

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 March 31, 2024
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 000-24435

MICROSTRATEGY INCORPORATED
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of incorporation or organization)
51-0323571
(I.R.S. Employer
Identification Number)
1850 Towers Crescent Plaza, Tysons Corner, VA
(Address of Principal Executive Offices)
22182
(Zip Code)
(703) 848-8600
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

As of April 24, 2024, the registrant had 15,773,406 and 1,964,025 shares of class A common stock and class B common stock outstanding, respectively.

MICROSTRATEGY INCORPORATED

FORM 10-Q

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	1
Item 1. Financial Statements (unaudited)	1
Consolidated Balance Sheets as of March 31, 2024 and December 31, 2023	1
Consolidated Statements of Operations for the Three Months Ended March 31, 2024 and 2023	2
Consolidated Statements of Comprehensive (Loss) Income for the Three Months Ended March 31, 2024 and 2023	3
Consolidated Statements of Stockholders' Equity (Deficit) as of March 31, 2024	4
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2024 and 2023	5
Notes to Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures About Market Risk	39
Item 4. Controls and Procedures	39
PART II. OTHER INFORMATION	40
Item 1. Legal Proceedings	40
Item 1A. Risk Factors	40
Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities	67
Item 5. Other Information	67
Item 6. Exhibits	68

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2024 (unaudited)	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 81,326	\$ 46,817
Restricted cash	2,402	1,856
Accounts receivable, net	115,150	183,815
Prepaid expenses and other current assets	42,714	35,407
Total current assets	241,592	267,895
Digital assets	5,074,152	3,626,476
Property and equipment, net	29,108	28,941
Right-of-use assets	55,093	57,343
Deposits and other assets	31,757	24,300
Deferred tax assets, net	919,837	757,573
Total assets	\$ 6,351,539	\$ 4,762,528
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable, accrued expenses, and operating lease liabilities	\$ 41,866	\$ 43,090
Accrued compensation and employee benefits	40,617	50,045
Accrued interest	10,878	1,493
Current portion of long-term debt, net	492	483
Deferred revenue and advance payments	215,955	228,162
Total current liabilities	309,808	323,273
Long-term debt, net	3,558,801	2,182,108
Deferred revenue and advance payments	6,486	8,524
Operating lease liabilities	58,430	61,086
Other long-term liabilities	17,552	22,208
Deferred tax liabilities	357	357
Total liabilities	3,951,434	2,597,556
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; 24,367 shares issued and 15,683 shares outstanding, and 23,588 shares issued and 14,904 shares outstanding, respectively	24	24
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	4,247,704	3,957,728
Treasury stock, at cost; 8,684 shares and 8,684 shares, respectively	(782,104)	(782,104)
Accumulated other comprehensive loss	(13,169)	(11,444)
Accumulated deficit	(1,052,352)	(999,234)
Total stockholders' equity	2,400,105	2,164,972
Total liabilities and stockholders' equity	\$ 6,351,539	\$ 4,762,528

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 March 31,	
	2024 (unaudited)	2023 (unaudited)
Revenues:		
Product licenses	\$ 12,938	\$ 17,412
Subscription services	22,966	18,810
Total product licenses and subscription services	35,904	36,222
Product support	62,685	65,481
Other services	16,657	20,212
Total revenues	115,246	121,915
Cost of revenues:		
Product licenses	567	534
Subscription services	8,604	7,856
Total product licenses and subscription services	9,171	8,390
Product support	8,547	5,768
Other services	12,297	13,783
Total cost of revenues	30,015	27,941
Gross profit	85,231	93,974
Operating expenses:		
Sales and marketing	33,451	36,106
Research and development	29,183	31,358
General and administrative	34,666	27,906
Digital asset impairment losses	191,633	18,911
Total operating expenses	288,933	114,281
Loss from operations	(203,702)	(20,307)
Interest expense, net	(11,881)	(14,930)
Gain on debt extinguishment	0	44,686
Other income (expense), net	1,696	(1,443)
(Loss) income before income taxes	(213,887)	8,006
Benefit from income taxes	(160,769)	(453,187)
Net (loss) income	\$ (53,118)	\$ 461,193
Basic (loss) earnings per share (1)	\$ (3.09)	\$ 38.97
Weighted average shares outstanding used in computing basic (loss) earnings per share	17,194	11,834
Diluted (loss) earnings per share (1)	\$ (3.09)	\$ 31.79
Weighted average shares outstanding used in computing diluted (loss) earnings per share	17,194	14,575

(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	
	March 31,	
	2024	2023
	(unaudited)	(unaudited)
Net (loss) income	\$ (53,118)	\$ 461,193
Other comprehensive (loss) income, net of applicable taxes:		
Foreign currency translation adjustment	(1,725)	738
Total other comprehensive (loss) income	(1,725)	738
Comprehensive (loss) income	<u>\$ (54,843)</u>	<u>\$ 461,931</u>

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

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

	Class A			Class B Convertible		Additional	Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit
	Total	Common Stock Shares	Amount	Common Stock Shares	Amount	Paid-in Capital	Shares	Amount		
Balance at January 1, 2023	<u>\$ (383,120)</u>	<u>18,269</u>	<u>\$ 18</u>	<u>1,964</u>	<u>\$ 2</u>	<u>\$ 1,841,120</u>	<u>(8,684)</u>	<u>\$ (782,104)</u>	<u>\$ (13,801)</u>	<u>\$ (1,428,355)</u>
Net income	461,193	0	0	0	0	0	0	0	0	461,193
Other comprehensive income	738	0	0	0	0	0	0	0	738	0
Issuance of class A common stock upon exercise of stock options	6,750	44	0	0	0	6,750	0	0	0	0
Issuance of class A common stock under employee stock purchase plan	2,380	13	0	0	0	2,380	0	0	0	0
Issuance of class A common stock upon vesting of restricted stock units, net of withholding taxes	(514)	4	0	0	0	(514)	0	0	0	0
Issuance of class A common stock under public offerings, net of issuance costs	338,962	1,349	2	0	0	338,960	0	0	0	0
Share-based compensation expense	16,822	0	0	0	0	16,822	0	0	0	0
Balance at March 31, 2023	<u>\$ 443,211</u>	<u>19,679</u>	<u>\$ 20</u>	<u>1,964</u>	<u>\$ 2</u>	<u>\$ 2,205,518</u>	<u>(8,684)</u>	<u>\$ (782,104)</u>	<u>\$ (13,063)</u>	<u>\$ (967,162)</u>
Net income	22,243	0	0	0	0	0	0	0	0	22,243
Other comprehensive loss	(87)	0	0	0	0	0	0	0	(87)	0
Issuance of class A common stock upon exercise of stock options	5,354	39	0	0	0	5,354	0	0	0	0
Issuance of class A common stock upon vesting of restricted stock units, net of withholding taxes	(242)	6	0	0	0	(242)	0	0	0	0
Issuance of class A common stock under public offerings, net of issuance costs	333,494	1,079	1	0	0	333,493	0	0	0	0
Share-based compensation expense	15,145	0	0	0	0	15,145	0	0	0	0
Balance at June 30, 2023	<u>\$ 819,118</u>	<u>20,803</u>	<u>\$ 21</u>	<u>1,964</u>	<u>\$ 2</u>	<u>\$ 2,559,268</u>	<u>(8,684)</u>	<u>\$ (782,104)</u>	<u>\$ (13,150)</u>	<u>\$ (944,919)</u>
Net loss	(143,441)	0	0	0	0	0	0	0	0	(143,441)
Other comprehensive loss	(2,205)	0	0	0	0	0	0	0	(2,205)	0
Issuance of class A common stock upon exercise of stock options	2,113	10	0	0	0	2,113	0	0	0	0
Issuance of class A common stock under employee stock purchase plan	1,575	7	0	0	0	1,575	0	0	0	0
Issuance of class A common stock upon vesting of restricted stock units, net of withholding taxes	(747)	4	0	0	0	(747)	0	0	0	0
Issuance of class A common stock under public offerings, net of issuance costs	147,218	403	0	0	0	147,218	0	0	0	0
Share-based compensation expense	16,764	0	0	0	0	16,764	0	0	0	0
Balance at September 30, 2023	<u>\$ 840,395</u>	<u>21,227</u>	<u>\$ 21</u>	<u>1,964</u>	<u>\$ 2</u>	<u>\$ 2,726,191</u>	<u>(8,684)</u>	<u>\$ (782,104)</u>	<u>\$ (15,355)</u>	<u>\$ (1,088,360)</u>
Net income	89,126	0	0	0	0	0	0	0	0	89,126
Other comprehensive income	3,911	0	0	0	0	0	0	0	3,911	0
Issuance of class A common stock upon exercise of stock options	16,302	82	1	0	0	16,301	0	0	0	0
Issuance of class A common stock upon vesting of restricted stock units, net of withholding taxes	(2,841)	12	0	0	0	(2,841)	0	0	0	0
Issuance of class A common stock under public offerings, net of issuance costs	1,200,415	2,267	2	0	0	1,200,413	0	0	0	0
Share-based compensation expense	17,664	0	0	0	0	17,664	0	0	0	0
Balance at December 31, 2023	<u>\$ 2,164,972</u>	<u>23,588</u>	<u>\$ 24</u>	<u>1,964</u>	<u>\$ 2</u>	<u>\$ 3,957,728</u>	<u>(8,684)</u>	<u>\$ (782,104)</u>	<u>\$ (11,444)</u>	<u>\$ (999,234)</u>
Net loss	(53,118)	0	0	0	0	0	0	0	0	(53,118)
Other comprehensive loss	(1,725)	0	0	0	0	0	0	0	(1,725)	0
Issuance of class A common stock upon exercise of stock options	136,088	573	0	0	0	136,088	0	0	0	0
Issuance of class A common stock under employee stock purchase plan	2,071	7	0	0	0	2,071	0	0	0	0
Issuance of class A common stock upon vesting of restricted stock units, net of withholding taxes	(1,273)	4	0	0	0	(1,273)	0	0	0	0
Issuance of class A common stock under public offerings, net of issuance costs	137,152	195	0	0	0	137,152	0	0	0	0
Share-based compensation expense	15,938	0	0	0	0	15,938	0	0	0	0
Balance at March 31, 2024	<u>\$ 2,400,105</u>	<u>24,367</u>	<u>\$ 24</u>	<u>1,964</u>	<u>\$ 2</u>	<u>\$ 4,247,704</u>	<u>(8,684)</u>	<u>\$ (782,104)</u>	<u>\$ (13,169)</u>	<u>\$ (1,052,352)</u>

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

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended March 31,	
	2024 (unaudited)	2023 (unaudited)
Operating activities:		
Net (loss) income	\$ (53,118)	\$ 461,193
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	3,050	3,431
Reduction in carrying amount of right-of-use assets	2,110	2,124
Credit losses and sales allowances	24	21
Deferred taxes	(161,097)	(460,061)
Release of liabilities for unrecognized tax benefits	(73)	(102)
Share-based compensation expense	17,791	17,555
Digital asset impairment losses	191,633	18,911
Amortization of issuance costs on long-term debt	2,557	2,210
Gain on debt extinguishment	0	(44,686)
Changes in operating assets and liabilities:		
Accounts receivable	12,166	10,241
Prepaid expenses and other current assets	(6,260)	423
Deposits and other assets	(5,339)	(6)
Accounts payable and accrued expenses	(2,005)	4,230
Accrued compensation and employee benefits	(13,279)	(16,327)
Accrued interest	9,385	7,539
Deferred revenue and advance payments	41,560	33,352
Operating lease liabilities	(2,896)	(2,594)
Other long-term liabilities	(7,622)	(57)
Net cash provided by operating activities	28,587	37,397
Investing activities:		
Purchases of digital assets	(1,639,309)	(179,275)
Purchases of property and equipment	(1,545)	(499)
Net cash used in investing activities	(1,640,854)	(179,774)
Financing activities:		
Proceeds from convertible senior notes	1,403,750	0
Issuance costs paid for convertible senior notes	(28,071)	0
Repayments of secured term loan	0	(159,900)
Repayments of other long-term secured debt	(133)	(128)
Proceeds from sale of common stock under public offerings	137,765	341,062
Issuance costs paid related to sale of common stock under public offerings	(613)	(2,045)
Proceeds from exercise of stock options	134,874	6,750
Proceeds from sales under employee stock purchase plan	2,071	2,380
Payment of withholding tax on vesting of restricted stock units	(1,243)	(497)
Net cash provided by financing activities	1,648,400	187,622
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	(1,078)	351
Net increase in cash, cash equivalents, and restricted cash	35,055	45,596
Cash, cash equivalents, and restricted cash, beginning of period	48,673	50,868
Cash, cash equivalents, and restricted cash, end of period	\$ 83,728	\$ 96,464

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

MICROSTRATEGY INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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, 2023. There have been no significant changes in the Company’s accounting policies since December 31, 2023.

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.

(2) Recent Accounting Standards

Crypto Assets

In December 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets* (“ASU 2023-08”). ASU 2023-08 requires in-scope crypto assets (including the Company’s bitcoin holdings) to be measured at fair value in the statement of financial position, with gains and losses from changes in the fair value of such crypto assets recognized in net income each reporting period. ASU 2023-08 also requires certain interim and annual disclosures for crypto assets within the scope of the standard. The standard is effective for the Company for interim and annual periods beginning January 1, 2025, with a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the annual reporting period in which the Company adopts the guidance. Prior periods will not be restated. Early adoption is permitted in any interim or annual period for which an entity’s financial statements have not been issued as of the beginning of the annual reporting period.

The Company expects the adoption of ASU 2023-08 will have a material impact on its consolidated balance sheets, statements of operations, statements of cash flows and disclosures. Although the Company will continue to initially record its bitcoin purchases at cost, upon adopting ASU 2023-08, any subsequent increases or decreases in fair value will be recognized as incurred in the Company’s Consolidated Statements of Operations, and the fair value of the Company’s bitcoin will be reflected within the Company’s Consolidated Balance Sheets each reporting period-end. Upon adopting ASU 2023-08, the Company will no longer account for its bitcoin under a cost-less-impairment accounting model.

The Company is currently evaluating early adoption of ASU 2023-08 and the potential implications of unrealized fair value gains and losses as they relate to the changing global tax landscape. If the Company were to adopt this guidance during 2024, it estimates that its 2024 beginning retained earnings balance would increase by approximately \$3.1 billion.

Income Taxes

In December 2023, the FASB issued Accounting Standards Update No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* (“ASU 2023-09”). ASU 2023-09 requires enhanced disclosures surrounding income taxes, particularly related to rate reconciliation and income taxes paid information. In particular, on an annual basis, companies will be required to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. Companies will also be required to disclose, on an annual basis, the amount of income taxes paid, disaggregated by federal, state, and foreign taxes, and also disaggregated by individual jurisdictions above a quantitative threshold. The standard is effective for the Company for annual periods beginning January 1, 2025 on a prospective basis, with retrospective application permitted for all prior periods presented. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its disclosures.

Segment Reporting

In November 2023, the FASB issued Accounting Standards Update No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* (“ASU 2023-07”). ASU 2023-07 requires enhanced disclosures surrounding reportable segments,

particularly (i) significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") and included in the reported measure(s) of a segment's profit and loss and (ii) other segment items that reconcile segment revenue and significant expenses to the reported measure(s) of a segment's profit and loss, both on an annual and interim basis. Companies are also required to provide all annual disclosures currently required under Topic 280 in interim periods, in addition to disclosing the title and position of the CODM and how the CODM uses the reported measure(s) of segment profit and loss in assessing segment performance and allocating resources. The standard is effective for the Company for annual periods beginning January 1, 2024 and for interim periods beginning January 1, 2025, with updates applied retrospectively. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its disclosures.

(3) Digital Assets

The Company accounts for its digital assets, which are comprised solely of bitcoin, as indefinite-lived intangible assets in accordance with Accounting Standards Codification ("ASC") 350, *Intangibles—Goodwill and Other*. The Company's digital assets are initially recorded at cost. Subsequently, they are measured at cost, net of any impairment losses incurred since acquisition. Impairment losses are recognized as "Digital asset impairment losses" in the Company's Consolidated Statement of Operations in the period in which the impairment occurs. Gains (if any) are not recorded until realized upon sale, at which point they are presented net of any impairment losses in the Company's Consolidated Statements of Operations. In determining the gain to be recognized upon sale, the Company calculates the difference between the sales price and carrying value of the specific bitcoins sold immediately prior to sale.

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

	March 31, 2024	December 31, 2023
Approximate number of bitcoins held	214,278	189,150
Digital assets carrying value	\$ 5,074,152	\$ 3,626,476
Cumulative digital asset impairment losses	\$ 2,460,646	\$ 2,269,013

The carrying value on the Company's Consolidated Balance Sheet at each period-end 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 March 31, 2024 or December 31, 2023, respectively, and not as of March 31, 2024 or December 31, 2023, respectively.

The following table summarizes the Company's digital asset purchases and digital asset impairment losses (in thousands, except number of bitcoins) for the periods indicated. The Company did not sell any of its bitcoins during the three months ended March 31, 2024 or 2023, respectively.

	Three Months Ended March 31,	
	2024	2023
Approximate number of bitcoins purchased	25,128	7,500
Digital asset purchases	\$ 1,639,309	\$ 179,275
Digital asset impairment losses	\$ 191,633	\$ 18,911

From time to time, the Company may be extended short-term credits from its execution partners to purchase bitcoin in advance of using cash funds in the Company's trading account. The trade credits are due and payable in cash within days after they are extended. In the first quarter of 2024, certain of the assets of MacroStrategy LLC ("MacroStrategy"), a wholly-owned subsidiary of the Company, including bitcoin, were subject to a first priority security interest and lien in order to secure the repayment of short-term trade credits taken in its name. While trade credits are outstanding, the Company may incur interest fees and be required to maintain minimum balances in its trading and collateral accounts with such execution partners. As of March 31, 2024, the Company had no outstanding trade credits payable.

As of March 31, 2024 and December 31, 2023, respectively, approximately 38,557 and 16,081 of the bitcoins held by the Company, which had carrying values of approximately \$1.606 billion and \$263.9 million on the Company's Consolidated Balance Sheets as of March 31, 2024 and December 31, 2023, respectively, served as part of the collateral for the Company's 6.125% Senior Secured Notes due 2028 (the "2028 Secured Notes"), as further described in Note 5, Long-term Debt, to the Consolidated Financial Statements.

(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:

	March 31, 2024	December 31, 2023
Billed and billable	\$ 117,257	\$ 186,884
Less: allowance for credit losses	(2,107)	(3,069)
Accounts receivable, net	<u>\$ 115,150</u>	<u>\$ 183,815</u>

Changes in the allowance for credit losses were not material for the three months ended March 31, 2024.

Rights to consideration that are subject to a condition other than the passage of time are considered contract assets until they are expected to become unconditional and transfer to accounts receivable. Current contract assets included in “Prepaid expenses and other current assets” in the Consolidated Balance Sheets consisted of \$1.5 million and \$1.2 million, as of March 31, 2024 and December 31, 2023, respectively, related to accrued sales and usage-based royalty revenue and performance obligations or services being rendered in advance of future invoicing associated with multi-year contracts. In royalty-based 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. Non-current contract assets included in “Deposits and other assets” in the Consolidated Balance Sheets consisted of \$2.7 million and \$0.9 million, as of March 31, 2024 and December 31, 2023, respectively, related to performance obligations or services being rendered in advance of future invoicing associated with multi-year contracts. During the three months ended March 31, 2024 and 2023, 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 liabilities are amounts received or due from customers in advance of the Company transferring the software or services to the customer. In the case of multi-year service contract arrangements, the Company generally does not invoice more than one year in advance of services and does not record deferred revenue for amounts that have not been invoiced. Revenue is subsequently recognized in the period(s) in which control of the software or services is transferred to the customer. The Company’s contract liabilities are presented as either current or non-current “Deferred revenue and advance payments” in the Consolidated Balance Sheets, depending on whether the software or services are expected to be transferred to the customer within the next year.

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

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

	March 31, 2024	December 31, 2023
Current:		
Deferred product licenses revenue	\$ 2,879	\$ 3,579
Deferred subscription services revenue	60,280	65,512
Deferred product support revenue	148,078	152,012
Deferred other services revenue	4,718	7,059
Total current deferred revenue and advance payments	<u>\$ 215,955</u>	<u>\$ 228,162</u>
Non-current:		
Deferred product licenses revenue	\$ 0	\$ 0
Deferred subscription services revenue	1,992	3,097
Deferred product support revenue	4,094	4,984
Deferred other services revenue	400	443
Total non-current deferred revenue and advance payments	<u>\$ 6,486</u>	<u>\$ 8,524</u>

During the three months ended March 31, 2024, the Company recognized revenues of \$80.8 million from amounts included in the total deferred revenue and advance payments balances at the beginning of 2024. During the three months ended March 31, 2023, the Company recognized revenues of \$80.7 million from amounts included in the total deferred revenue and advance payments balances at the

beginning of 2023. For the three months ended March 31, 2024 and 2023, 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 accounts receivable and deferred revenues and are instead included in the following remaining performance obligation disclosure. As of March 31, 2024, the Company had an aggregate transaction price of \$338.1 million allocated to the remaining performance obligation related to product support, subscription services, product licenses, and other services contracts. The Company expects to recognize \$247.5 million within the next 12 months and the remainder thereafter.

