensive, requiring 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 a number of 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 our Chairman of the Board of Directors & Chief Executive Officer, 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 Chairman of the Board of Directors & Chief Executive Officer. 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, 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.

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 is also considering the implementation of new legislation on the protection of privacy and personal data, including a Personal Information Protection Law and a Data Security Law that is scheduled to become effective in September 2021 and may impose new obligations on us. Other countries are considering new or expanded laws governing privacy and data security that may impact our business practices.

The state of California has also adopted a new 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 new privacy law, the California Privacy Rights Act ("CPRA"), which amends the CCPA to create new 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 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. 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 shelter-in-place orders and remote working conditions have led businesses to increasingly rely on virtual environments and communication systems.

Our having entered into an indemnification agreement with Michael J. Saylor, our Chairman of the Board of Directors & Chief Executive Officer, in lieu of procuring conventional director and officer liability insurance offered by a third-party insurance carrier 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 director and officer liability insurance on acceptable terms, and in lieu of such insurance, we have entered into an indemnification agreement 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 a fee. Our having entered into such an indemnification agreement with Mr. Saylor in lieu of procuring director and officer insurance offered by a third-party insurance carrier 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 conventional director and officer insurance. In addition, the arrangement 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 $646.65 as of July 28, 2021. 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 expect to continue to make significant purchases of;
- announcements about our transactions in bitcoin;
- 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 22, 2021, holders of our class B common stock owned 1,964,025 shares of class B common stock, or 71.6% of the total voting power. As of July 22, 2021, Mr. Saylor, our Chairman of the Board of Directors & Chief Executive Officer, beneficially owned 1,961,668 shares of class B common stock, or 71.5% 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. The Compensation Committee determines the compensation of our Chief Executive Officer. However, our Board of Directors has authorized our Chief Executive Officer to determine the compensation of executive officers other than himself, rather than having such compensation determined by the Compensation Committee, except that certain 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. For example, we may sell shares of our class A common stock having an aggregate offering price of up to $1 billion from time to time through Jefferies, acting as our agent, under our Sale Agreement. 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.

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, 2021, we had $1.7 billion aggregate principal amount of indebtedness under the Convertible Notes and $500.0 million aggregate principal amount of indebtedness under the 2028 Secured Notes.

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. 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 amount 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.

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

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.

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 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. Certain of our subsidiaries holding digital assets that we owned prior to the issuance of the 2028 Secured Notes are 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. These subsidiaries hold digital assets that as of June 30, 2021 had a carrying value of $1.676 billion on our Consolidated Balance Sheet, representing 64% of our consolidated total assets at such date. 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, 2021, we did not repurchase any equity securities registered by us pursuant to Section 12 of the Exchange Act. See Note 8, 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 July 29, 2021, we issued a press release announcing the Company's financial results for the quarter ended June 30, 2021. 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.

Item 6. Exhibits

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	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)).
3.2	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)).
4.1	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)).
4.2	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)).
4.3	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)).
4.4	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)).
4.5	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)).
4.6	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)).
4.7	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)).
10.1†	Amendment No. 5 to the MicroStrategy Incorporated 2013 Stock Incentive Plan (incorporated herein by reference to Appendix A to the registrant's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 15, 2021 (File No. 000-24435)).
10.2†	Summary of Bitcoin-related Compensation Arrangements for Non-employee Directors (incorporated herein by reference to the registrant's Current Report on Form 8-K filed with the SEC on April 12, 2021 (File No. 000-24435)).
10.3†	Indemnification Agreement, effective as of June 16, 2021, by and between the registrant and Michael J. Saylor.
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Chairman of the Board of Directors & Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the President & Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press release, dated July 29, 2021, regarding the Company's financial results for the quarter ended June 30, 2021.
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).

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† Management contracts and compensatory plans or arrangements.

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/ Phong Le
Phong Le
President & Chief Financial Officer

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

Date: July 29, 2021