(5) Long-term Debt

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

	March 31, 2024		December 31, 2023	
2025 Convertible Notes	\$	644,698	\$	643,931
2027 Convertible Notes		1,038,316		1,037,306
2030 Convertible Notes		782,248		0
2031 Convertible Notes		592,368		0
2028 Secured Notes		491,622		491,193
Other long-term secured debt		9,549		9,678
Total	\$	3,558,801	\$	2,182,108

Convertible Senior Notes

Prior Years Issuances of Convertible Notes

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

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. 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 terms of the 2025 Convertible Notes and 2027 Convertible Notes, respectively, are discussed more fully in Note 8, Long-term Debt, to the Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Current Year Issuances of Convertible Notes

In March 2024, the Company issued \$800.0 million aggregate principal amount of 0.625% Convertible Senior Notes due 2030 (the "2030 Convertible Notes") in a private offering. The 2030 Convertible Notes are senior unsecured obligations of the Company and bear interest at a fixed rate of 0.625% per annum, payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2024. Holders of the 2030 Convertible Notes may receive additional interest under specified circumstances as outlined in the indenture relating to the issuance of the 2030 Convertible Notes (the "2030 Convertible Notes Indenture"). The 2030 Convertible Notes will mature on March 15, 2030, unless earlier converted, redeemed, or repurchased in accordance with their terms. The total net proceeds from the 2030 Convertible Notes offering, after deducting initial purchaser discounts and issuance costs, were approximately \$782.0 million.

In March 2024, the Company also issued \$603.8 million aggregate principal amount of 0.875% Convertible Senior Notes due 2031 (the “2031 Convertible Notes”) in a private offering. The 2031 Convertible Notes are senior unsecured obligations of the Company and bear interest at a fixed rate of 0.875% per annum, payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2024. Holders of the 2031 Convertible Notes may receive additional interest under specified circumstances as outlined in the indenture relating to the issuance of the 2031 Convertible Notes (the “2031 Convertible Notes Indenture”). The 2031 Convertible Notes will mature on March 15, 2031, unless earlier converted, redeemed, or repurchased in accordance with their terms. The total net proceeds from the 2031 Convertible Notes offering, after deducting initial purchaser discounts and issuance costs, were approximately \$592.3 million.

The 2030 Convertible Notes and 2031 Convertible Notes are convertible into shares of the Company’s class A common stock at initial conversion rates of 0.6677 shares per \$1,000 principal amount (equivalent to an initial conversion price of approximately \$1,497.68 per share of class A common stock) for the 2030 Convertible Notes and 0.4297 shares per \$1,000 principal amount (equivalent to an initial conversion price of approximately \$2,327.21 per share of class A common stock) for the 2031 Convertible Notes. 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 2030 Convertible Notes or 2031 Convertible Notes, respectively, in connection with such corporate event or notice of redemption, as the case may be, in certain circumstances as provided in the 2030 Convertible Notes Indenture or 2031 Convertible Notes Indenture, respectively.

Prior to September 15, 2029 and September 15, 2030 for the 2030 Convertible Notes and 2031 Convertible Notes, respectively, the 2030 Convertible Notes and 2031 Convertible Notes are convertible only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2024 (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 2030 Convertible Notes or 2031 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 2030 Convertible Notes Indenture or 2031 Convertible Notes Indenture, respectively) per \$1,000 principal amount of the 2030 Convertible Notes or 2031 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 2030 Convertible Notes or 2031 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 2030 Convertible Notes Indenture or 2031 Convertible Notes Indenture, respectively.

On or after September 15, 2029 or September 15, 2030 for the 2030 Convertible Notes and 2031 Convertible Notes, respectively, until the close of business on the second scheduled trading day immediately preceding the maturity dates of the 2030 Convertible Notes or 2031 Convertible Notes, respectively, holders may convert the 2030 Convertible Notes or 2031 Convertible Notes, respectively, at any time. Upon conversion of the 2030 Convertible Notes or 2031 Convertible Notes, respectively, 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 March 22, 2027 or March 22, 2028 for the 2030 Convertible Notes and 2031 Convertible Notes, respectively, the Company may not redeem the 2030 Convertible Notes or 2031 Convertible Notes, respectively. The Company may redeem for cash all or a portion of the 2030 Convertible Notes or 2031 Convertible Notes, at its option, on or after March 22, 2027 or March 22, 2028, 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 2030 Convertible Notes or 2031 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 2030 Convertible Notes or 2031 Convertible Notes, respectively, to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

Holders of the 2030 Convertible Notes and 2031 Convertible Notes each have the right to require the Company to repurchase for cash all or any portion of their 2030 Convertible Notes or 2031 Convertible Notes, respectively, on September 15, 2028 at a repurchase price equal to 100% of the principal amount of the 2030 Convertible Notes or 2031 Convertible Notes, respectively, to be repurchased, plus any accrued and unpaid interest to, but excluding the repurchase date.

If the Company undergoes a “fundamental change,” as defined in the 2030 Convertible Notes Indenture or 2031 Convertible Notes Indenture, respectively, prior to maturity, subject to certain conditions, holders may require the Company to repurchase for cash all or any portion of their 2030 Convertible Notes or 2031 Convertible Notes, respectively, at a fundamental change repurchase price equal to 100% of the principal amount of the 2030 Convertible Notes or 2031 Convertible Notes, respectively, to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The 2030 Convertible Notes Indenture and 2031 Convertible Notes Indenture 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 2030 Convertible Notes or 2031 Convertible Notes, respectively, may declare 100% of the principal of, and accrued and unpaid interest, if any, on, all the 2030 Convertible Notes or 2031 Convertible Notes, respectively, to be due and payable.

The Company incurred approximately \$18.0 million and \$11.5 million in customary offering expenses associated with the 2030 Convertible Notes and 2031 Convertible Notes, respectively (“issuance costs”). The Company accounts for these issuance costs as a reduction to the principal amount of the 2030 Convertible Notes and 2031 Convertible Notes, respectively, and amortizes the issuance costs to interest expense from the respective debt issuance dates through September 15, 2028 (the date upon which holders of each of the 2030 Convertible Notes and 2031 Convertible Notes have noncontingent rights to exercise their respective put option) at an effective interest rate of 1.14% for the 2030 Convertible Notes and 1.31% for the 2031 Convertible Notes.

Although the 2030 Convertible Notes and 2031 Convertible Notes, respectively, contain embedded conversion features, the Company accounts for the 2030 Convertible Notes and 2031 Convertible Notes, respectively, in their entirety as a liability because the conversion features are indexed to the Company’s class A common stock and meet the criteria for classification in stockholders’ equity and therefore do not qualify for separate derivative accounting.

Collective Convertible Notes Disclosures

The 2025 Convertible Notes, 2027 Convertible Notes, 2030 Convertible Notes, and 2031 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.

There have been no adjustments to the initial conversion rates for any of the Convertible Notes as of March 31, 2024. As of March 31, 2024, the maximum number of shares into which the Convertible Notes could be potentially converted if the conversion features are triggered are 1,633,190 shares, 733,005 shares, 534,160 shares, and 259,431 shares for the 2025 Convertible Notes, 2027 Convertible Notes, 2030 Convertible Notes, and 2031 Convertible Notes, respectively.

The following summarizes which periods, if any, that each of the Convertible Notes were convertible at the option of the holders during the three months ended March 31, 2024 and 2023:

	Three Months Ended	
	2024	2023
2025 Convertible Notes	Convertible	Not convertible at any time
2027 Convertible Notes	Not convertible at any time	Not convertible at any time
2030 Convertible Notes	Not convertible at any time	n/a
2031 Convertible Notes	Not convertible at any time	n/a

During the three months ended March 31, 2024, the Company received from certain holders of the 2025 Convertible Notes requests to convert an immaterial principal amount of the 2025 Convertible Notes, which the Company expects to settle during the quarter ending June 30, 2024, in accordance with the terms and provisions of the indenture governing the 2025 Convertible Notes. The Company did not settle any conversions of the Convertible Notes during the three months ended March 31, 2024 or 2023. The Convertible Notes may be convertible in future periods if one or more of the conversion conditions is satisfied during future measurement periods. As of March 31, 2024, 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, 2024 was greater than or equal to 130% of the conversion price of the 2025 Convertible Notes on each applicable trading day. Therefore, the 2025 Convertible Notes are convertible at the option of the holders of the 2025 Convertible Notes during the second quarter of 2024.

The Company has not redeemed any of the Convertible Notes as of March 31, 2024.

As of March 31, 2024 and December 31, 2023, the net carrying value of the Convertible Notes was classified as a long-term liability in the “Long-term debt, net” line item in the Company’s Consolidated Balance Sheets.

The following is a summary of the Company's convertible debt instruments as of March 31, 2024 (in thousands):

	Outstanding		Unamortized		March 31, 2024	Fair Value	
	Principal	Amount	Issuance	Costs	Net Carrying	Amount	Leveling
					Value		
2025 Convertible Notes	\$	650,000	\$	(5,302)	\$ 644,698	\$ 2,847,274	Level 2
2027 Convertible Notes		1,050,000		(11,684)	1,038,316	1,437,616	Level 2
2030 Convertible Notes		800,000		(17,752)	782,248	1,064,727	Level 2
2031 Convertible Notes		603,750		(11,382)	592,368	638,466	Level 2
Total	\$	3,103,750	\$	(46,120)	\$ 3,057,630	\$ 5,988,083	

The following is a summary of the Company's convertible debt instruments as of December 31, 2023 (in thousands):

	Outstanding		Unamortized		December 31, 2023	Fair Value	
	Principal	Amount	Issuance	Costs	Net Carrying	Amount	Leveling
					Value		
2025 Convertible Notes	\$	650,000	\$	(6,069)	\$ 643,931	\$ 1,074,713	Level 2
2027 Convertible Notes		1,050,000		(12,694)	1,037,306	913,808	Level 2
Total	\$	1,700,000	\$	(18,763)	\$ 1,681,237	\$ 1,988,521	

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

For the three months ended March 31, 2024 and 2023, interest expense related to the Convertible Notes was as follows (in thousands):

	Three Months Ended March 31, 2024			Three Months Ended March 31, 2023		
	Contractual	Amortization of	Total	Contractual	Amortization of	Total
	Interest Expense	Issuance Costs		Interest Expense	Issuance Costs	
2025 Convertible Notes	\$ 1,219	\$ 767	\$ 1,986	\$ 1,219	\$ 757	\$ 1,976
2027 Convertible Notes	0	1,010	1,010	0	1,006	1,006
2030 Convertible Notes	319	248	567	0	0	0
2031 Convertible Notes	191	89	280	0	0	0
Total	\$ 1,729	\$ 2,114	\$ 3,843	\$ 1,219	\$ 1,763	\$ 2,982

The Company did not pay any interest related to the Convertible Notes during the three months ended March 31, 2024 and 2023. The Company has not paid any additional interest or special interest related to the Convertible Notes to date.

Senior Secured Notes

On June 14, 2021, the Company issued \$500.0 million aggregate principal amount of 2028 Secured Notes in a private offering. The 2028 Secured Notes bear interest at a fixed rate of 6.125% per annum, payable semiannually in arrears on June 15 and December 15 of each year, beginning on December 15, 2021. The 2028 Secured Notes have a stated maturity date of June 15, 2028, unless earlier redeemed or repurchased in accordance with their terms and subject to a springing maturity date of September 15, 2025 or November 16, 2026 as discussed further below. The Company has not redeemed any of the 2028 Secured Notes as of March 31, 2024.

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 future convertible debt that we may issue that is then outstanding (the "FCCR Convertible Indebtedness"), 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. "Liquidity" is defined in the 2028 Secured Notes Indenture and includes the Digital Asset Market Value (as defined in the 2028 Secured Notes Indenture) of the bitcoin owned by the Company and its Restricted Subsidiaries (as defined in the 2028 Secured Notes Indenture) immediately prior to the issuance of the 2028 Secured Notes (which are referred to as "Existing Digital Assets"). As

of March 31, 2024, for purposes of calculating Liquidity, the Company and its Restricted Subsidiaries owned approximately 92,079 Existing Digital Assets, all of which were unencumbered.

The terms of the 2028 Secured Notes are discussed more fully in Note 8, Long-term Debt, to the Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

The 2028 Secured Notes are governed by an indenture containing certain covenants with which the Company must comply, including covenants with respect to limitations on (i) additional indebtedness, (ii) liens, (iii) certain payments and investments, (iv) the ability to merge or consolidate with another person, or sell or otherwise dispose of substantially all the Company's assets, and (v) certain transactions with affiliates. The Company was in compliance with its debt covenants as of March 31, 2024.

As of March 31, 2024 and December 31, 2023, the net carrying value of the 2028 Secured Notes was classified as a long-term liability in the "Long-term debt, net" line item in the Company's Consolidated Balance Sheets.

The following is a summary of the 2028 Secured Notes as of March 31, 2024 (in thousands):

	Outstanding Principal Amount	Unamortized Issuance Costs	March 31, 2024 Net Carrying Value	Fair Value Amount	Leveling
2028 Secured Notes	\$ 500,000	\$ (8,378)	\$ 491,622	\$ 483,125	Level 2

The following is a summary of the 2028 Secured Notes as of December 31, 2023 (in thousands):

	Outstanding Principal Amount	Unamortized Issuance Costs	December 31, 2023 Net Carrying Value	Fair Value Amount	Leveling
2028 Secured Notes	\$ 500,000	\$ (8,807)	\$ 491,193	\$ 485,070	Level 2

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

For the three months ended March 31, 2024 and 2023, interest expense related to the 2028 Secured Notes was as follows (in thousands):

	Three Months Ended March 31, 2024			Three Months Ended March 31, 2023		
	Contractual Interest Expense	Amortization of Issuance Costs	Total	Contractual Interest Expense	Amortization of Issuance Costs	Total
2028 Secured Notes	\$ 7,656	\$ 429	\$ 8,085	\$ 7,656	\$ 401	\$ 8,057

The Company did not pay any interest related to the 2028 Secured Notes during the three months ended March 31, 2024 and 2023.

Secured Term Loan

On March 23, 2022, MacroStrategy entered into a Credit and Security Agreement (the "Credit and Security Agreement") with Silvergate pursuant to which Silvergate issued the \$205.0 million 2025 Secured Term Loan to MacroStrategy. The terms of the 2025 Secured Term Loan are discussed more fully in Note 8, Long-term Debt, to the Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2023. On March 24, 2023, MacroStrategy and Silvergate entered into a Prepayment, Waiver and Payoff to Credit and Security Agreement, pursuant to which MacroStrategy voluntarily prepaid Silvergate approximately \$161.0 million (the "Payoff Amount"), in full repayment, satisfaction, and discharge of the 2025 Secured Term Loan and all other obligations under the Credit and Security Agreement. Upon Silvergate's receipt of the Payoff Amount on March 24, 2023, the Credit and Security Agreement was terminated and Silvergate released its security interest in all of MacroStrategy's assets collateralizing the 2025 Secured Term Loan, including the bitcoin that was serving as collateral.

The Payoff Amount consisted of a \$159.9 million payment to repay the full \$205.0 million outstanding principal amount of the 2025 Secured Term Loan as of March 24, 2023 and a \$1.1 million payment for accrued unpaid interest on the 2025 Secured Term Loan as of March 24, 2023. The Company also incurred \$0.1 million in third party fees in connection with the repayment of the 2025 Secured Term Loan. The net carrying value of the 2025 Secured Term Loan as of March 24, 2023, immediately prior to the loan's repayment, was \$204.7 million, which resulted in a \$44.7 million gain on debt extinguishment recognized in the Company's Consolidated Statement of Operations in the first quarter of 2023.

No interest expense related to the 2025 Secured Term Loan was recognized after the debt was repaid in full during the first quarter of 2023. For the three months ended March 31, 2023, interest expense related to the 2025 Secured Term Loan was as follows (in thousands):

		Three Months Ended March 31, 2023					Total
		Contractual Interest Expense		Amortization of Issuance Costs			
2025 Secured Term Loan	\$	3,781	\$	31	\$		3,812

The Company paid a final \$5.1 million in interest related to the 2025 Secured Term Loan during the first quarter of 2023, \$1.1 million of which was included in the Payoff Amount.

Other long-term secured debt

In June 2022, the Company, through a wholly-owned subsidiary, entered into a secured term loan agreement in the amount of \$11.1 million, bearing interest at an annual rate of 5.2%, and maturing in June 2027. The loan is secured by certain non-bitcoin assets of the Company that are not otherwise serving as collateral for any of the Company's other indebtedness. After monthly payments made under the terms of the agreement, the loan had a net carrying value of \$10.0 million and \$10.2 million as of March 31, 2024 and December 31, 2023, respectively, and an outstanding principal balance of \$10.2 million and \$10.3 million as of March 31, 2024 and December 31, 2023, respectively. As of March 31, 2024 and December 31, 2023, \$0.5 million and \$0.5 million of the respective net carrying values were short-term and were presented in "Current portion of long-term debt, net" in the Consolidated Balance Sheets.

Maturities

The following table shows the maturities of the Company's debt instruments as of March 31, 2024 (in thousands). The principal payments related to the 2028 Secured Notes are included in the table below based on the First Springing Maturity Date of September 15, 2025, as if the springing maturity feature discussed above were triggered. As of March 31, 2024, the Company expects to be able to satisfy the requirements in the 2028 Secured Notes Indenture to avoid triggering the springing maturity feature of the 2028 Secured Notes. The principal payments related to the 2030 Convertible Notes and 2031 Convertible Notes, respectively, are included in the table below as if the holders exercised their right to require the Company to repurchase all of the 2030 Convertible Notes and 2031 Convertible Notes on September 15, 2028.

Payments due by period ended March 31,	2025 Convertible Notes	2027 Convertible Notes	2030 Convertible Notes	2031 Convertible Notes	2028 Secured Notes	Other long- term secured debt	Total
2025	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 547	\$ 547
2026	650,000	0	0	0	500,000	577	1,150,577
2027	0	1,050,000	0	0	0	608	1,050,608
2028	0	0	0	0	0	8,477	8,477
2029	0	0	800,000	603,750	0	0	1,403,750
Thereafter	0	0	0	0	0	0	0
Total	<u>\$ 650,000</u>	<u>\$ 1,050,000</u>	<u>\$ 800,000</u>	<u>\$ 603,750</u>	<u>\$ 500,000</u>	<u>\$ 10,209</u>	<u>\$ 3,613,959</u>

(6) 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 Consolidated Balance Sheets as of March 31, 2024 or December 31, 2023.

(b) Contingencies

Brazil Matter

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

On February 6, 2020, the Company learned that a Brazilian court authorized the Brazilian Federal Police to use certain investigative measures in its investigation into alleged corruption and procurement fraud involving certain government officials, pertaining to a particular transaction. The transaction at issue is part of the basis of the previously reported failure or likely failure of the Company's Brazilian subsidiary to comply with local procurement regulations. The Company is not aware of any allegations that any former employee or the Company made any payments to Brazilian government officials. The Brazilian Federal Police expanded the investigation to include other possible cases of procurement fraud involving Brazilian government entities. Criminal penalties may be imposed against individuals; however, neither employees of the Company's Brazilian subsidiary nor the subsidiary itself have been targets of the Federal Police investigation.

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

On January 18, 2023, Brazil's General Superintendence of the Administrative Council for Economic Defense ("SG/CADE") launched an administrative proceeding to investigate potentially anticompetitive conduct, naming various individuals and companies as defendants including the Company's Brazilian subsidiary. The proceeding involves conduct relating to transactions with certain Brazilian public and private entities that is part of the basis of the foregoing failure or likely failure of the Brazilian subsidiary to comply with local procurement regulations. The proceeding was precipitated by the Company's Brazilian subsidiary's voluntary disclosure of information to SG/CADE that arose out of the internal review initiated in 2018, and the Company's Brazilian subsidiary has secured a leniency agreement with SG/CADE. If at the end of the proceeding, CADE's Tribunal confirms that the leniency agreement obligations have been fulfilled, the Company's Brazilian subsidiary will receive full immunity from fines.

The Company believes that a loss is probable in connection with these Brazilian matters. The Company has estimated a minimum loss of \$1.2 million in respect of these matters and in prior periods established a reserve equal to such amount. Given the stage of these matters, as of March 31, 2024, the Company remains unable to reasonably estimate a range of loss beyond such minimum loss. The aggregate accrued amount for these matters is included as a component of "Accounts payable, accrued expenses, and operating lease liabilities" in the Consolidated Balance Sheets as of March 31, 2024 and December 31, 2023. The final outcome of these matters may result in a loss that is significantly greater than this accrued amount. Any loss associated with the final outcome of these matters may result in a material impact on the Company's earnings and financial results for the period in which any such additional liability is accrued. However, the Company believes that any loss associated with the final outcome of these matters will not have a material effect on the Company's financial position.

Daedalus Matter

As previously reported, 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 alleged that the Company 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 January 29, 2024, the parties executed a settlement agreement pursuant to which the Company received a fully paid-up license to all patents owned by Daedalus as of January 5, 2024, including the '172 Patent and the '076 Patent and filed a stipulation of dismissal with the court on February 27, 2024, which the court entered the same day thereby dismissing the case with prejudice.

False Claims Act Matter

On August 31, 2022, the District of Columbia (the "District"), through its Office of the Attorney General, filed a civil complaint in the Superior Court of the District of Columbia naming as defendants (i) Michael J. Saylor, the Chairman of the Company's Board of Directors and the Company's Executive Chairman, in his personal capacity, and (ii) the Company. The District sought, among other relief, monetary damages under the District's False Claims Act for the alleged failure of Mr. Saylor to pay personal income taxes to the District over a number of years together with penalties, interest, and treble damages. The complaint alleged that the amount of personal income taxes purportedly involved was more than \$25 million. The complaint also alleged in the sole claim against the Company that it violated the District's False Claims Act by conspiring to assist Mr. Saylor's alleged failure to pay personal income taxes. On October 26, 2022, the Company filed a motion to dismiss the District's complaint. On February 28, 2023, the court ruled on the motion to dismiss, dismissing the sole claim against the Company as well as a claim against Mr. Saylor alleging that Mr. Saylor violated the District's False Claims Act. The court did not dismiss claims against Mr. Saylor alleging that Mr. Saylor failed to pay personal income taxes, interest and penalties due. On April 13, 2023, the District, through its Office of the Attorney General, filed a motion to amend its complaint to attempt to restore claims under the False Claims Act against both Mr. Saylor and the Company. On May 10, 2023, the court granted the District's motion to amend its complaint, reinstating the Company as a defendant in the case. The amended complaint alleges that the Company violated the District's False Claims Act by making and using false records and statements in the form of false withholding filings with the District Office of Tax and Revenue. The amended complaint also alleges that Mr. Saylor violated the District's False Claims Act by making and using false records and statements and by causing the Company to make and use false records and statements. On June 7, 2023, Mr. Saylor and the Company filed a motion to dismiss the District's amended complaint with prejudice.

On July 5, 2023, the District filed an opposition to the motion to dismiss made by Mr. Saylor and the Company. On July 19, 2023, Mr. Saylor and the Company filed a reply in support of their motion to dismiss. On July 31, 2023, the court denied Mr. Saylor's and the Company's motion to dismiss the amended complaint. On August 22, 2023, the Company and Mr. Saylor filed a motion asking the court to reconsider its July 31 decision or, in the alternative, to certify for interlocutory review two case-dispositive issues relating to the validity of tax-related amendments to the District's False Claims Act and authority of the Office of the Attorney General to sue for allegedly unpaid taxes. On October 31, 2023, the court denied Mr. Saylor's and the Company's motion for reconsideration or, in the alternative, certification for interlocutory review. The final outcome of this matter is not presently determinable.

Various Legal Proceedings and Contingent Liabilities

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.

(7) Income Taxes

The Company computes its year-to-date provision for (benefit from) income taxes by applying the estimated annual effective tax rate to year-to-date pretax income or loss and adjusts the provision for (benefit from) income taxes for discrete tax items recorded in the period. The estimated effective tax rate is subject to fluctuation based on the level and mix of earnings and losses by tax jurisdiction, foreign tax rate differentials, and the relative impact of permanent book to tax differences. Each quarter, a cumulative adjustment is recorded for any fluctuations in the estimated annual effective tax rate as compared to the prior quarter. As a result of these factors, and due to potential changes in the Company's period-to-period results, fluctuations in the Company's effective tax rate and respective tax provisions or benefits may occur. For the three months ended March 31, 2024, the Company recorded a benefit from income taxes of \$160.8 million on a pretax loss of \$213.9 million, which resulted in an effective tax rate of 75.2%. For the three months ended March 31, 2023, the Company recorded a benefit from income taxes of \$453.2 million on a pretax income of \$8.0 million, which resulted in an effective tax rate of (5660.6)%. During the three months ended March 31, 2024, the Company's benefit from income taxes primarily related to (i) a tax benefit related to share-based compensation (including the income tax effects of exercises of stock options and vesting of share-settled restricted stock units) and (ii) a tax benefit from an increase in the Company's deferred tax asset related to the impairment on its bitcoin holdings. During the three months ended March 31, 2023, the Company's benefit from income taxes primarily related to the release of a portion of the valuation allowance on the Company's deferred tax asset related to the impairment on its bitcoin holdings, attributable to the increase in market value of bitcoin as of March 31, 2023 compared to December 31, 2022.

As of March 31, 2024, the Company had a valuation allowance of \$1.4 million primarily related to the Company's deferred tax assets related to foreign tax credits in certain jurisdictions that, in the Company's present estimation, more likely than not will not be realized. As of March 31, 2024, the excess of the market value of the Company's bitcoin over the cost basis of the Company's bitcoin results in a significant built-in gain for tax purposes and is therefore a source of future taxable income that is expected to allow all of the U.S. net deferred tax assets to be realized. If the market value of bitcoin declines in future periods, the Company would need to assess other sources of forecasted taxable income of proper character, which could result in additional valuation allowances being recorded. The Company will continue to regularly assess the realizability of deferred tax assets.

The Company records liabilities related to its uncertain tax positions. As of March 31, 2024, the Company had gross unrecognized income tax benefits, including accrued interest, of \$8.2 million, of which \$6.9 million was recorded in "Other long-term liabilities" and \$1.3 million was recorded in "Deferred tax assets, net" in the Company's Consolidated Balance Sheet. As of December 31, 2023, the Company had gross unrecognized income tax benefits, including accrued interest, of \$8.3 million, all of which was recorded in "Other long-term liabilities" in the Company's Consolidated Balance Sheet.

As of March 31, 2024 and December 31, 2023, the Company had income taxes receivable of \$9.3 million and \$15.3 million, respectively, recorded in "Prepaid expenses and other current assets" in the Company's Consolidated Balance Sheets.

(8) Share-based Compensation

Stock Incentive Plans

Prior to its expiration, the Company maintained the 2013 Stock Incentive Plan (as amended, the "2013 Equity Plan"), under which the Company's employees, officers, and directors were 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. In May 2023, the 2013 Equity Plan expired and no new awards may be granted under the 2013 Equity Plan, although awards previously granted under the 2013 Equity Plan will continue to remain outstanding in accordance with their terms.

The Company maintains the 2023 Equity Incentive Plan, the “2023 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, performance stock units, and other stock-based awards. An aggregate of up to 1,932,703 shares of the Company’s class A common stock were authorized for issuance under the 2023 Equity Plan. As of March 31, 2024, there were 231,007 shares of class A common stock reserved and available for future issuance under the 2023 Equity Plan. The 2013 Equity Plan and the 2023 Equity Plan together are referred to herein as the “Stock Incentive Plans.”

Stock option awards

As of March 31, 2024, there were options to purchase 702,571 shares of class A common stock outstanding under the Stock Incentive Plans.

The following table summarizes the Company’s stock option activity (in thousands, except per share data and years) for the three months ended March 31, 2024:

	Shares	Weighted Average Exercise Price Per Share	Stock Options Outstanding Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Years)
Balance as of January 1, 2024	1,294	\$ 286.78		
Granted	9	\$ 1,599.29		
Exercised	(583)	\$ 233.42	\$ 468,114	
Forfeited/Expired	(17)	\$ 447.47		
Balance as of March 31, 2024	703	\$ 343.31		
Exercisable as of March 31, 2024	385	\$ 294.39	\$ 542,263	4.8
Expected to vest as of March 31, 2024	318	\$ 402.45	\$ 414,114	8.0
Total	703	\$ 343.31	\$ 956,377	6.2

Stock options outstanding as of March 31, 2024 are comprised of the following range of exercise prices per share (in thousands, except per share data and years):

Stock Options Outstanding at March 31, 2024			
Range of Exercise Prices per Share	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)
\$121.43 - \$200.00	280	\$ 144.01	3.9
\$200.01 - \$300.00	108	\$ 251.21	8.6
\$300.01 - \$400.00	3	\$ 301.63	9.2
\$400.01 - \$500.00	180	\$ 411.49	7.8
\$600.01 - \$700.00	123	\$ 691.23	6.9
\$1,500.01 - \$1,599.29	9	\$ 1,599.29	10.0
Total	703	\$ 343.31	6.2

An aggregate of 109,250 stock options with an aggregate grant date fair value of \$32.7 million vested during the three months ended March 31, 2024. The weighted average grant date fair value of stock option awards using the Black-Scholes valuation model was \$1,114.42 for each share subject to a stock option granted during the three months ended March 31, 2024, based on the following assumptions:

	Three months ended March 31, 2024
Expected term of awards in years	6.3
Expected volatility	75.1%
Risk-free interest rate	4.2%
Expected dividend yield	0.0%

No stock option awards were granted during the three months ended March 31, 2023. For the three months ended March 31, 2024 and 2023, the Company recognized approximately \$9.8 million and \$12.9 million, respectively, in share-based compensation expense from stock options granted under the Stock Incentive Plans. As of March 31, 2024, there was approximately \$66.5 million of total unrecognized share-based compensation expense related to unvested stock options, which the Company expects to recognize over a weighted average vesting period of approximately 2.1 years.

Share-settled restricted stock units

As of March 31, 2024, there were 196,830 share-settled restricted stock units outstanding under the Stock Incentive Plans. The following table summarizes the Company's share-settled restricted stock unit activity (in thousands) for the periods indicated:

	Share-Settled Restricted Stock Units Outstanding	
	Units	Aggregate Intrinsic Value
Balance as of January 1, 2024	185	
Granted	30	
Vested	(6)	\$ 4,307
Forfeited	(12)	
Balance as of March 31, 2024	197	
Expected to vest as of March 31, 2024	197	\$ 335,509

During the three months ended March 31, 2024, 6,002 share-settled restricted stock units having an aggregate grant date fair value of \$3.2 million vested, and 1,889 shares were withheld to satisfy tax obligations, resulting in 4,113 issued shares. During the three months ended March 31, 2023, 5,780 share-settled restricted stock units having an aggregate grant date fair value of \$3.4 million vested, and 1,963 shares were withheld to satisfy tax obligations, resulting in 3,817 issued shares. The weighted average grant date fair value of share-settled restricted stock units granted during the three months ended March 31, 2024 and 2023 was \$1,451.66 and \$258.65, respectively, based on the fair value of the Company's class A common stock.

For the three months ended March 31, 2024 and 2023, the Company recognized approximately \$4.7 million and \$3.4 million, respectively, in share-based compensation expense from share-settled restricted stock units granted under the Stock Incentive Plans. As of March 31, 2024, there was approximately \$84.1 million of total unrecognized share-based compensation expense related to unvested share-settled restricted stock units, which the Company expects to recognize over a weighted average vesting period of approximately 3.3 years.

Share-settled performance stock units

As of March 31, 2024, there were 30,285 performance stock units outstanding under the 2023 Equity Plan. The following table summarizes the Company's performance stock unit activity (in thousands) for the periods indicated:

	Share-Settled Performance Stock Units Outstanding	
	Units	Aggregate Intrinsic Value
Balance as of January 1, 2024	25	
Granted	6	
Vested	0	\$ 0
Forfeited	(1)	
Balance as of March 31, 2024	30	
Expected to vest as of March 31, 2024	30	\$ 103,245

The weighted average grant date fair value of performance stock units using the Monte-Carlo simulation model was \$3,071.27 for each performance stock unit granted during the three months ended March 31, 2024 based on the following assumptions:

	Three months ended March 31, 2024
Expected term of awards in years	3.0
Expected volatility	92.7%
Risk-free interest rate	4.4%
Expected dividend yield	0.0%

No performance stock units were granted during the three months ended March 31, 2023. No performance stock units vested during the three months ended March 31, 2024. For the three months ended March 31, 2024, the Company recognized approximately \$1.1 million in share-based compensation expense from performance stock units granted under the 2023 Equity Plan. As of March 31, 2024, there was approximately \$25.8 million of total unrecognized share-based compensation expense related to unvested performance stock units, which the Company expects to recognize over a weighted average vesting period of approximately 2.7 years.

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

From time to time the Company has granted “other stock-based awards” and “cash-settled restricted stock units” under the 2013 Equity Plan. Other stock-based awards are similar to stock options, and cash-settled restricted stock units are similar to the Company’s share-settled restricted stock units, except in each case these awards are settled in cash only and not in shares of the Company’s class A common stock. Due to their required cash settlement feature, these awards are classified as liabilities in the Company’s Consolidated Balance Sheets and the fair value of the awards is remeasured each quarterly reporting period. For the three months ended March 31, 2024 and 2023, the Company recognized approximately \$1.8 million and \$0.7 million, respectively, in share-based compensation expense from other stock-based awards and cash-settled restricted stock units. As of March 31, 2024, there was approximately \$0.7 million of total unrecognized share-based compensation expense related to other stock-based awards and cash-settled restricted stock units, which the Company expects to recognize over a weighted average vesting period of approximately 0.9 years, subject to additional fair value adjustments through the earlier of settlement or expiration.

2021 ESPP

The Company also maintains the 2021 Employee Stock Purchase Plan (the “2021 ESPP”). The purpose of the 2021 ESPP is to provide eligible employees of the Company and certain of its subsidiaries with opportunities to purchase shares of the Company’s class A common stock in 6-month offering periods commencing on each March 1 and September 1. An aggregate of 100,000 shares of the Company’s class A common stock has been authorized for issuance under the 2021 ESPP. During the three months ended March 31, 2024, 6,932 shares of class A common stock were issued in connection with the 2021 ESPP. As of March 31, 2024, 52,675 shares of the Company’s class A common stock remained available for issuance under the 2021 ESPP.

For the three months ended March 31, 2024 and 2023, the Company recognized approximately \$0.4 million and \$0.6 million, respectively, in share-based compensation expense related to the 2021 ESPP. As of March 31, 2024, there was approximately \$0.7 million of total unrecognized share-based compensation expense related to the 2021 ESPP, which the Company expects to recognize over a period of approximately 0.4 years.

Tax Benefits Related to Equity Plans

The following table summarizes the tax benefit related to the Company’s equity plans (in thousands) for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
Tax benefit related to:		
Share-based compensation expense	\$ (4,192)	\$ (3,225)
Exercises of stock options and vesting of share-settled restricted stock units	(104,306)	(85)
Total tax benefit related to the Company's equity plans	<u>\$ (108,498)</u>	<u>\$ (3,310)</u>

(9) Basic and Diluted (Loss) 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 ten votes per share. Each share of class B common stock is convertible at any time, at the option of the holder, into one share of class A common stock. As such, basic and fully diluted earnings per share for class A 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 March 31, 2024 and December 31, 2023, there were no shares of preferred stock issued or outstanding.

The impact from potential shares of common stock on the diluted earnings per share calculation are included when dilutive. Potential shares of class A common stock issuable upon the exercise of outstanding stock options, the vesting of restricted stock units and performance stock units considered probable of achievement, and in connection with the 2021 ESPP are computed using the treasury stock method. Potential shares of class A common stock issuable upon conversion of the Convertible Notes are computed using the

if-converted method. In computing diluted earnings per share, the Company first calculates the earnings per incremental share ("EPIS") for each class of potential shares of common stock 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.

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

	Three Months Ended March 31,	
	2024	2023
Numerator:		
Net (loss) income - Basic	\$ (53,118)	\$ 461,193
Effect of dilutive shares on net (loss) income:		
Interest expense on 2025 Convertible Notes, net of tax	0	1,414
Interest expense on 2027 Convertible Notes, net of tax	0	720
Interest expense on 2030 Convertible Notes, net of tax	0	0
Interest expense on 2031 Convertible Notes, net of tax	0	0
Net (loss) income - Diluted	\$ (53,118)	\$ 463,327
Denominator:		
Weighted average common shares of class A common stock	15,230	9,870
Weighted average common shares of class B common stock	1,964	1,964
Total weighted average shares of common stock outstanding - Basic	17,194	11,834
Effect of dilutive shares on weighted average common shares outstanding:		
Stock options	0	354
Restricted stock units	0	21
Performance stock units	0	0
Employee stock purchase plan	0	0
2025 Convertible Notes	0	1,633
2027 Convertible Notes	0	733
2030 Convertible Notes	0	0
2031 Convertible Notes	0	0
Total weighted average shares of common stock outstanding - Diluted	17,194	14,575
(Loss) earnings per share:		
Basic (loss) earnings per share (1)	\$ (3.09)	\$ 38.97
Diluted (loss) earnings per share (1)	\$ (3.09)	\$ 31.79

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

For the three months ended March 31, 2024 and 2023, 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 March 31,	
	2024	2023
Stock options	1,048	711
Restricted stock units	181	42
Performance stock units	52	0
Employee stock purchase plan	1	3
2025 Convertible Notes	1,633	0
2027 Convertible Notes	733	0
2030 Convertible Notes	141	0
2031 Convertible Notes	40	0
Total	3,829	756

(10) At-the-Market Equity Offerings

From time to time, the Company has entered into sales agreements with agents pursuant to which the Company could issue and sell shares of its class A common stock through at-the-market equity offering programs. Pursuant to these agreements, the Company agreed to pay the sales agents commissions for their services in acting as agents with respect to the sale of shares through the at-the-market equity offering programs and also agreed to provide the sales agents with reimbursement for certain incurred expenses and customary indemnification and contribution rights. The following table summarizes the terms and provisions of each sales agreement, and pursuant to each at-the-market equity offering program that was active during 2024 or 2023. The maximum aggregate offering price and cumulative net proceeds (less sales commissions and expenses) for each at-the-market equity offering program in the following table are reported in thousands.

	November 2023 Sales Agreement	August 2023 Sales Agreement	May 2023 Sales Agreement	2022 Sales Agreement
Agreement effective date	November 30, 2023	August 1, 2023	May 1, 2023	September 9, 2022
Sales agents	Cowen and Company, LLC, Canaccord Genuity LLC, and BTIG, LLC	Cowen and Company, LLC, Canaccord Genuity LLC, and Berenberg Capital Markets LLC	Cowen and Company, LLC and Canaccord Genuity LLC	Cowen and Company, LLC and BTIG, LLC
Maximum aggregate offering price	\$ 750,000	\$ 750,000	\$ 625,000	\$ 500,000
Maximum commissions payable to sales agents on gross proceeds from the sale of shares	2.0%	2.0%	2.0%	2.0%
Date terminated	n/a	November 29, 2023	August 1, 2023	May 1, 2023
As of March 31, 2024:				
Cumulative shares sold under such sales agreement	1,272,077	1,592,950	1,079,170	1,567,430
Cumulative net proceeds received from shares sold under such sales agreement	\$ 747,025	\$ 737,760	\$ 333,494	\$ 385,181

As of March 31, 2024, the Company has substantially depleted the class A common stock available for issuance and sale pursuant to the sales agreement entered into in November 2023, and terminated each of the other sales agreements referenced above.

The following table summarizes the sales activity of each sales agreement that was active during 2024 or 2023 for the periods indicated. The net proceeds (less sales commissions and expenses) for each at-the-market equity offering program in the following table are reported in thousands.

	Three Months Ended March 31,	
	2024	2023
Number of shares sold under such sales agreement:		
2022 Sales Agreement	n/a	1,348,855
May 2023 Sales Agreement	n/a	n/a
August 2023 Sales Agreement	n/a	n/a
November 2023 Sales Agreement	195,162	n/a
Total shares sold pursuant to at-the-market equity offering programs	195,162	1,348,855
Net proceeds received from shares sold under such sales agreement:		
2022 Sales Agreement	n/a	\$ 338,962
May 2023 Sales Agreement	n/a	n/a
August 2023 Sales Agreement	n/a	n/a
November 2023 Sales Agreement	137,152	n/a
Total net proceeds received from shares sold pursuant to at-the-market equity offering programs	\$ 137,152	\$ 338,962

The sales commissions and expenses related to each of the above at-the-market equity offering programs are considered direct and incremental costs and are charged against “Additional paid-in capital” on the Consolidated Balance Sheet in the period in which the corresponding shares are issued and sold.

(11) Segment Information

The Company manages its business in one reportable operating segment which is engaged in the design, development, marketing, and sales of its software platform through licensing arrangements and cloud subscriptions and related services. Beginning in 2024, the Company has broken out a Corporate & Other category, which is not considered an operating segment, and includes the impairment charges and other third-party costs associated with the Company’s digital asset holdings. The Company’s chief operating decision maker (“CODM”), who is the Company’s Chief Executive Officer, does not manage the software segment operating results or allocate resources to the software segment when considering these Corporate & Other costs. The following table presents the breakout of the operations of the software segment and the Corporate & Other costs (in thousands):

	Three Months Ended March 31, 2024			Three Months Ended March 31, 2023		
	Software Business	Corporate & Other	Total Consolidated	Software Business	Corporate & Other	Total Consolidated
Total revenues	\$ 115,246		\$ 115,246	\$ 121,915		\$ 121,915
Total cost of revenues	30,015		30,015	27,941		27,941
Gross profit	\$ 85,231		\$ 85,231	\$ 93,974		\$ 93,974
Total operating expenses	96,123	192,810	288,933	94,487	19,794	114,281
Loss from operations	\$ (10,892)	\$ (192,810)	\$ (203,702)	\$ (513)	\$ (19,794)	\$ (20,307)

The following table presents total revenues, gross profit, (loss) income from operations, and long-lived assets (in thousands) according to geographic region. Long-lived assets are comprised of right-of-use assets and property and equipment, net. The Corporate & Other category disclosed above is included within the U.S. region.

Geographic regions:	U.S.	EMEA	Other Regions	Consolidated
Three months ended March 31, 2024				
Total revenues	\$ 64,379	\$ 38,353	\$ 12,514	\$ 115,246
Gross profit	\$ 46,061	\$ 30,900	\$ 8,270	\$ 85,231
(Loss) income from operations	\$ (211,490)	\$ 13,640	\$ (5,852)	\$ (203,702)
Three months ended March 31, 2023				
Total revenues	\$ 69,677	\$ 38,020	\$ 14,218	\$ 121,915
Gross profit	\$ 54,189	\$ 29,697	\$ 10,088	\$ 93,974
(Loss) income from operations	\$ (33,088)	\$ 16,521	\$ (3,740)	\$ (20,307)
As of March 31, 2024				
Long-lived assets	\$ 74,061	\$ 3,486	\$ 6,654	\$ 84,201
As of December 31, 2023				
Long-lived assets	\$ 75,004	\$ 3,937	\$ 7,343	\$ 86,284

The EMEA region includes operations in Europe, the Middle East, and Africa. The other regions include all other foreign countries, generally comprising Latin America, the Asia Pacific region, and Canada. For the three months ended March 31, 2024 and 2023, no individual foreign country accounted for 10% or more of total consolidated revenues.

For the three months ended March 31, 2024 and 2023, no individual customer accounted for 10% or more of total consolidated revenues.

As of March 31, 2024 and December 31, 2023, no individual foreign country accounted for 10% or more of total consolidated assets.

(12) Related Party Transactions

On June 24, 2022, concurrently with binding directors and officers (“D&Os”) liability insurance policies (the “Initial Commercial Policies”) with several third-party carriers, the Company and Michael J. Saylor, the Company’s Chairman of the Board of Directors and Executive Chairman, entered into (i) an indemnification agreement (the “Excess Agreement”) for Mr. Saylor to provide \$10 million in excess indemnity coverage payable only after the exhaustion of the Initial Commercial Policies, and (ii) an indemnification agreement (the “Tail Agreement”) for Mr. Saylor to provide \$40 million in indemnity coverage for claims made at any time based on actions or omissions occurring prior to the inception date of the Initial Commercial Policies. The Company paid Mr. Saylor \$600,000 for a one-year term under the Excess Agreement, and \$150,000 for a 90-day term under the Tail Agreement. At the option of the Company, the Company was permitted to extend the term under the Tail Agreement for up to a total of twenty-three additional 90-day periods, for \$150,000 per additional 90-day term. The Company elected to extend the term of the Tail Agreement for three consecutive additional 90-day periods and paid Mr. Saylor \$150,000 for each extension.

On August 30, 2022, the Company bound additional D&O liability insurance policies (the “Excess Commercial Policies”) with third-party carriers for excess coverage payable only after the exhaustion of the Initial Commercial Policies. Effective as of the same date, the Company and Mr. Saylor executed an amendment (the “Amendment”) to the Excess Agreement to limit Mr. Saylor’s obligation to provide indemnification under the Excess Agreement to claims made during the term of the Excess Agreement which arise from wrongful acts occurring upon or after the commencement of the Excess Agreement but prior to the effective date of the Amendment. In connection with the Amendment, Mr. Saylor refunded \$489,863 to the Company, representing the pro rata portion of the \$600,000 originally paid by the Company to Mr. Saylor under the Excess Agreement attributable to the period from the date of the Amendment through the end of the original term of the Excess Agreement.

On June 12, 2023, the Company bound new D&O liability insurance policies (the “2023 Commercial Policies”) with third-party carriers that provide coverage substantially equivalent to the aggregate coverage provided under the Initial Commercial Policies and the Excess Commercial Policies for a policy period running from June 12, 2023 through June 12, 2024 except that the 2023 Commercial Policies also provide coverage for claims made with respect to wrongful acts or omissions occurring prior to the binding of the Initial Commercial Policies subject to exclusions with respect to claims previously noticed to and accepted by an earlier D&O insurer, claims related to acts or omissions giving rise to such claims, and demands, investigations, suits or other proceedings entered against an insured prior to June 24, 2022, as well as future interrelated wrongful acts.

On June 12, 2023, the Company entered into a new indemnification agreement with Mr. Saylor (the “2023 Tail Agreement”) pursuant to which Mr. Saylor agreed to provide coverage that is similar to the coverage provided under the Tail Agreement, but only for matters excluded from coverage under the 2023 Commercial Policies for an initial one-year term for a payment of \$157,000. The Company may elect, at its option, to extend the term under the 2023 Tail Agreement for up to a total of four additional one-year periods, for \$157,000 per additional one-year term.

The Excess Agreement, Tail Agreement and other related party transactions between the Company and Mr. Saylor are described more fully in Note 17 to the Consolidated Financial Statements of the Company’s Annual Report on Form 10-K for the year ended December 31, 2023.

(13) Subsequent Events

Since March 31, 2024 through April 26, 2024, the Company has purchased approximately 122 bitcoins for \$7.8 million, or approximately \$63,548 per bitcoin. All of these approximately 122 bitcoins serve as part of the collateral for the 2028 Secured Notes.

The Company has incurred at least \$24.9 million in digital asset impairment losses during the second quarter of 2024 on bitcoin held as of March 31, 2024.

See Note 3, Digital Assets, to the Consolidated Financial Statements for further detail on accounting for digital assets.

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® considers itself the world's first Bitcoin development company. We are a publicly-traded operating company committed to the continued development of the Bitcoin network through our activities in the financial markets, advocacy and technology innovation. As an operating business, we are able to use cash flows as well as proceeds from equity and debt financings to accumulate bitcoin, which serves as our primary treasury reserve asset. We also develop and provide industry-leading AI-powered enterprise analytics software that promotes our vision of Intelligence Everywhere™, and are using our software development capabilities to develop bitcoin applications. Our software business, which we have operated for over 30 years, is our predominant operational focus, providing cash flows and enabling us to pursue our bitcoin strategy. We believe that the combination of our operating structure, bitcoin strategy and focus on technology innovation differentiates us in the digital assets industry.

Bitcoin Strategy

Our bitcoin strategy includes (i) acquiring bitcoin using cash flows from operations and proceeds from equity and debt financings, (ii) developing product innovations that leverage Bitcoin blockchain technology, and (iii) periodically engaging in advocacy and educational activities regarding the continued acceptance and value of bitcoin as an open, secure protocol for an internet-native digital asset.

Our bitcoin acquisition strategy generally involves acquiring bitcoin with our liquid assets that exceed working capital requirements, and from time to time, subject to market conditions, issuing debt or equity securities or engaging in other capital raising transactions with the objective of using the proceeds to purchase bitcoin. We view our bitcoin holdings as long-term holdings and expect to continue to accumulate bitcoin. We have not set any specific target for the amount of bitcoin we seek to hold, and we will continue to monitor market conditions in determining whether to engage in additional financings to purchase additional bitcoin. This overall strategy also contemplates that we may (i) periodically sell bitcoin for general corporate purposes, including to generate cash for treasury management (which may include debt repayment), or in connection with strategies that generate tax benefits in accordance with applicable law, (ii) enter into additional capital raising transactions that are collateralized by our bitcoin holdings, and (iii) consider pursuing strategies to create income streams or otherwise generate funds using our bitcoin holdings.

Under our Treasury Reserve Policy, our treasury reserve assets 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.

During 2023 and 2024, we used proceeds from various capital raising transactions to purchase bitcoin. As of March 31, 2024, we held an aggregate of approximately 214,278 bitcoins, with 38,557 bitcoins held directly by MicroStrategy and 175,721 bitcoins held by MacroStrategy, a wholly-owned subsidiary of MicroStrategy. As of March 31, 2024, all of the approximately 38,557 bitcoins held directly by MicroStrategy Incorporated, which had a market value of \$2.739 billion based on the \$71,028.14 market price of one bitcoin on the Coinbase exchange at 4:00 p.m. Eastern Time on March 31, 2024, are held in a separate custodial account from those held by MacroStrategy and serve as part of the collateral securing our 2028 Secured Notes. See below for further disclosure surrounding market value calculations of our bitcoin.

The following table presents a roll-forward of our bitcoin holdings, including additional information related to our bitcoin purchases, sales, and digital asset impairment losses within the respective periods:

	Source of Capital Used to Purchase Bitcoin	Digital Asset Original Cost Basis (in thousands)	Digital Asset Impairment Losses (in thousands)	Digital Asset Carrying Value (in thousands)	Approximate Number of Bitcoins Held	Approximate Average Purchase Price Per Bitcoin
Balance at December 31, 2022		\$ 3,993,190	\$ (2,153,162)	\$ 1,840,028	132,500	\$ 30,137
Digital asset purchases	(a)	179,275		179,275	7,500	23,903
Digital asset impairment losses			(18,911)	(18,911)		
Balance at March 31, 2023		\$ 4,172,465	\$ (2,172,073)	\$ 2,000,392	140,000	\$ 29,803
Digital asset purchases	(b)	347,003		347,003	12,333	28,136
Digital asset impairment losses			(24,143)	(24,143)		
Balance at June 30, 2023		\$ 4,519,468	\$ (2,196,216)	\$ 2,323,252	152,333	\$ 29,668
Digital asset purchases	(c)	161,681		161,681	5,912	27,348
Digital asset impairment losses			(33,559)	(33,559)		
Balance at September 30, 2023		\$ 4,681,149	\$ (2,229,775)	\$ 2,451,374	158,245	\$ 29,582
Digital asset purchases	(d)	1,214,340		1,214,340	30,905	39,293
Digital asset impairment losses			(39,238)	(39,238)		
Balance at December 31, 2023		\$ 5,895,489	\$ (2,269,013)	\$ 3,626,476	189,150	\$ 31,168
Digital asset purchases	(e)	1,639,309		1,639,309	25,128	65,238
Digital asset impairment losses			(191,633)	(191,633)		
Balance at March 31, 2024		\$ 7,534,798	\$ (2,460,646)	\$ 5,074,152	214,278	\$ 35,164

(a) In the first quarter of 2023, we purchased bitcoin using \$179.3 million of the net proceeds from our sale of class A common stock under our at-the-market offering program.

(b) In the second quarter of 2023, we purchased bitcoin using \$336.9 million of the net proceeds from our sale of class A common stock under our at-the-market offering program, and Excess Cash.

(c) In the third quarter of 2023, we purchased bitcoin using \$147.3 million of the net proceeds from our sale of class A common stock under our at-the-market offering program, and Excess Cash.

(d) In the fourth quarter of 2023, we purchased bitcoin using \$1.201 billion of the net proceeds from our sale of class A common stock under our at-the-market equity offering program, and Excess Cash.

(e) In the first quarter of 2024, we purchased bitcoin using \$782.0 million of the net proceeds from our issuance of the 2030 Convertible Notes, \$592.3 million of the net proceeds from our issuance of the 2031 Convertible Notes, \$137.3 million of the net proceeds from our sale of class A common stock under our at-the-market equity offering program, and Excess Cash.

Excess Cash refers to cash in excess of the minimum Cash Assets that we are required to hold under our Treasury Reserve Policy, which may include cash generated by operating activities and cash from the proceeds of financing activities.

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

	Approximate Number of Bitcoins Held at End of Quarter	Lowest Market Price Per Bitcoin During Quarter (a)	Market Value of Bitcoin Held at End of Quarter Using Lowest Market Price (in thousands) (b)	Highest Market Price Per Bitcoin During Quarter (c)	Market Value of Bitcoin Held at End of Quarter Using Highest Market Price (in thousands) (d)	Market Price Per Bitcoin at End of Quarter (e)	Market Value of Bitcoin Held at End of Quarter Using Ending Market Price (in thousands) (f)
December 31, 2022	132,500	\$ 15,460.00	\$ 2,048,450	\$ 21,478.80	\$ 2,845,941	\$ 16,556.32	\$ 2,193,712
March 31, 2023	140,000	\$ 16,490.00	\$ 2,308,600	\$ 29,190.04	\$ 4,086,606	\$ 28,468.44	\$ 3,985,582
June 30, 2023	152,333	\$ 24,750.00	\$ 3,770,242	\$ 31,443.67	\$ 4,789,909	\$ 30,361.51	\$ 4,625,060
September 30, 2023	158,245	\$ 24,900.00	\$ 3,940,301	\$ 31,862.21	\$ 5,042,035	\$ 27,030.47	\$ 4,277,437
December 31, 2023	189,150	\$ 26,521.32	\$ 5,016,508	\$ 45,000.00	\$ 8,511,750	\$ 42,531.41	\$ 8,044,816
March 31, 2024	214,278	\$ 38,501.00	\$ 8,249,917	\$ 73,835.57	\$ 15,821,338	\$ 71,028.14	\$ 15,219,768

(a) The "Lowest Market Price Per Bitcoin During Quarter" represents the lowest market price for one bitcoin reported on the Coinbase exchange during the respective quarter, without regard to when we purchased any of our bitcoin.

(b) The "Market Value of Bitcoin Held at End of Quarter Using Lowest Market Price" represents a mathematical calculation consisting of the lowest market price for one bitcoin reported on the Coinbase exchange during the respective quarter multiplied by the number of bitcoins we held at the end of the applicable period.

(c)The "Highest Market Price Per Bitcoin During Quarter" represents the highest market price for one bitcoin reported on the Coinbase exchange during the respective quarter, without regard to when we purchased any of our bitcoin.

(d)The "Market Value of Bitcoin Held at End of Quarter Using Highest Market Price" represents a mathematical calculation consisting of the highest market price for one bitcoin reported on the Coinbase exchange during the respective quarter multiplied by the number of bitcoins we held at the end of the applicable period.

(e)The "Market Price Per Bitcoin at End of Quarter" represents the market price of one bitcoin on the Coinbase exchange at 4:00 p.m. Eastern Time on the last day of the respective quarter.

(f)The "Market Value of Bitcoin Held at End of Quarter Using Ending Market Price" represents a mathematical calculation consisting of the market price of one bitcoin on the Coinbase exchange at 4:00 p.m. Eastern Time on the last day of the respective quarter multiplied by the number of bitcoins we held at the end of the applicable period.

The amounts reported as "Market Value" in the above table represent only a mathematical calculation consisting of the price for one bitcoin reported on the Coinbase exchange (our principal market) in each scenario defined above multiplied by the number of bitcoins held by us at the end of the applicable period. Bitcoin and bitcoin markets may be subject to manipulation and the spot price of bitcoin may be subject to fraud and manipulation. Accordingly, the Market Value amounts reported above may not accurately represent fair market value, and the actual fair market value of our bitcoin may be different from such amounts and such deviation may be material. Moreover, (i) the bitcoin market historically has been characterized by significant volatility in price, limited liquidity and trading volumes compared to sovereign currencies markets, relative anonymity, a developing regulatory landscape, potential susceptibility to market abuse and manipulation, compliance and internal control failures at exchanges, and various other risks that are, or may be, inherent in its entirely electronic, virtual form and decentralized network and (ii) we may not be able to sell our bitcoins at the Market Value amounts indicated above, at the market price as reported on the Coinbase exchange (our principal market) on the date of sale, or at all.

Our digital asset impairment losses have significantly contributed to our operating expenses. During the three months ended March 31, 2024, digital asset impairment losses of \$191.6 million represented 66.3% of our operating expenses, compared to digital asset impairment losses of \$18.9 million, representing 16.5% of our operating expenses, during the three months ended March 31, 2023.

As of April 26, 2024, we held approximately 214,400 bitcoins that were acquired at an aggregate purchase price of \$7.543 billion and an average purchase price of approximately \$35,180 per bitcoin, inclusive of fees and expenses. As of April 26, 2024, at 4:00 p.m. Eastern Time, the market price of one bitcoin reported on the Coinbase exchange was \$63,708.00.

Enterprise Analytics Software Strategy

MicroStrategy is a pioneer in AI-powered business intelligence (BI), and a global leader in enterprise analytics solutions. We provide software and services designed to turn complex, chaotic data environments into rich, reliable, and convenient information feeds for our customers. Our vision is to make every worker a domain expert by delivering Intelligence Everywhere™.

Our cloud-native flagship, MicroStrategy ONE™, powers some of the largest analytics deployments in the world for customers spanning a wide range of industries, including retail, banking, technology, manufacturing, insurance, consulting, healthcare, telecommunications, and the public sector.

Integral to the MicroStrategy ONE platform are Generative AI capabilities that are designed to automate and accelerate the deployment of AI-enabled applications across our customers' enterprises. By making advanced analytics accessible through conversational AI, MicroStrategy ONE provides non-technical users with the ability to directly access novel and actionable insights for decision-making.

MicroStrategy ONE combines the flexibility and scalability afforded by a modern, cloud application with the reliability and security of our robust data governance model. It empowers users by making rich analytics easily accessible and personalized, while enabling organizations to harness the value of their data wherever it is needed.

As we continue to transition our business strategy and product offerings to a cloud-native model, we are enhancing our go-to-market and sales strategies with the goal of focusing on acquiring new customers, driving revenue growth, increasing margins, and streamlining our operations. As part of this strategic transformation, we have taken and will continue to take measures to reorganize and optimize efficiency across our business functions, including sales, marketing, consulting, product, engineering, as well as other corporate functions.

Operating Highlights

The following table sets forth certain operating highlights (in thousands) for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
Revenues		
Product licenses	\$ 12,938	\$ 17,412
Subscription services	22,966	18,810
Total product licenses and subscription services	35,904	36,222
Product support	62,685	65,481
Other services	16,657	20,212
Total revenues	115,246	121,915
Cost of revenues		
Product licenses	567	534
Subscription services	8,604	7,856
Total product licenses and subscription services	9,171	8,390
Product support	8,547	5,768
Other services	12,297	13,783
Total cost of revenues	30,015	27,941
Gross profit	85,231	93,974
Operating expenses		
Sales and marketing	33,451	36,106
Research and development	29,183	31,358
General and administrative	34,666	27,906
Digital asset impairment losses	191,633	18,911
Total operating expenses	288,933	114,281
Loss from operations	\$ (203,702)	\$ (20,307)

We have incurred and may continue to incur significant impairment losses on our digital assets, and we have recognized and may continue to recognize gains upon sale of our digital assets in the future, which are presented net of any impairment losses within operating expenses. In addition, we base our internal operating expense forecasts on expected revenue trends and strategic objectives in our enterprise analytics software business. Many of our expenses, such as office leases and certain personnel costs, are relatively fixed. Accordingly, any decrease in the price of bitcoin during any quarter, any sales by us of our bitcoin at prices above their then current carrying costs or any shortfall in revenue in our software business may cause significant variation in our operating results. We therefore believe that quarter-to-quarter comparisons of our operating results may not be a good indication of our future performance.

Employees

As of March 31, 2024, we had a total of 1,851 employees, of whom 595 were based in the United States and 1,256 were based internationally. The following table summarizes employee headcount as of the dates indicated:

	March 31, 2024	December 31, 2023	March 31, 2023
Subscription services	98	100	108
Product support	201	154	178
Consulting	364	399	440
Education	10	13	12
Sales and marketing	349	390	438
Research and development	613	642	678
General and administrative	216	236	269
Total headcount	<u>1,851</u>	<u>1,934</u>	<u>2,123</u>

Share-based Compensation Expense

As discussed in Note 8, Share-based Compensation, to the Consolidated Financial Statements, we have awarded stock options to purchase shares of our class A common stock, restricted stock units, performance stock units, and certain other stock-based awards under our Stock Incentive Plans. Each restricted stock unit and performance stock unit represents a contingent right to receive a share of our class A common stock upon the satisfaction of applicable vesting requirements. We also provide 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 for the periods indicated:

	Three Months Ended March 31,	
	2024	2023
Cost of subscription services revenues	\$ 70	\$ 69
Cost of product support revenues	918	507
Cost of consulting revenues	385	433
Cost of education revenues	26	21
Sales and marketing	4,701	5,100
Research and development	3,103	3,946
General and administrative	8,588	7,479
Total share-based compensation expense	<u>\$ 17,791</u>	<u>\$ 17,555</u>

The \$0.2 million increase in share-based compensation expense during the three months ended March 31, 2024, as compared to the same period in the prior year, was primarily due to the grant of additional awards under the Stock Incentive Plans and the revaluation and exercise of certain liability-classified stock-based awards, partially offset by the forfeiture of certain stock awards and certain awards that became fully vested. As of March 31, 2024, we estimated that an aggregate of approximately \$177.8 million of additional share-based compensation expense associated with the Stock Incentive Plans and the 2021 ESPP will be recognized over a remaining weighted average period of 2.7 years.

Critical Accounting Estimates

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

Critical accounting estimates involve a significant level of estimation uncertainty and are estimates that have had or are reasonably likely to have a material impact on our financial condition or results of operations. We consider certain estimates and judgments related to revenue recognition to be critical accounting estimates for us, as discussed under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. There have been no significant changes in such estimates and judgments since December 31, 2023.

Results of Operations

Comparison of the three months ended March 31, 2024 and 2023

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 March 31,		% Change
	2024	2023	
Product Licenses and Subscription Services Revenues:			
Product Licenses			
Domestic	\$ 5,007	\$ 8,650	-42.1%
International	7,931	8,762	-9.5%
Total product licenses revenues	12,938	17,412	-25.7%
Subscription Services			
Domestic	14,592	12,336	18.3%
International	8,374	6,474	29.3%
Total subscription services revenues	22,966	18,810	22.1%
Total product licenses and subscription services revenues	<u>\$ 35,904</u>	<u>\$ 36,222</u>	-0.9%

Product licenses revenues. Product licenses revenues decreased \$4.5 million for the three months ended March 31, 2024, as compared to the same period in the prior year, primarily due to an overall decrease in the volume of deals. For the three months ended March 31, 2024, our top three product licenses transactions totaled \$3.0 million in recognized revenue, or 23.4% of total product licenses revenues, compared to \$4.0 million, or 22.9% of total product licenses revenues, for the three months ended March 31, 2023. Our product licenses revenues may continue to experience declines in future periods as we continue to promote our cloud offering to new and existing customers.

Subscription services revenues. Subscription services revenues are derived from our MCE cloud subscription service and are recognized ratably over the service period in the contract. Subscription services revenues increased \$4.2 million for the three months ended March 31, 2024, as compared to the same period in the prior year, primarily due to conversions to cloud-based subscriptions from existing on-premises customers, a net increase in the use of subscription services by existing customers, and sales contracts with new customers. We expect our subscription services revenues to continue to grow in future periods as we continue to promote our cloud offering to new and existing customers.

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

	Three Months Ended March 31,		% Change
	2024	2023	
Product Support Revenues:			
Domestic	\$ 37,408	\$ 39,819	-6.1%
International	25,277	25,662	-1.5%
Total product support revenues	<u>\$ 62,685</u>	<u>\$ 65,481</u>	-4.3%

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 decreased \$2.8 million for the three months ended March 31, 2024, as compared to the same period in the prior year, primarily due to certain existing customers converting from perpetual product licenses with separate support contracts to our subscription services or term product licenses offerings. Our product support revenues may experience declines in future periods as we continue to promote our cloud offering to new and existing customers.

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

	Three Months Ended March 31,		% Change
	2024	2023	
Other Services Revenues:			
Consulting			
Domestic	\$ 7,407	\$ 9,398	-21.2%
International	8,408	9,939	-15.4%
Total consulting revenues	15,815	19,337	-18.2%
Education	842	875	-3.8%
Total other services revenues	<u>\$ 16,657</u>	<u>\$ 20,212</u>	-17.6%

Consulting revenues. Consulting revenues are derived from helping customers plan and execute the deployment of our software. Consulting revenues decreased \$3.5 million for the three months ended March 31, 2024, as compared to the same period in the prior year, primarily due to a decrease in billable hours worldwide.

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 months ended March 31, 2024, as compared to the same period 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 March 31,		% Change
	2024	2023	
Cost of Revenues:			
Product licenses and subscription services:			
Product licenses	\$ 567	\$ 534	6.2%
Subscription services	8,604	7,856	9.5%
Total product licenses and subscription services	9,171	8,390	9.3%
Product support	8,547	5,768	48.2%
Other services:			
Consulting	11,746	13,012	-9.7%
Education	551	771	-28.5%
Total other services	12,297	13,783	-10.8%
Total cost of revenues	<u>\$ 30,015</u>	<u>\$ 27,941</u>	7.4%

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 months ended March 31, 2024, as compared to the same period in the prior year.

Cost of subscription services revenues. Cost of subscription services revenues consists of equipment, facility and other related support costs (including cloud hosting infrastructure costs), and personnel and related overhead costs. Cost of subscription services revenues increased \$0.7 million for the three months ended March 31, 2024, as compared to the same period in the prior year, primarily due to a \$0.9 million increase in cloud hosting infrastructure costs, which is a result of the increased usage by new and existing cloud subscription services customers.

Cost of product support revenues. Cost of product support revenues consists of personnel and related overhead costs. Cost of product support revenues increased \$2.8 million for the three months ended March 31, 2024, as compared to the same period in the prior year, primarily due to (i) a \$1.0 million increase in variable compensation, (ii) a \$0.8 million increase in salaries and personnel costs attributable to an increase in average staffing levels, and (iii) a \$0.4 million net increase in share-based compensation expense.

Cost of consulting revenues. Cost of consulting revenues consists of personnel and related overhead costs. Cost of consulting revenues decreased \$1.3 million for the three months ended March 31, 2024, as compared to the same period in the prior year, primarily due to (i) a \$0.5 million decrease in variable compensation and (ii) a \$0.4 million decrease in severance costs.

Cost of education revenues. Cost of education revenues consists of personnel and related overhead costs. Cost of education revenues did not materially change for the three months ended March 31, 2024, as compared to the same period in the prior year.

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

		Three Months Ended March 31,			% Change
		2024	2023		
Sales and marketing expenses	\$	33,451	\$ 36,106		-7.4%

Sales and marketing expenses decreased \$2.7 million for the three months ended March 31, 2024, as compared to the same period in the prior year, primarily due to (i) a \$2.1 million decrease in employee salaries primarily attributable to a decrease in average staffing levels, partially offset by wage increases, (ii) a \$2.0 million decrease in variable compensation primarily attributable to an increase in net capitalized commissions, partially offset by an increase in commissions earned, and (iii) a \$0.4 million net decrease in share-based compensation expense primarily attributable to the forfeiture of certain equity awards, partially offset by the fair value remeasurement of certain liability-classified awards upon exercise or at the end of the reporting period and the grant of additional awards under the Stock Incentive Plans, partially offset by (iv) a \$1.5 million increase in employer payroll taxes related to stock option exercises during the first quarter of 2024 and (v) a \$0.7 million increase in marketing costs.

Research and development expenses. Research and development expenses consist of the personnel costs for our software engineering personnel and related overhead costs. The following table summarizes research and development expenses (in thousands) and related percentage changes for the periods indicated:

		Three Months Ended March 31,			% Change
		2024	2023		
Research and development expenses	\$	29,183	\$ 31,358		-6.9%

Research and development expenses decreased \$2.2 million for the three months ended March 31, 2024, as compared to the same period in the prior year, primarily due to (i) a \$1.7 million decrease in employee salaries primarily attributable to a decrease in average staffing levels, partially offset by wage increases and (ii) a \$0.8 million net decrease in share-based compensation expense primarily attributable to the forfeiture of certain awards, partially offset by the grant of additional awards under the Stock Incentive Plans, partially offset by (iii) a \$0.6 million increase in variable compensation.

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, and third-party costs associated with our digital asset holdings. The following table sets forth general and administrative expenses (in thousands) and related percentage changes for the periods indicated:

		Three Months Ended March 31,			% Change
		2024	2023		
General and administrative expenses	\$	34,666	\$ 27,906		24.2%

General and administrative expenses increased \$6.8 million for the three months ended March 31, 2024, as compared to the same period in the prior year, primarily due to (i) a \$5.1 million increase in employer payroll taxes related to stock option exercises during the first quarter of 2024, (ii) a \$1.0 million net increase in share-based compensation expense primarily attributable to the grant of additional awards under the Stock Incentive Plans, partially offset by certain awards that became fully vested, (iii) a \$1.0 million increase in legal, consulting, and other advisory costs, and (iv) a \$0.5 million increase in custodial fees incurred on our bitcoin holdings, partially offset by (v) a \$0.8 million decrease in employee salaries primarily attributable to a decrease in average staffing levels, partially offset by wage increases.

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. Gains (if any) are not recorded until realized upon sale. The following table sets forth digital asset impairment losses (in thousands) and related percentage changes for the periods indicated:

		Three Months Ended				% Change
		2024	March 31,	2023		
Digital asset impairment losses	\$	191,633	\$	18,911		913.3%

We did not sell any of our digital assets during the three months ended March 31, 2024 and 2023. We may continue to incur significant digital asset impairment losses in the future. For example, we have incurred at least \$24.9 million in digital asset impairment losses during the second quarter of 2024 on bitcoin we held as of March 31, 2024.

Interest Expense, Net

For the three months ended March 31, 2024 and 2023, interest expense, net, of \$11.9 million and \$14.9 million, respectively, were primarily related to the contractual interest expense and amortization of issuance costs related to our long-term debt arrangements. Interest expense in the first quarter of 2024 decreased compared to the same period in 2023 primarily as a result of the repayment of the 2025 Secured Term Loan in March 2023, partially offset by interest incurred during the first quarter of 2024 related to the 2030 Convertible Notes and 2031 Convertible Notes (which were each issued in March 2024). Interest expense for future periods in 2024 is expected to increase compared to the same periods in 2023 as a result of the issuances of our 2030 Convertible Notes and 2031 Convertible Notes. Refer to Note 5, Long-term Debt, to the Consolidated Financial Statements for further information.

Gain on Debt Extinguishment

For the three months ended March 31, 2023, the \$44.7 million gain on debt extinguishment resulted from the repayment of the 2025 Secured Term Loan. Refer to Note 5, Long-term Debt, to the Consolidated Financial Statements for further information.

Other Income (Expense), Net

For the three months ended March 31, 2024, other income, net, of \$1.7 million was comprised primarily of foreign currency transaction net gains. For the three months ended March 31, 2023, other expense, net, of \$1.4 million was comprised primarily of foreign currency transaction net losses.

Income Taxes

We recorded a benefit from income taxes of \$160.8 million on a pretax loss of \$213.9 million that resulted in an effective tax rate of 75.2% for the three months ended March 31, 2024, as compared to a benefit from income taxes of \$453.2 million on a pretax income of \$8.0 million that resulted in an effective tax rate of (5660.6)% for the three months ended March 31, 2023. During the three months ended March 31, 2024, our benefit from income taxes primarily related to (i) a tax benefit related to share-based compensation (including the income tax effects of exercises of stock options and vesting of share-settled restricted stock units) and (ii) a tax benefit from an increase in our deferred tax asset related to the impairment on our bitcoin holdings. During the three months ended March 31, 2023, our benefit from income taxes primarily related to the release of a portion of the valuation allowance on our deferred tax asset related to the impairment on our bitcoin holdings, attributable to the increase in market value of bitcoin as of March 31, 2023 compared to December 31, 2022.

As of March 31, 2024, we had a valuation allowance of \$1.4 million primarily related to our deferred tax assets related to foreign tax credits in certain jurisdictions. The largest deferred tax asset relates to the impairment on our bitcoin holdings. During 2023, the value of bitcoin increased substantially which allowed us to release the valuation allowance recorded against the deferred tax asset for impairment on our bitcoin holdings. Changes to the valuation allowance against the deferred tax asset are largely dependent on the change in the market value of bitcoin from the previous reporting date. If the market value of bitcoin declines or we are unable to regain 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 (loss) in the period in which the charge is incurred. We routinely consider actions necessary to preserve or utilize tax attributes. We will continue to regularly assess the realizability of deferred tax assets.

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

Deferred Revenue and Advance Payments

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

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

	March 31, 2024	December 31, 2023	March 31, 2023
Current:			
Deferred product licenses revenue	\$ 2,879	\$ 3,579	\$ 479
Deferred subscription services revenue	60,280	65,512	46,719
Deferred product support revenue	148,078	152,012	159,792
Deferred other services revenue	4,718	7,059	4,778
Total current deferred revenue and advance payments	<u>\$ 215,955</u>	<u>\$ 228,162</u>	<u>\$ 211,768</u>
Non-current:			
Deferred product licenses revenue	\$ 0	\$ 0	\$ 2,710
Deferred subscription services revenue	1,992	3,097	2,671
Deferred product support revenue	4,094	4,984	5,712
Deferred other services revenue	400	443	553
Total non-current deferred revenue and advance payments	<u>\$ 6,486</u>	<u>\$ 8,524</u>	<u>\$ 11,646</u>
Total current and non-current:			
Deferred product licenses revenue	\$ 2,879	\$ 3,579	\$ 3,189
Deferred subscription services revenue	62,272	68,609	49,390
Deferred product support revenue	152,172	156,996	165,504
Deferred other services revenue	5,118	7,502	5,331
Total current and non-current deferred revenue and advance payments	<u>\$ 222,441</u>	<u>\$ 236,686</u>	<u>\$ 223,414</u>

The portions of multi-year contracts that will be invoiced in the future are not presented on the balance sheet in “Accounts receivable, net” and “Deferred revenue and advance payments” and instead are included in the remaining performance obligation disclosure below. Total deferred revenue and advance payments decreased \$14.2 million as of March 31, 2024, as compared to December 31, 2023, primarily due to the timing of product support and subscription services renewals and an increase in revenue recognized from previously deferred subscription services, other services, and product licenses. Total deferred revenue and advance payments decreased \$1.0 million as of March 31, 2024, as compared to March 31, 2023, primarily due to decrease in deferred product support revenue from an increase in conversions from on-premises to subscription services contracts, substantially offset by an increase in deferred revenue from subscription services contracts.

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 March 31, 2024, we had an aggregate transaction price of \$338.1 million allocated to the remaining performance obligation related to product support, subscription services, product licenses, and other services contracts. We expect to recognize approximately \$247.5 million of the remaining performance obligation over the next 12 months and the remainder thereafter. However, the timing and ultimate recognition of our deferred revenue and advance payments and other remaining performance obligations depend on our satisfaction of various performance obligations, and the amount of deferred revenue and advance payments and remaining performance obligations at any date should not be considered indicative of revenues for any succeeding period.

Liquidity and Capital Resources

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

As of March 31, 2024 and December 31, 2023, the amount of cash and cash equivalents held by our U.S. entities was \$39.9 million and \$10.5 million, respectively, and by our non-U.S. entities was \$41.4 million and \$36.3 million, respectively. We earn a significant amount of our revenues outside the United States. We did not repatriate any foreign earnings and profits during the three months ended March 31, 2024 or 2023.

Our material contractual obligations and cash requirements consist of:

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

The above items are explained in further detail in Note 5, Long-term Debt, to the Consolidated Financial Statements included in this Quarterly Report as well as under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 and in the Notes to the Consolidated Financial Statements included therein. Other than our issuances of the 2030 Convertible Notes and 2031 Convertible Notes described more fully below and in Note 5, Long-term Debt, to the Consolidated Financial Statements included in this Quarterly Report, there have been no changes to our material contractual obligations and cash requirements since December 31, 2023.

We believe that existing cash and cash equivalents held by us and cash and cash equivalents anticipated to be generated by us are sufficient to meet working capital requirements, anticipated capital expenditures, and contractual obligations for at least the next 12 months. Beyond the next 12 months, our long-term cash requirements are primarily for obligations related to our long-term debt. We have principal due upon maturity of our long-term debt instruments in the aggregate of \$3.612 billion in addition to \$2.4 million in coupon interest due each semi-annual period for the 2025 Convertible Notes, \$2.5 million in coupon interest due each semi-annual period for the 2030 Convertible Notes, \$2.6 million in coupon interest due each semi-annual period for the 2031 Convertible Notes, \$15.3 million in coupon interest due each semi-annual period for the 2028 Secured Notes, and \$0.1 million due monthly in principal and interest related to our other long-term secured debt. We also have long-term cash requirements for obligations related to our operating leases, the Transition Tax, and our various purchase agreements. As of March 31, 2024, we do not expect cash and cash equivalents generated by our enterprise analytics software business to be sufficient to satisfy these obligations. As a result, we would seek to satisfy these obligations through various options that we expect to be available to us, such as refinancing our debt or generating cash from other sources, which may include the issuance and sale of shares of our class A common stock, borrowings collateralized by bitcoin, or the sale of our bitcoin. Furthermore, if the conditional conversion features of the Convertible Notes are triggered, we may elect to settle the conversions of Convertible Notes in shares of our class A common stock, or a combination of cash and shares of class A common stock, rather than in all cash, which may enable us to reduce the amount of our cash obligations under the Convertible Notes.

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 (i) 91 days prior to the existing maturity date of the 2025 Convertible Notes (which is September 15, 2025), (ii) 91 days prior to the existing maturity date of the 2027 Convertible Notes (which is November 16, 2026), or (iii) 91 days prior to 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.

In addition, while the 2030 Convertible Notes and the 2031 Convertible Notes have maturity dates of March 15, 2030 and March 15, 2031, respectively, the holders of the 2030 Convertible Notes and 2031 Convertible Notes each have the right to require us to repurchase for cash all or any portion of their 2030 Convertible Notes or 2031 Convertible Notes, respectively, on September 15, 2028 at a repurchase price equal to 100% of the principal amount of the 2030 Convertible Notes or 2031 Convertible Notes, respectively, to be repurchased, plus any accrued and unpaid interest to, but excluding the repurchase date.

As of March 31, 2024, we held approximately 214,278 bitcoins, of which approximately 175,721 are unencumbered. We do not believe we will need to sell or engage in other transactions with respect to any of our bitcoins within the next twelve months to meet our working capital requirements, although we may from time to time sell or engage in other transactions with respect to our bitcoins as part of treasury management operations, as noted above. The bitcoin market historically has been characterized by significant volatility in its price, limited liquidity and trading volumes compared to sovereign currencies markets, relative anonymity, a developing regulatory landscape, susceptibility to market abuse and manipulation, compliance and internal control failures at exchanges, and various other risks inherent in its entirely electronic, virtual form and decentralized network. During times of instability in the bitcoin market, we may not be able to sell our bitcoins at reasonable prices or at all. As a result, our bitcoins are less liquid than our existing cash and cash equivalents and may not be able to serve as a source of liquidity for us to the same extent as cash and cash equivalents. In addition, upon sale of our bitcoin, we may incur additional taxes related to any realized gains or we may incur capital losses as to which the tax deduction may be limited.

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

		March 31,		%
	2024	2023		Change
Net cash provided by operating activities	\$ 28,587	\$ 37,397		-23.6%
Net cash used in investing activities	\$ (1,640,854)	\$ (179,774)		812.7%
Net cash provided by financing activities	\$ 1,648,400	\$ 187,622		778.6%

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, subscription services and product support, as well as consulting and education 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, interest expense related to our long-term debt arrangements, 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 operating lease right-of-use assets, credit losses and sales allowances, deferred taxes, release of liabilities for unrecognized tax benefits, share-based compensation expense, digital asset impairment losses, amortization of the issuance costs on our long-term debt, and gain on extinguishment of debt.

Net cash provided by operating activities decreased \$8.8 million for the three months ended March 31, 2024, as compared to the same period in the prior year, due to a \$514.3 million decrease in net income and an \$11.1 million decrease from changes in operating assets and liabilities, which was partially offset by a \$516.6 million increase in non-cash items (principally related to changes in deferred taxes, digital asset impairment losses, and a gain on extinguishment of debt in the first quarter of 2023).

Net cash used in investing activities. The changes in net cash used in investing activities primarily relate to purchases of digital assets and expenditures on property and equipment. Net cash used in investing activities increased \$1.461 billion for the three months ended March 31, 2024, as compared to the same period in the prior year, primarily due to a \$1.460 billion increase in purchases of bitcoins. During the three months ended March 31, 2024, we purchased \$1.639 billion of bitcoin using net proceeds from the issuances of our 2030 Convertible Notes and 2031 Convertible Notes, net proceeds from the sale of class A common stock under our at-the-market equity offering program, and Excess Cash, while during the three months ended March 31, 2023, we purchased \$179.3 million of bitcoin using net proceeds from the sale of class A common stock under our at-the-market offering program.

Net cash provided by financing activities. The changes in cash provided by and used in financing activities primarily relate to the issuance and subsequent repayment of long-term debt, the sale of class A common stock under our at-the-market equity offering program, the exercise or vesting of certain awards under the Stock Incentive Plans, and the sales of class A common stock under the 2021 ESPP. Net cash provided by financing activities increased \$1.461 billion for the three months ended March 31, 2024, as compared to the same period in the prior year, primarily due to (i) a \$1.376 billion increase in long-term debt proceeds, net of issuance costs, during the three months ended March 31, 2024 as compared to the same period in the prior year, (ii) the \$159.9 million repayment of the 2025 Secured Term Loan during the three months ended March 31, 2023, which was repaid using proceeds from our sale of class A common stock offered under our at-the-market equity offering program, and (iii) a \$128.1 million increase in proceeds from the exercise of stock options under the Stock Incentive Plans in the three months ended March 31, 2024, as compared to the same period in the prior year, partially offset by, (iv) a \$201.9 million decrease in net proceeds from the sale of class A common stock under our at-the-market equity offering program during the three months ended March 31, 2024 as compared to the same period in the prior year.

Long-term Debt

The terms of each of the long-term debt instruments are discussed more fully in Note 5, Long-term Debt, to the Consolidated Financial Statements included in this Quarterly Report as well as Note 8, Long-term Debt, to the Consolidated Financial Statements of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

In December 2020, we issued \$650.0 million aggregate principal amount of the 2025 Convertible Notes; in February 2021, we issued \$1.050 billion aggregate principal amount of the 2027 Convertible Notes; and in March 2024, we issued \$800.0 million aggregate principal amount of the 2030 Convertible Notes and \$603.8 million aggregate principal amount of the 2031 Convertible Notes. We used the net proceeds from the issuance of the Convertible Notes to acquire bitcoin. During each of the three months ended March 31, 2024 and 2023, we did not pay any interest to holders of the 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. As of March 31, 2024, approximately 38,557 of the bitcoins held by the Company serve as part of the collateral for the 2028 Secured Notes. We did not pay any interest to holders of the 2028 Secured Notes during the three months ended March 31, 2024 and 2023.

In March 2022, MacroStrategy, our wholly-owned subsidiary, entered into a Credit and Security Agreement with Silvergate Bank, pursuant to which Silvergate Bank issued the \$205.0 million 2025 Secured Term Loan to MacroStrategy. We used \$190.5 million of the net proceeds from the issuance of the 2025 Secured Term Loan to acquire bitcoin, \$5.0 million of the net proceeds to establish a

reserve account that served as collateral for the 2025 Secured Term Loan, and the remaining net proceeds to pay fees, interest, and expenses related to the 2025 Secured Term Loan. On March 24, 2023, MacroStrategy and Silvergate Bank entered into a Prepayment, Waiver and Payoff to Credit and Security Agreement, pursuant to which MacroStrategy voluntarily prepaid Silvergate approximately \$161.0 million (the “Payoff Amount”), in full repayment, satisfaction, and discharge of the 2025 Secured Term Loan and all other obligations under the Credit and Security Agreement. Upon Silvergate’s receipt of the Payoff Amount on March 24, 2023, the Credit and Security Agreement was terminated, and Silvergate released its security interest in all of MacroStrategy’s assets collateralizing the 2025 Secured Term Loan, including the bitcoin that was serving as collateral. During the first quarter of 2023, we made a final \$5.1 million interest payment to Silvergate, \$1.1 million of which was included in the Payoff Amount.

In June 2022, we, through one of our wholly-owned subsidiaries, entered into a secured term loan agreement in the amount of \$11.1 million, bearing interest at an annual rate of 5.2%, and maturing in June 2027. During the three months ended March 31, 2024 and 2023, we paid \$0.3 million and \$0.3 million, respectively, in principal and interest to the lender.

At-the-Market Equity Offerings

From time to time, we have entered into sales agreements with agents pursuant to which we could issue and sell shares of our class A common stock through at-the-market equity offering programs. See Note 10, At-the-Market Equity Offerings, to the Consolidated Financial Statements for additional information regarding sales of our class A common stock pursuant to each of the sales agreements that were active during 2024 or 2023.

The following table sets forth total shares sold and total net proceeds received (net of sales commissions and expenses) from shares sold under our at-the-market equity offering programs for the periods indicated (in thousands, except number of shares):

	Three Months Ended March 31,	
	2024	2023
Total shares sold pursuant to at-the-market equity offering programs	195,162	1,348,855
Total net proceeds received from shares sold pursuant to at-the-market equity offering programs	\$ 137,152	\$ 338,962

Debt Repurchases and Prepayments.

During the first quarter of 2023, MacroStrategy voluntarily prepaid Silvergate the Payoff Amount in full repayment, satisfaction, and discharge of the 2025 Secured Term Loan and all other obligations under the Credit and Security Agreement. During the three months ended March 31, 2024 and 2023, we did not repurchase or prepay any of our other outstanding debt.

We or our affiliates may, at any time and from time to time, seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity or debt, in open-market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will be upon such terms and at such prices as we may determine, and will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. We may also prepay our outstanding indebtedness. The amounts involved in any such repurchase or prepayment may be material.

Non-GAAP Financial Measures

We are providing supplemental non-GAAP financial measures below which management uses 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. We also believe the use of these non-GAAP financial measures can facilitate comparison of our operating results to those of our competitors. 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.

Non-GAAP financial measures are subject to material limitations as they are not measurements prepared in accordance with GAAP, and are not a substitute for such measurements. For example, we expect that share-based compensation expense, which is excluded from certain of the non-GAAP financial measures below, 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 on our long-term debt, which is excluded from certain of the non-GAAP financial measures below, will continue to be a recurring expense over the terms of our long-term debt arrangements. 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.

Non-GAAP loss from operations

Non-GAAP loss from operations excludes share-based compensation expense, which is a significant non-cash expense that we believe is not reflective of our general business performance, and for which the accounting requires management judgment. Consequently, our accounting for share-based compensation expense could vary significantly in comparison to other companies. The following is a reconciliation of our non-GAAP loss from operations to loss from operations, its most directly comparable GAAP measure, (in thousands) for the periods indicated:

	Three Months Ended March 31,	
	2024	2023
Reconciliation of non-GAAP loss from operations:		
Loss from operations	\$ (203,702)	\$ (20,307)
Share-based compensation expense	17,791	17,555
Non-GAAP loss from operations	<u>\$ (185,911)</u>	<u>\$ (2,752)</u>

Non-GAAP net (loss) income and non-GAAP diluted (loss) earnings per share

Non-GAAP net (loss) income and non-GAAP diluted (loss) earnings per share each exclude the impact of (i) share-based compensation expense, (ii) interest expense arising from the amortization of debt issuance costs on our long-term debt, (iii) gain on extinguishment of debt, and (iv) related income taxes. We believe non-GAAP net (loss) income and non-GAAP diluted (loss) earnings per share offer management and investors insight as they exclude significant non-cash expenses, gains on debt extinguishment, and their related income tax effects. The following are reconciliations of our non-GAAP net (loss) income and non-GAAP diluted (loss) earnings per share to net (loss) income and diluted (loss) earnings per share, respectively, their most directly comparable GAAP measures (in thousands, except per share data), for the periods indicated:

	Three Months Ended March 31,	
	2024	2023
Reconciliation of non-GAAP net (loss) income:		
Net (loss) income	\$ (53,118)	\$ 461,193
Share-based compensation expense	17,791	17,555
Interest expense arising from amortization of debt issuance costs	2,557	2,210
Gain on debt extinguishment	0	(44,686)
Income tax effects (1)	(109,238)	8,766
Non-GAAP net (loss) income	<u>\$ (142,008)</u>	<u>\$ 445,038</u>
Reconciliation of non-GAAP diluted (loss) earnings per share (2):		
Diluted (loss) earnings per share	\$ (3.09)	\$ 31.79
Share-based compensation expense (per diluted share)	1.03	1.20
Interest expense arising from amortization of debt issuance costs (per diluted share) (3)	0.15	0.03
Gain on debt extinguishment (per diluted share)	0.00	(3.07)
Income tax effects (per diluted share) (3)	(6.35)	0.64
Non-GAAP diluted (loss) earnings per share	<u>\$ (8.26)</u>	<u>\$ 30.59</u>

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

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

(3) For the three months ended March 31, 2023, interest expense from the amortization of issuance costs of the Convertible Notes has been added back to the numerator in the GAAP diluted earnings per share calculation (as disclosed in Note 9, Basic and Diluted (Loss) Earnings per Share, to the Consolidated Financial Statements), and therefore the per diluted share effects of the amortization of issuance costs of the Convertible Notes have been excluded from the "Interest expense arising from amortization of debt issuance costs (per diluted share)" and "Income tax effects (per diluted share)" lines in the above reconciliation for the three months ended March 31, 2023.

Non-GAAP Constant Currency Revenues, Cost of Revenues, and Operating Expenses

We present certain of our revenues, cost of revenues, and operating expenses on a non-GAAP constant currency basis, which excludes certain changes resulting from fluctuations in foreign currency exchange rates. These non-GAAP constant currency metrics allow our management and investors to compare operating results to the same period in the prior year without the effects of certain changes in foreign currency exchange rates, which are not reflective of our general business performance and may vary significantly between periods. The following are reconciliations our 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 March 31,						
	GAAP 2024	Foreign Currency Exchange Rate Impact (1) 2024	Non-GAAP Constant Currency (2) 2024	GAAP 2023	GAAP % Change 2024	Non-GAAP Constant Currency % Change (3) 2024
Product licenses revenues	\$ 12,938	\$ (82)	\$ 13,020	\$ 17,412	-25.7%	-25.2%
Subscription services revenues	22,966	86	22,880	18,810	22.1%	21.6%
Product support revenues	62,685	244	62,441	65,481	-4.3%	-4.6%
Other services revenues	16,657	58	16,599	20,212	-17.6%	-17.9%
Cost of product support revenues	8,547	30	8,517	5,768	48.2%	47.7%
Cost of other services revenues	12,297	207	12,090	13,783	-10.8%	-12.3%
Sales and marketing expenses	33,451	18	33,433	36,106	-7.4%	-7.4%
Research and development expenses	29,183	(264)	29,447	31,358	-6.9%	-6.1%
General and administrative expenses	34,666	86	34,580	27,906	24.2%	23.9%

	GAAP 2023	Foreign Currency Exchange Rate Impact (1) 2023	Non-GAAP Constant Currency (2) 2023	GAAP 2022	GAAP % Change 2023	Non-GAAP Constant Currency % Change (3) 2023
Product licenses revenues	\$ 17,412	\$ (600)	\$ 18,012	\$ 16,513	5.4%	9.1%
Subscription services revenues	18,810	(430)	19,240	12,845	46.4%	49.8%
Product support revenues	65,481	(1,341)	66,822	67,151	-2.5%	-0.5%
Other services revenues	20,212	(679)	20,891	22,768	-11.2%	-8.2%
Cost of product support revenues	5,768	(115)	5,883	5,191	11.1%	13.3%
Cost of other services revenues	13,783	(510)	14,293	14,599	-5.6%	-2.1%
Sales and marketing expenses	36,106	(685)	36,791	33,240	8.6%	10.7%
Research and development expenses	31,358	(717)	32,075	33,523	-6.5%	-4.3%
General and administrative expenses	27,906	(222)	28,128	26,706	4.5%	5.3%

(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. Beginning in the third quarter of 2023, the term “international” refers to operations outside of the United States and Canada only where the functional currency is the local currency (i.e., excluding any location whose economy is considered highly inflationary). Prior year comparative periods have been recast to conform to current period presentation.

(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.

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 market price changes in bitcoin and foreign currency fluctuations.

Market Price Risk of Bitcoin. We have used a significant portion of our cash, including cash generated from capital raising transactions, to acquire bitcoin and, as of March 31, 2024, we held approximately 214,278 bitcoins. The carrying value of our bitcoins as of March 31, 2024 was \$5.074 billion, which reflects cumulative impairments of \$2.461 billion, on our Consolidated Balance Sheet. We account for our bitcoin as indefinite-lived intangible assets, which are subject to impairment losses if the fair value of our bitcoin decreases below their carrying value at any time since their acquisition. Impairment losses cannot be recovered for any subsequent increase in fair value. For example, the market price of one bitcoin on the Coinbase exchange (our principal market for bitcoin) ranged from a low of \$38,501.00 to a high of \$73,835.57 during the three months ended March 31, 2024, 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 three months ended March 31, 2024, we incurred an impairment loss of \$191.6 million on our bitcoin.

Foreign Currency Risk. We conduct a significant portion of our business in currencies other than the U.S. dollar, the currency in which we report our Consolidated Financial Statements. International revenues accounted for 44.1% and 42.8% of our total revenues for the three months ended March 31, 2024 and 2023, 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. Transaction gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved are included in the results of operations.

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 March 31, 2024 and December 31, 2023, a 10% adverse change in foreign currency exchange rates versus the U.S. dollar would have decreased our aggregate reported cash and cash equivalents by 3.7% and 5.4%, respectively. If average exchange rates during the three months ended March 31, 2024 had changed unfavorably by 10%, our revenues for the three months ended March 31, 2024 would have decreased by 3.9%. During the three months ended March 31, 2024, our revenues were not materially impacted as a result of a 0.9% 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 March 31, 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various legal proceedings arising in the normal course of business, including the matter described below. 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.

The information required by this Item is provided under the subheading “False Claims Act Matter” in section (b) of Note 6, Commitments and Contingencies to our Consolidated Financial Statements and incorporated herein by reference.

Item 1A. Risk Factors

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

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

Risks Related to Our Business in General

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

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

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

- fluctuations in the price of bitcoin, of which we have significant holdings and with respect to which we expect to continue to make significant future purchases, and potential material impairment charges that may be associated therewith;
- any sales by us of our bitcoin at prices above their then-current carrying costs, which would result in our recording gains upon sale of our digital assets;
- regulatory, commercial, and technical developments related to bitcoin or the Bitcoin blockchain, or digital assets more generally;
- the size, timing, volume, and execution of significant orders and deliveries;
- 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 war, terrorism, infectious diseases (such as COVID-19), natural disasters and other global events, and government responses to such events, on the global economy and on our customers, suppliers, employees, and business;
- the timing of research and development projects;
- utilization of our consulting and education services, which can be affected by delays or deferrals of customer implementation of our software;
- fluctuations in foreign currency exchange rates;
- bilateral or multilateral trade tensions, which could affect our offerings in particular foreign markets;

- our profitability and expectations for future profitability and their effect on our deferred tax assets and net income for the period in which any adjustment to our net deferred tax asset valuation allowance may be made;
- increases or decreases in our liability for unrecognized tax benefits; and
- changes in customer decision-making processes or customer budgets.

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

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

We may not be able to achieve profitability in future periods

We generated a net loss for the three months ended March 31, 2024, primarily due to digital asset impairment losses, and we may not be able to achieve profitability in future periods. 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 additional 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 March 31, 2024, we had \$919.8 million of deferred tax assets, which reflects a \$1.4 million valuation allowance. The largest deferred tax asset relates to the impairment on our bitcoin holdings. Changes to the valuation allowance against the deferred tax asset are largely dependent on the change in the market value of bitcoin from the previous reporting date. During 2023, the value of bitcoin increased substantially which allowed us to release the valuation allowance recorded against the bitcoin holding; however, if the market value of bitcoin at a future reporting date is less than the average cost basis of our bitcoin holdings at such reporting date, we may be required to establish a valuation allowance against our U.S. deferred tax assets. Additionally, if we do not achieve profitability in the future, we may also be required to increase the valuation allowance against the remaining deferred tax assets. A significant increase in the valuation allowance could result in a charge that would materially adversely affect net income in the period in which the charge is incurred.

We may have exposure to greater than anticipated tax liabilities

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

After enactment of the U.S. Tax Cuts and Jobs Act, most of our income is taxable in the U.S. with a significant portion taxable under the Global Intangible Low-Taxed Income (“GILTI”) regime. Beginning in fiscal year 2027, the deduction allowable under the GILTI regime will decrease from 50% to 37.5%, which will increase the effective tax rate imposed on our income. The U.S. also enacted the Inflation Reduction Act of 2022 (“IRA”) in August 2022. The IRA applies to tax years beginning after December 31, 2022 and introduces a 15% corporate alternative minimum tax for corporations whose average annual adjusted financial statement income for any consecutive three-tax-year period preceding the tax year exceeds \$1 billion and a 1% excise tax on certain stock repurchases made by publicly traded U.S. corporations after December 31, 2022. Subject to the release and content of the final regulations by the IRS with respect to the application of the minimum tax and treatment of unrealized fair value gains, upon our adoption of ASU 2023-08, we could become subject to the alternative minimum tax if, for example, we experience significant unrealized gains on our bitcoin holdings. If we become subject to these new taxes under the IRA for these or any other reasons, it could materially affect our financial results, including our earnings and cash flow, and our financial condition. Further, other existing U.S. tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied in manner that negatively impacts us. For example, the Biden administration has proposed

various U.S. federal tax law changes, which if enacted could have an adverse impact on our business, cash flows, financial condition or results of operations.

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 there are many transactions and calculations, including in respect of transactions involving bitcoin, 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

Our bitcoin acquisition strategy exposes us to various risks associated with bitcoin, including the following:

Bitcoin is a highly volatile asset. Bitcoin is a highly volatile asset that has traded below \$25,000 per bitcoin and above \$70,000 per bitcoin on the Coinbase exchange (our principal market for bitcoin) in the 12 months preceding the date of this Quarterly Report. The trading price of bitcoin significantly decreased during prior periods, and such declines may occur again in the future.

Bitcoin does not pay interest or dividends. Bitcoin does not pay interest or other returns and we can only generate cash from our bitcoin holdings if we sell our bitcoin or implement strategies to create income streams or otherwise generate cash by using our bitcoin holdings. Even if we pursue any such strategies, we may be unable to create income streams or otherwise generate cash from our bitcoin holdings, and any such strategies may subject us to additional risks.

Our bitcoin holdings significantly impact our financial results and the market price of our class A common stock. Our bitcoin holdings have significantly affected our financial results and if we continue to increase our overall holdings of bitcoin in the future, they will have an even greater impact on our financial results and the market price of our class A common stock. See "Risks Related to Our Bitcoin Acquisition Strategy and Holdings – Our historical financial statements do not reflect the potential variability in earnings that we may experience in the future relating to our bitcoin holdings."

Our bitcoin acquisition strategy has not been tested over an extended period of time or under different market conditions. We are continually examining the risks and rewards of our bitcoin acquisition strategy. This strategy has not been tested over an extended period of time or under different market conditions. For example, although we believe bitcoin, due to its limited supply, has the potential to serve as a hedge against inflation in the long term, the short-term price of bitcoin declined in recent periods during which the inflation rate increased. Some investors and other market participants may disagree with our bitcoin acquisition strategy or actions we undertake to implement it. If bitcoin prices were to decrease or our bitcoin acquisition strategy otherwise proves unsuccessful, our financial condition, results of operations, and the market price of our class A common stock would be materially adversely impacted.

We are subject to counterparty risks, including in particular risks relating to our custodians. Although we have implemented various measures that are designed to mitigate our counterparty risks, including by storing substantially all of the bitcoin we own in custody accounts at U.S.-based, institutional-grade custodians and negotiating contractual arrangements intended to establish that our property interest in custodially-held bitcoin is not subject to claims of our custodians' creditors, applicable insolvency law is not fully developed with respect to the holding of digital assets in custodial accounts. If our custodially-held bitcoin were nevertheless considered to be the property of our custodians' estates in the event that any such custodians were to enter bankruptcy, receivership or similar insolvency proceedings, we could be treated as a general unsecured creditor of such custodians, inhibiting our ability to exercise ownership rights with respect to such bitcoin and this may ultimately result in the loss of the value related to some or all of such bitcoin. Even if we are able to prevent our bitcoin from being considered the property of a custodian's bankruptcy estate as part of an insolvency proceeding, it is possible that we would still be delayed or may otherwise experience difficulty in accessing our bitcoin held by the affected custodian during the pendency of the insolvency proceedings. Any such outcome could have a material adverse effect on our financial condition and the market price of our class A common stock.

The broader digital assets industry is subject to counterparty risks, which could adversely impact the adoption rate, price, and use of bitcoin. A series of recent high-profile bankruptcies, closures, liquidations, regulatory enforcement actions and other events relating to companies operating in the digital asset industry, including the filings for bankruptcy protection by Three Arrows Capital, Celsius Network, Voyager Digital, FTX Trading and Genesis Global Capital, the closure or liquidation of certain financial institutions that

provided lending and other services to the digital assets industry, including Signature Bank and Silvergate Bank, SEC enforcement actions against Coinbase, Inc. and Binance Holdings Ltd., the placement of Prime Trust, LLC into receivership following a cease-and-desist order issued by Nevada's Department of Business and Industry, and the filing and subsequent settlement of a civil fraud lawsuit by the New York Attorney General against Genesis Global Capital, its parent company Digital Currency Group, Inc., and former partner Gemini Trust Company, have highlighted the counterparty risks applicable to owning and transacting in digital assets. Although these bankruptcies, closures, liquidations and other events have not resulted in any loss or misappropriation of our bitcoin, nor have such events adversely impacted our access to our bitcoin, they have, in the short-term, likely negatively impacted the adoption rate and use of bitcoin. Additional bankruptcies, closures, liquidations, regulatory enforcement actions or other events involving participants in the digital assets industry in the future may further negatively impact the adoption rate, price, and use of bitcoin, limit the availability to us of financing collateralized by bitcoin, or create or expose additional counterparty risks.

Changes in our ownership of bitcoin could have accounting, regulatory and other impacts. While we currently own bitcoin directly and through our wholly owned subsidiaries, we may investigate other potential approaches to owning bitcoin, including indirect ownership (for example, through ownership interests in a fund that owns bitcoin). If we were to own all or a portion of our bitcoin in a different manner, the accounting treatment for our bitcoin, our ability to use our bitcoin as collateral for additional borrowings, and the regulatory requirements to which we are subject, may correspondingly change.

Changes in the accounting treatment of our bitcoin holdings could have significant accounting impacts, including increasing the volatility of our results. In December 2023, the FASB issued ASU 2023-08, which upon our adoption will require us to measure in-scope crypto assets (including our bitcoin holdings) at fair value in our statement of financial position, and to recognize gains and losses from changes in the fair value of our bitcoin in net income each reporting period. ASU 2023-08 will also require us to provide certain interim and annual disclosures with respect to our bitcoin holdings. The standard is effective for our interim and annual periods beginning January 1, 2025, with a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the annual reporting period in which we adopt the guidance. Early adoption is permitted in any interim or annual period for which our financial statements have not been issued as of the beginning of the annual reporting period. Due in particular to the volatility in the price of bitcoin, we expect the adoption of ASU 2023-08 will likely have a material impact on our financial results in future periods, increase the volatility of our financial results, and affect the carrying value of our bitcoin on our balance sheet, and could have adverse tax consequences, which in turn could have a material adverse effect on our financial results and the market price of our class A common stock. Additionally, as a result of ASU 2023-08 requiring a cumulative-effect adjustment to our opening balance of retained earnings as of the beginning of the annual period in which we adopt the guidance and not permitting retrospective restatement of our historical financial statements, our future results will not be comparable to results from periods prior to our adoption of the guidance.

The broader digital assets industry, including the technology associated with digital assets, the rate of adoption and development of, and use cases for, digital assets, market perception of digital assets, and the legal, regulatory, and accounting treatment of digital assets are constantly developing and changing, and there may be additional risks in the future that are not possible to predict.

Bitcoin is a highly volatile asset, and fluctuations in the price of bitcoin have in the past influenced and are likely to continue to influence our financial results and the market price of our class A common stock

Bitcoin is a highly volatile asset, and fluctuations in the price of bitcoin have in the past influenced and are likely to continue to influence our financial results and the market price of our class A common stock. Our financial results and the market price of our class A common stock would be adversely affected, and our business and financial condition would be negatively impacted, if the price of bitcoin decreased substantially (as it has in the past, including during 2022), including as a result of:

- decreased user and investor confidence in bitcoin, including due to the various factors described herein;
- investment and trading activities, such as (i) trading activities of highly active retail and institutional users, speculators, miners and investors; (ii) actual or expected significant dispositions of bitcoin by large holders, including the expected liquidation of digital assets associated with entities that have filed for bankruptcy protection and the transfer and sale of bitcoins associated with the hacked cryptocurrency exchange Mt. Gox; and (iii) actual or perceived manipulation of the spot or derivative markets for bitcoin or spot bitcoin exchange-traded products ("ETPs");
- negative publicity, media or social media coverage, or sentiment due to events in or relating to, or perception of, bitcoin or the broader digital assets industry, for example, (i) public perception that bitcoin can be used as a vehicle to circumvent sanctions, including sanctions imposed on Russia or certain regions related to the ongoing conflict between Russia and Ukraine, or to fund criminal or terrorist activities, such as the purported use of digital assets by Hamas to fund its terrorist attack against Israel in October 2023; (ii) expected or pending civil, criminal, regulatory enforcement or other high profile actions against major participants in the bitcoin ecosystem, including the SEC's enforcement actions against Coinbase, Inc. and Binance Holdings Ltd.; (iii) additional filings for bankruptcy protection or bankruptcy proceedings of major digital asset industry participants, such as the bankruptcy proceeding of FTX Trading and its affiliates; and (iv) the actual or perceived environmental impact of bitcoin and related activities, including environmental concerns raised by private

individuals, governmental and non-governmental organizations, and other actors related to the energy resources consumed in the bitcoin mining process;

- changes in consumer preferences and the perceived value or prospects of bitcoin;
- competition from other digital assets that exhibit better speed, security, scalability, or energy efficiency, that feature other more favored characteristics, that are backed by governments, including the U.S. government, or reserves of fiat currencies, or that represent ownership or security interests in physical assets;
- a decrease in the price of other digital assets, including stablecoins, or the crash or unavailability of stablecoins that are used as a medium of exchange for bitcoin purchase and sale transactions, such as the crash of the stablecoin Terra USD in 2022, to the extent the decrease in the price of such other digital assets or the unavailability of such stablecoins may cause a decrease in the price of bitcoin or adversely affect investor confidence in digital assets generally;
- the identification of Satoshi Nakamoto, the pseudonymous person or persons who developed bitcoin, or the transfer of substantial amounts of bitcoin from bitcoin wallets attributed to Mr. Nakamoto;
- disruptions, failures, unavailability, or interruptions in service of trading venues for bitcoin, such as, for example, the announcement by the digital asset exchange FTX Trading that it would freeze withdrawals and transfers from its accounts and subsequent filing for bankruptcy protection and the SEC enforcement action brought against Binance Holdings Ltd., which initially sought to freeze all of its assets during the pendency of the enforcement action and has since resulted in Binance discontinuing all fiat deposits and withdrawals in the U.S.;
- the filing for bankruptcy protection by, liquidation of, or market concerns about the financial viability of digital asset custodians, trading venues, lending platforms, investment funds, or other digital asset industry participants, such as the filing for bankruptcy protection by digital asset trading venues FTX Trading and BlockFi and digital asset lending platforms Celsius Network and Voyager Digital Holdings in 2022, the ordered liquidation of the digital asset investment fund Three Arrows Capital in 2022, the announced liquidation of Silvergate Bank in 2023, the government-mandated closure and sale of Signature Bank in 2023, the placement of Prime Trust, LLC into receivership following a cease-and-desist order issued by the Nevada Department of Business and Industry in 2023, and the exit of Binance Holdings Ltd. from the U.S. market as part of its settlement with the Department of Justice and other federal regulatory agencies;
- regulatory, legislative, enforcement and judicial actions that adversely affect the price, ownership, transferability, trading volumes, legality or public perception of bitcoin, or that adversely affect the operations of or otherwise prevent digital asset custodians, trading venues, lending platforms or other digital assets industry participants from operating in a manner that allows them to continue to deliver services to the digital assets industry;
- further reductions in mining rewards of bitcoin due to block reward halving events, which are events that occur after a specific period of time (the most recent of which occurred on April 19, 2024) that reduce the block reward earned by “miners” who validate bitcoin transactions, increases in the costs associated with bitcoin mining, including increases in electricity costs and hardware and software used in mining, or new or enhanced regulation or taxation of bitcoin mining, which could further increase the costs associated with bitcoin mining, any of which may cause a decline in support for the Bitcoin network;
- transaction congestion and fees associated with processing transactions on the Bitcoin network;
- macroeconomic changes, such as changes in the level of interest rates and inflation, fiscal and monetary policies of governments, trade restrictions, and fiat currency devaluations;
- developments in mathematics or technology, including in digital computing, algebraic geometry and quantum computing, that could result in the cryptography used by the Bitcoin blockchain becoming insecure or ineffective; and
- changes in national and international economic and political conditions, including, without limitation, the adverse impact attributable to the economic and political instability caused by the current conflict between Russia and Ukraine and the economic sanctions adopted in response to the conflict, and the potential broadening of the Israel-Hamas conflict to other countries in the Middle East.

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

As a result of our bitcoin acquisition strategy and our Treasury Reserve Policy, the majority of our assets are concentrated in our bitcoin holdings. The concentration of our assets in bitcoin limits our ability to mitigate risk that could otherwise be achieved by purchasing a more diversified portfolio of treasury assets. Accordingly, a significant decline in the market value of bitcoin could have a material adverse effect on our financial condition. Any material adverse effect on our financial condition caused by a significant decline in the market value of our bitcoin holdings may create liquidity and credit risks for our business operations, as we would have limited means

to obtain cash beyond the revenues generated by our enterprise analytics software business. To the extent that the cash generated by our enterprise analytics software business is insufficient to satisfy our debt service obligations, and to the extent that the liquidation of our bitcoin holdings would be insufficient to satisfy our debt service obligations, we may be unable to make scheduled payments on our current or future indebtedness, which could cause us to default on our debt obligations. Any default on our current or future indebtedness may have a material adverse effect on our financial condition. See “Risks Related to Our Outstanding and Potential Future Indebtedness” for additional details about the risks which may impact us if we are unable to service our indebtedness.

Bitcoin and other digital assets are novel assets, and are subject to significant legal, commercial, regulatory and technical uncertainty

Bitcoin and other digital assets are relatively novel and are subject to significant uncertainty, which could adversely impact their price. The application of state and federal securities laws and other laws and regulations to digital assets is unclear in certain respects, and it is possible that regulators in the United States or foreign countries may interpret or apply existing laws and regulations in a manner that adversely affects the price of bitcoin.

The U.S. federal government, states, regulatory agencies, and foreign countries may also enact new laws and regulations, or pursue regulatory, legislative, enforcement or judicial actions, that could materially impact the price of bitcoin or the ability of individuals or institutions such as us to own or transfer bitcoin. For example:

- On March 9, 2022, President Biden signed an executive order relating to cryptocurrencies. While the executive order did not mandate the adoption of any specific regulations, it instructed various federal agencies to consider potential regulatory measures, including the evaluation of the creation of a U.S. central bank digital currency (“CBDC.”) A number of reports issued pursuant to the executive order have focused on various risks related to the digital asset ecosystem, and have recommended additional legislation and regulatory oversight. On September 16, 2022, the White House released a framework for digital asset development, based on reports from various government agencies, including the U.S. Department of Treasury, the Department of Justice, and the Department of Commerce. Among other things, the framework encourages regulators to pursue enforcement actions, issue guidance and rules to address current and emergent risks, support the development and use of innovative technologies by payment providers to increase access to instant payments, consider creating a federal framework to regulate nonbank payment providers, and evaluate whether to call upon Congress to amend the Bank Secrecy Act and laws against unlicensed money transmission to apply explicitly to digital asset service providers. There have also been several bills introduced in Congress that propose to establish additional regulation and oversight of the digital asset markets.

- On April 4, 2022, SEC Chair Gary Gensler announced that he has asked SEC staff to work (i) to register and regulate digital asset platforms like securities exchanges; (ii) with the Commodity Futures Trading Commission (“CFTC”) on how to jointly address digital asset platforms that trade both securities and non-securities; (iii) on segregating out digital asset platforms’ custody of customer assets, if appropriate; and (iv) on segregating out the market making functions of digital asset platforms, if appropriate. Similarly, foreign government authorities have recently expanded their efforts to restrict certain activities related to bitcoin and other digital assets.

- On September 8, 2022, the White House Office of Science and Technology Policy issued a report in coordination with other federal agencies relating to the climate and energy implications of digital assets, including bitcoin, in the United States. Among its findings are that digital assets are energy intensive and drive significant environmental impacts, and the report recommends further study of the environmental impact of digital assets and the development of environmental performance regulations for digital asset miners, which may include limiting or eliminating digital assets that use high energy intensity consensus mechanisms, including the proof-of-work consensus mechanisms on which the Bitcoin blockchain is based.

- On March 1, 2023, the U.S. Under Secretary for Domestic Finance provided an update on the development of a U.S. CBDC, indicating that the U.S. Department of Treasury would be providing an initial set of findings and recommendations regarding the development and adoption of a U.S. CBDC in the coming months.

- On April 14, 2023, the SEC reopened the comment period for its proposal to amend the definition of “exchange” under Exchange Act Rule 3b-16 to encompass trading and communication protocol systems for digital asset securities and trading systems that use distributed ledger or blockchain technology, including both so-called “centralized” and “decentralized” trading systems. The comment period is now closed. The SEC may determine whether to adopt the revised definition after an evaluation of comments provided during the comment period. If adopted in its proposed form, the new definition would have a sweeping impact on digital asset trading venues and other digital asset industry participants.

- The European Union’s Markets in Crypto Assets Regulation (“MiCA”), a comprehensive digital asset regulatory framework for the issuance and use of digital assets, like bitcoin, became effective in June 2023, with various requirements phasing into effect through 2024. MiCA also requires the European Commission (i) to provide a report on the environmental impact of crypto-assets and (ii) based upon such report, introduce mandatory minimum sustainability standards for consensus

mechanisms, including the proof-of-work consensus mechanisms on which the Bitcoin blockchain is based. The initial report was prepared in October 2023 and final standards are expected to be adopted in June 2024.

- On June 5, 2023, the SEC filed a complaint against Binance Holdings Ltd. and other affiliated entities in federal district court for the District of Columbia, alleging, among other claims related to the operation of the affiliates and their platforms, that: (i) the Binance entities commingled and diverted customer assets; (ii) various affiliates of Binance Holdings Ltd. operated as exchanges, brokers, dealers and clearing agencies without registration under the Exchange Act; (iii) Binance Holdings Ltd. engaged in the unregistered offer and sale of securities; (iv) affiliates of Binance Holdings Ltd. operated in a manner to evade U.S. federal securities laws, and (v) affiliates of Binance Holdings Ltd. misled customers and investors concerning the existence and adequacy of market surveillance and controls to detect and prevent manipulative trading.

- On June 6, 2023, the SEC filed a complaint against Coinbase, Inc. and other affiliated entities in federal district court in the Southern District of New York, alleging, among other claims: (i) that Coinbase, Inc. violated the Exchange Act by failing to register with the SEC as a national securities exchange, broker-dealer, and clearing agency, in connection with activities involving certain identified digital assets that the SEC's complaint alleges are securities, (ii) that Coinbase, Inc. violated the Securities Act of 1933, as amended (the "Securities Act") by failing to register with the SEC the offer and sale of securities in connection with its staking program, and (iii) that Coinbase Global Inc. is jointly and severally liable as a control person under the Exchange Act for Coinbase Inc.'s violations of the Exchange Act to the same extent as Coinbase Inc.

- In the United Kingdom, on June 29, 2023, the Financial Services and Markets Act 2023 ("FSMA 2023") became law. FSMA 2023 (i) clarifies that "cryptoassets" are subject to the regulated activities and financial promotion orders and (ii) establishes that digital assets firms, including exchanges and custodians, operating in or providing services to the United Kingdom carrying out certain activities involving "cryptoassets" are performing a regulated activity that needs to be authorized by the Financial Conduct Authority and may also be subject to oversight from the Bank of England. Several additional pieces of proposed legislation in the United Kingdom, including The Public Offers and Admissions to Trading Regulations 2023, may subject "cryptoassets" to further regulation. FSMA 2023 gave the UK Treasury powers to create financial market infrastructure sandboxes. The legislative framework for the UK's Digital Securities Sandbox will take effect in January 2024.

- On November 20, 2023, the SEC filed a complaint against Payward Inc. and Payward Ventures Inc., together known as Kraken, alleging, among other claims, that Kraken's crypto trading platform was operating as an unregistered securities exchange, broker, dealer, and clearing agency. The SEC's complaint also alleges that Kraken's business practices, deficient internal controls, and poor recordkeeping practices present a range of risks for its customers.

- On November 21, 2023, Binance Holdings Ltd. and its then chief executive officer reached a settlement with the U.S. Department of Justice, CFTC, the U.S. Department of Treasury's Office of Foreign Asset Control, and the Financial Crimes Enforcement Network to resolve a multi-year investigation by the agencies and a civil suit brought by the CFTC, pursuant to which Binance Holdings Ltd. agreed to, among other things, pay \$4.3 billion in penalties across the four agencies and to discontinue its operations in the U.S. Binance Holdings Ltd. also acknowledged that it willfully operated an unlicensed money transmitting business, pleaded guilty to criminal charges of not having adequate anti-money laundering protocols in place and committed violations of the International Emergency Economic Powers Act, and its then chief executive officer pleaded guilty to failing to maintain an effective anti-money laundering program and resigned as chief executive officer of Binance. This settlement does not include any settlement of the SEC's complaint against Binance referenced above.

- In China, the People's Bank of China and the National Development and Reform Commission have outlawed cryptocurrency mining and declared all cryptocurrency transactions illegal within the country.

It is not possible to predict whether, or when, any of these developments will lead to Congress granting additional authorities to the SEC or other regulators, or whether, or when, any other federal, state or foreign legislative bodies will take any similar actions. It is also not possible to predict the nature of any such additional authorities, how additional legislation or regulatory oversight might impact the ability of digital asset markets to function or the willingness of financial and other institutions to continue to provide services to the digital assets industry, nor how any new regulations or changes to existing regulations might impact the value of digital assets generally and bitcoin specifically. The consequences of increased regulation of digital assets and digital asset activities could adversely affect the market price of bitcoin and in turn adversely affect the market price of our class A common stock.

Moreover, the risks of engaging in a bitcoin acquisition strategy are relatively novel and have created, and could continue to create, complications due to the lack of experience that third parties have with companies engaging in such a strategy, such as increased costs of director and officer liability insurance or the potential inability to obtain such coverage on acceptable terms in the future.

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, accessing or gaining exposure to bitcoin, institutional demand for bitcoin as an investment asset, the participation of traditional financial institutions in the digital assets industry, 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 or limit banking services to businesses that hold bitcoin, provide bitcoin-related services or accept bitcoin as payment, which could also decrease the price of bitcoin. Recent actions by U.S. banking regulators have reduced the ability of bitcoin-related services provides to access to banking services, including (i) the issuance of the February 23, 2023 “Interagency Liquidity Risk Statement” by the Federal banking agencies cautioning banks on contagion risks posed by providing services to digital assets customers, (ii) the Federal Reserve Board’s denial of Custodia Bank’s application of a Federal Reserve account, and (iii) the inclusion of crypto-related divestiture conditions in recent merger transaction approvals. Additionally, in August 2023, the Federal Reserve established a Novel Activities Supervision Program to enhance the supervision of novel activities conducted by banking organizations supervised by the Federal Reserve. The program will focus on novel activities related to crypto-assets, distributed ledger technology, and complex, technology-driven partnerships with nonbanks to deliver financial services to customers. Liquidity of bitcoin may also be impacted to the extent that changes in applicable laws and regulatory requirements negatively impact the ability of exchanges and trading venues to provide services for bitcoin and other digital assets.

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

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

The price of bitcoin has historically been subject to dramatic price fluctuations and is highly volatile. As explained more fully in Note 2(g) to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2023, we determine the fair value of our bitcoin based on quoted (unadjusted) prices on the Coinbase exchange (our principal market for bitcoin). We perform an analysis each quarter to identify whether events or changes in circumstances, principally decreases in the quoted (unadjusted) prices on the active exchange, indicate that it is more likely than not that any of our bitcoin assets are impaired. In determining if an impairment has occurred, we consider the lowest price of one bitcoin quoted on the active exchange at any time since acquiring the specific bitcoin held. If the carrying value of a bitcoin exceeds that lowest price at any time during the quarter, an impairment loss is deemed to have occurred with respect to that bitcoin in the amount equal to the difference between its carrying value and such lowest price, and subsequent increases in the price of bitcoin will not affect the carrying value of our bitcoin. Gains (if any) are not recorded until realized upon sale, at which point they would be presented net of any impairment losses. In determining the gain to be recognized upon sale, we calculate the difference between the sale price and carrying value of the specific bitcoin sold immediately prior to sale.

As a result, any decrease in the fair value of bitcoin below our carrying value for such assets at any time since their acquisition requires us to incur an impairment charge, and such charge could be material to our financial results for the applicable reporting period, which may create significant volatility in our reported earnings and decrease the carrying value of our digital assets, which in turn could have a material adverse effect on the market price of our class A common stock. Conversely, any sale of bitcoins at prices above our carrying value for such assets creates a gain for financial reporting purposes even if we would otherwise incur an economic or tax loss with respect to such transaction, which also may result in significant volatility in our reported earnings.

In December 2023, the FASB issued ASU 2023-08, which upon our adoption will require us to measure our bitcoin holdings at fair value in our statement of financial position, and to recognize gains and losses from changes in the fair value of our bitcoin in net income each reporting period. ASU 2023-08 will also require us to provide certain interim and annual disclosures with respect to our bitcoin holdings. The standard is effective for our interim and annual periods beginning January 1, 2025, with a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the annual reporting period in which we adopt the guidance. Early adoption is permitted in any interim or annual period for which our financial statements have not been issued as of the beginning of the annual reporting period. Due in particular to the volatility in the price of bitcoin, we expect the adoption of ASU 2023-08 to increase the volatility of our financial results and significantly affect the carrying value of our bitcoin on our balance sheet. Additionally, as a result of ASU 2023-08 requiring a cumulative-effect adjustment to our opening balance of retained earnings as of the beginning of the annual period in which we adopt the guidance and not permitting retrospective restatement of prior period, our future results will not be comparable to results from periods prior to our adoption of the guidance.

As of March 31, 2024, we carried \$5.074 billion of digital assets on our balance sheet, consisting of approximately 214,278 bitcoins and reflecting \$2.461 billion in cumulative impairment losses attributable to bitcoin trading price fluctuations, and held \$81.3 million in cash and cash equivalents, compared to a carrying value of \$2.000 billion of digital assets, consisting of approximately 140,000 bitcoins, and \$94.3 million in cash and cash equivalents at March 31, 2023. Digital asset impairment losses of \$191.6 million incurred during the three months ended March 31, 2024 represented 66.3% of our operating expenses and contributed to our net loss of \$53.1 million for the three months ended March 31, 2024, compared to \$18.9 million in digital asset impairment losses incurred during the three months ended March 31, 2023 which represented 16.5% of our operating expenses and were included in our net income of \$461.2 million for the three months ended March 31, 2023.

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, and in particular with respect to the quarterly periods and full fiscal year with respect to which ASU 2023-08 will apply, and for all future periods, volatility in our earnings may be significantly more than what we experienced in prior periods.

The availability of spot bitcoin ETPs may adversely affect 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, until recently investors in the United States had limited means to gain direct exposure to bitcoin through traditional investment channels, and instead generally were only able to 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. These vehicles, which were previously offered only to “accredited investors” on a private placement basis, have in the past traded at substantial premiums to net asset value (“NAV”), possibly due to the relative scarcity of traditional investment vehicles providing investment exposure to bitcoin.

On January 10, 2024, the SEC approved the listing and trading of spot bitcoin ETPs, the shares of which can be sold in public offerings and are traded on U.S. national securities exchanges. The approved ETPs commenced trading directly to the public on January 11, 2024, with a trading volume of \$4.6 billion on the first trading day. On January 11, 2024, and in the subsequent days following the SEC’s approval of the listing and trading of spot bitcoin ETPs, the trading price of our shares of class A common stock declined significantly relative to the value of our bitcoin. To the extent investors view our class A common stock as providing exposure to bitcoin, it is possible that the value of our class A common stock may also have included a premium over the value of our bitcoin due to the prior scarcity of traditional investment vehicles providing investment exposure to bitcoin, and that the value declined due to investors now having a greater range of options to gain exposure to bitcoin and investors choosing to gain such exposure through ETPs rather than our class A common stock.

Although we are an operating company, and we believe we offer a different value proposition than a passive bitcoin investment vehicle such as a spot bitcoin ETP, investors may nevertheless view our class A common stock as an alternative to an investment in an ETP, and choose to purchase shares of a spot bitcoin ETP instead of our class A common stock. They may do so for a variety of reasons, including if they believe that ETPs offer a “pure play” exposure to bitcoin that is generally not subject to federal income tax at the entity level as we are, or the other risk factors applicable to an operating business, such as ours. Additionally, unlike spot bitcoin ETPs, we (i) do not seek for our shares of Class A common stock to track the value of the underlying bitcoin we hold before payment of expenses and liabilities, (ii) do not benefit from various exemptions and relief under the Securities Exchange Act of 1934, as amended, including Regulation M, and other securities laws, which enable spot bitcoin ETPs to continuously align the value of their shares to the price of the underlying bitcoin they hold through share creation and redemption, (iii) are a Delaware corporation rather than a statutory trust, and do not operate pursuant to a trust agreement that would require us to pursue one or more stated investment objectives, and (iv) are not required to provide daily transparency as to our bitcoin holdings or our daily NAV. Furthermore, recommendations by broker-dealers to buy, hold, or sell complex products and non-traditional ETPs, or an investment strategy involving such products, may be subject to additional or heightened scrutiny that would not be applicable to broker-dealers making recommendations with respect to our class A common stock. Based on how we are viewed in the market relative to ETPs, and other vehicles which offer economic exposure to bitcoin, such as bitcoin futures exchange-traded funds (“ETFs”) and leveraged bitcoin futures ETFs, and similar vehicles offered on international exchanges, any premium or discount in our class A common stock relative to the value of our bitcoin holdings may increase or decrease in different market conditions.

As a result of the foregoing factors, availability of spot bitcoin ETPs could have a material adverse effect on the market price of our class A common stock.

Our bitcoin acquisition strategy subjects us to enhanced regulatory oversight

As noted above, several spot bitcoin ETPs have received approval from the SEC to list their shares on a U.S. national securities exchange with continuous share creation and redemption at NAV. Even though we are not, and do not function in the manner of, a spot bitcoin

ETP, it is possible that we nevertheless could face regulatory scrutiny from the SEC or other federal or state agencies due to our bitcoin holdings.

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

As of April 26, 2024, approximately 38,679 bitcoins serve as part of the collateral securing our 2028 Secured Notes and we may consider issuing additional debt or other financial instruments that may be collateralized by our bitcoin holdings. We may also consider pursuing strategies to create income streams or otherwise generate funds using our bitcoin holdings. These types of bitcoin-related transactions are the subject of enhanced regulatory oversight. These and any other bitcoin-related transactions we may enter into, beyond simply acquiring and holding bitcoin, may subject us to additional regulatory compliance requirements and scrutiny, including under federal and state money services regulations, money transmitter licensing requirements and various commodity and securities laws and regulations.

Additional laws, guidance and policies may be issued by domestic and foreign regulators following the filing for Chapter 11 bankruptcy protection by FTX, one of the world's largest cryptocurrency exchanges, in November 2022. While the financial and regulatory fallout from FTX's collapse did not directly impact our business, financial condition or corporate assets, the FTX collapse may have increased regulatory focus on the digital assets industry. For example, the SEC has recently proposed a number of rules with implications for digital assets. Notably, on April 14, 2023, the SEC reopened the comment period for its proposal to significantly expand the definition of "exchange" under Exchange Act Rule 3b-16 to encompass trading and communication protocol systems for digital asset securities and trading systems that use distributed ledger or blockchain technology, including both so-called "centralized" and "decentralized" trading systems. If adopted in its proposed form, the proposed rule would have a sweeping impact on digital asset trading venues and other digital asset industry participants. U.S. and foreign regulators have also increased, and are highly likely to continue to increase, enforcement activity, and are likely to adopt new regulatory requirements in response to FTX's collapse. Increased enforcement activity and changes in the regulatory environment, including changing interpretations and the implementation of new or varying regulatory requirements by the government or any new legislation affecting bitcoin, as well as enforcement actions involving or impacting our trading venues, counterparties and custodians, may impose significant costs or significantly limit our ability to hold and transact in bitcoin.

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

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

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

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. The SEC also alleged as part of its June 5, 2023, complaint that Binance Holdings Ltd. committed strategic and targeted "wash trading" through its affiliates to artificially inflate the volume of certain digital assets traded on its exchange. Such reports and allegations may indicate that the bitcoin market is significantly smaller than expected and that the United States makes up a significantly larger percentage of the bitcoin market than is commonly understood. Any actual or perceived false trading in the bitcoin market, and any other fraudulent or manipulative acts and practices, could adversely affect the value of our bitcoin. Negative perception, a lack of stability in the broader bitcoin markets and the closure, temporary shutdown or operational disruption of bitcoin trading venues, lending institutions, institutional investors, institutional miners, custodians, or other major participants in the bitcoin ecosystem, due to fraud, business failure, cybersecurity events, government-mandated regulation, bankruptcy, or for any other reason, may result in a decline in confidence in bitcoin and the broader bitcoin ecosystem and greater

volatility in the price of bitcoin. For example, in 2022, each of Celsius Network, Voyager Digital, Three Arrows Capital, FTX, and BlockFi filed for bankruptcy, following which the market prices of bitcoin and other digital assets significantly declined. In addition, in June 2023, the SEC announced enforcement actions against Coinbase, Inc., and Binance Holdings Ltd., two providers of large trading venues for digital assets, which similarly was followed by a decrease in the market price of bitcoin and other digital assets. These were followed in November 2023, by an SEC enforcement action against Payward Inc. and Payward Ventures Inc., together known as Kraken, another large trading venue for digital assets. As the price of our class A common stock is affected by the value of our bitcoin holdings, the failure of a major participant in the bitcoin ecosystem 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 April 26, 2024, we held approximately 214,400 bitcoins that were acquired at an aggregate purchase price of \$7.543 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 achieve if we were to purchase a more diversified portfolio of treasury assets, and the absence of diversification enhances the risks inherent in our bitcoin acquisition strategy. The price of bitcoin experienced a significant decline in 2022, and this had, and any future significant declines in the price of bitcoin would have, a more pronounced impact on our financial condition than if we used our cash to purchase a more diverse portfolio of assets.

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

As a result of our bitcoin acquisition strategy, the majority of our assets are concentrated in our bitcoin holdings. Accordingly, the emergence or growth of digital assets other than bitcoin may have a material adverse effect on our financial condition. As of March 31, 2024, bitcoin was the largest digital asset by market capitalization. However, there are numerous alternative digital assets and many entities, including consortiums and financial institutions, are researching and investing resources into private or permissioned blockchain platforms or digital assets that do not use proof-of-work mining like the Bitcoin network. For example, in late 2022, the Ethereum network transitioned to a “proof-of-stake” mechanism for validating transactions that requires significantly less computing power than proof-of-work mining. The Ethereum network has completed another major upgrade since then and may undertake additional upgrades in the future. If the mechanisms for validating transactions in Ethereum and other alternative digital assets are perceived as superior to proof-of-work mining, those digital assets could gain market share relative to bitcoin.

Other alternative digital assets that compete with bitcoin in certain ways include “stablecoins,” which are designed to maintain a constant price because of, for instance, their issuers’ promise to hold high-quality liquid assets (such as U.S. dollar deposits and short-term U.S. treasury securities) equal to the total value of stablecoins in circulation. Stablecoins have grown rapidly as an alternative to bitcoin and other digital assets as a medium of exchange and store of value, particularly on digital asset trading platforms. As of March 31, 2024, two of the seven largest digital assets by market capitalization are U.S. dollar-pegged stablecoins.

Additionally, central banks in some countries have started to introduce digital forms of legal tender. For example, China’s CBDC project was made available to consumers in January 2022, and governments including the United States, the European Union, and Israel have been discussing the potential creation of new CBDCs. Whether or not they incorporate blockchain or similar technology, CBDCs, as legal tender in the issuing jurisdiction, could also compete with, or replace, bitcoin and other digital assets as a medium of exchange or store of value. As a result, the emergence or growth of these or other digital assets could cause the market price of bitcoin to decrease, which could have a material adverse effect on our business, prospects, financial condition, and operating results.

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

In September 2020, we adopted bitcoin as our primary treasury reserve asset. Historically, the bitcoin markets have been characterized by 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, compliance and internal control failures at exchanges, 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 favorable prices or at all. For example, a number of bitcoin trading venues temporarily halted deposits and withdrawals in 2022, although the Coinbase exchange (our principal market for bitcoin) has, to date, not done so. 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. Further, bitcoin we hold with our custodians and transact with our trade execution partners does not enjoy the same protections as are available to cash or securities deposited with or transacted by institutions subject to regulation by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. Additionally, we may be unable to enter into term loans or other capital raising transactions collateralized by our unencumbered bitcoin or otherwise generate funds using our bitcoin holdings, including in particular during times of market instability or when the price of bitcoin has declined significantly. If we are unable to sell our bitcoin, enter into additional capital raising transactions using bitcoin as collateral, or otherwise generate funds using our bitcoin holdings, or if

we are forced to sell our bitcoin at a significant loss, in order to meet our working capital requirements, our business and financial condition could be negatively impacted.

If we or our third-party service providers experience a security breach or cyberattack and unauthorized parties obtain access to our bitcoin, or if our private keys are lost or destroyed, or other similar circumstances or events occur, we may lose some or all of our bitcoin and our financial condition and results of operations could be materially adversely affected

Substantially all of the bitcoin we own is held in custody accounts at institutional-grade digital asset custodians. Security breaches and cyberattacks are of particular concern with respect to our bitcoin. Bitcoin and other blockchain-based cryptocurrencies and the entities that provide services to participants in the bitcoin ecosystem have been, and may in the future be, subject to security breaches, cyberattacks, or other malicious activities. For example, in October 2021 it was reported that hackers exploited a flaw in the account recovery process and stole from the accounts of at least 6,000 customers of the Coinbase exchange (our principal market for bitcoin), although the flaw was subsequently fixed and Coinbase reimbursed affected customers. Similarly, in November 2022, hackers exploited weaknesses in the security architecture of the FTX Trading digital asset exchange and reportedly stole over \$400 million in digital assets from customers. 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 the liability provisions of the custody agreements with the custodians who hold our bitcoin;
- harm to our reputation and brand;
- improper disclosure of data and violations of applicable data privacy and other laws; or
- significant regulatory scrutiny, investigations, fines, penalties, and other legal, regulatory, contractual and financial exposure.

Further, any actual or perceived data security breach or cybersecurity attack directed at other companies with digital assets or companies that operate digital asset networks, regardless of whether we are directly impacted, could lead to a general loss of confidence in the broader Bitcoin blockchain ecosystem or in the use of the Bitcoin network to conduct financial transactions, which could negatively impact us.

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

We face risks relating to the custody of our bitcoin, including the loss or destruction of private keys required to access our bitcoin and cyberattacks or other data loss relating to our bitcoin

We hold our bitcoin with regulated custodians that have duties to safeguard our private keys. Our custodial services contracts do not restrict our ability to reallocate our bitcoin among our custodians, and our bitcoin holdings may be concentrated with a single custodian from time to time. In light of the significant amount of bitcoin we hold, we continually seek to engage additional custodians to achieve a greater degree of diversification in the custody of our bitcoin as the extent of potential risk of loss is dependent, in part, on the degree of diversification. If there is a decrease in the availability of digital asset custodians that we believe can safely custody our bitcoin, for example, due to regulatory developments or enforcement actions that cause custodians to discontinue or limit their services in the United States, we may need to enter into agreements that are less favorable than our current agreements or take other measures to custody our bitcoin, and our ability to seek a greater degree of diversification in the use of custodial services would be materially adversely affected.

As of March 31, 2024, the insurance that covers losses of our bitcoin holdings covers only a small fraction of the value of the entirety of our bitcoin holdings, and there can be no guarantee that such insurance will be maintained as part of the custodial services we have or that such coverage will cover losses with respect to our bitcoin. Moreover, our use of custodians exposes us to the risk that the bitcoin our custodians hold on our behalf could be subject to insolvency proceedings and we could be treated as a general unsecured creditor of the custodian, inhibiting our ability to exercise ownership rights with respect to such bitcoin. Any loss associated with such insolvency proceedings is unlikely to be covered by any insurance coverage we maintain related to our bitcoin.

Bitcoin is controllable only by the possessor of both the unique public key and private key(s) 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 the private key(s) for a digital wallet are lost, destroyed, or otherwise compromised and no backup of the private key(s) is accessible, neither we nor our custodians will be able to access the bitcoin held in the related digital wallet. Furthermore, we cannot provide assurance that our digital wallets, nor the digital wallets of our custodians held on our behalf, will not be compromised as a result of a cyberattack. The bitcoin and blockchain ledger, as well as other digital assets and blockchain technologies, have been, and may in the future be, subject to security breaches, cyberattacks, or other malicious activities.

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, a contrary determination by the SEC 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 may also 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.

Our bitcoin acquisition strategy exposes us to risk of non-performance by counterparties

Our bitcoin acquisition strategy exposes us to the risk of non-performance by counterparties, whether contractual or otherwise. Risk of non-performance includes inability or refusal of a counterparty to perform because of a deterioration in the counterparty’s financial condition and liquidity or for any other reason. For example, our execution partners, custodians, or other counterparties might fail to perform in accordance with the terms of our agreements with them, which could result in a loss of bitcoin, a loss of the opportunity to generate funds, or other losses.

Our primary counterparty risk with respect to our bitcoin is custodian performance obligations under the various custody arrangements we have entered into. A series of recent high-profile bankruptcies, closures, liquidations, regulatory enforcement actions and other events relating to companies operating in the digital asset industry, including the filings for bankruptcy protection by Three Arrows Capital, Celsius Network, Voyager Digital, FTX Trading and Genesis Global Capital, the closure or liquidation of certain financial institutions that provided lending and other services to the digital assets industry, including Signature Bank and Silvergate Bank, SEC enforcement actions against Coinbase, Inc., Binance Holdings Ltd., and Kraken, the placement of Prime Trust, LLC into receivership following a cease-and-desist order issued by Nevada’s Department of Business and Industry, and the filing and subsequent settlement of a civil fraud lawsuit by the New York Attorney General against Genesis Global Capital, its parent company Digital Currency Group, Inc., and former partner Gemini Trust Company have highlighted the perceived and actual counterparty risk applicable to digital asset ownership and trading. Although these bankruptcies, closures and liquidations have not resulted in any loss or misappropriation of our bitcoin, nor have such events adversely impacted our access to our bitcoin, legal precedent created in these bankruptcy and other proceedings may increase the risk of future rulings adverse to our interests in the event one or more of our custodians becomes a debtor in a bankruptcy case or is the subject of other liquidation, insolvency or similar proceedings.

While all of our custodians are subject to regulatory regimes intended to protect customers in the event of a custodial bankruptcy, receivership or similar insolvency proceeding, no assurance can be provided that our custodially-held bitcoin will not become part of the custodian’s insolvency estate if one or more of our custodians enters bankruptcy, receivership or similar insolvency proceedings. Additionally, if we pursue any strategies to create income streams or otherwise generate funds using our bitcoin holdings, we would become subject to additional counterparty risks. Any significant non-performance by counterparties, including in particular the custodians with which we custody substantially all of our bitcoin, could have a material adverse effect on our business, prospects, financial condition, and operating results.

Risks Related to Our Enterprise Analytics Software Business Strategy

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

Our revenue is derived from sales of our analytics software platform and related services. Although demand for analytics software has continued to grow, the market for analytics offerings continues to evolve. Resistance from consumer and privacy groups to commercial collection, use, and sharing of personal data has grown in recent years and our customers, potential customers, or the general public may perceive that use of our analytics software could violate individual privacy rights. In addition, increasing government restrictions on the collection, use, and transfer of personal data could impair the further growth of the market for analytics software, especially in foreign markets. Because we depend on revenue from a single software platform and related services, our business could be harmed by a decline in demand for, or in the adoption or prices of, our platform and related services as a result of, among other factors, any change in our pricing or packaging model, increased competition, maturation in the markets for our platform, or other risks described in this Quarterly Report. In addition, the adoption of our bitcoin acquisition strategy and the increase in our indebtedness has caused and may in the future cause certain of our existing or prospective customers to form negative perceptions regarding our corporate risk profile or our financial viability as a commercial counterparty, and such negative perceptions could negatively impact sales of our analytics software platform and related services to current or prospective customers. Such risks can also be exacerbated if the price of bitcoin declines or due to adverse developments in the digital assets industry including, for example, the high-profile filings for bankruptcy protection by companies operating in that industry, such as the recent bankruptcy filings by Three Arrows Capital, Voyager Digital, BlockFi and FTX Trading, and the SEC enforcement actions against Coinbase, Inc., Binance Holdings Ltd., and Kraken. We also depend on our installed customer base for a substantial portion of our revenue. If our existing customers cancel or fail to renew their service contracts or fail to make additional purchases from us for any reason, including due to the risks inherent in our bitcoin acquisition strategy, our revenue could decrease and our operating results could be materially adversely affected.

As our customers increasingly shift from a product license model to a cloud subscription model, we could face higher future rates of attrition, and such a shift could continue to affect the timing of revenue recognition or reduce product licenses and product support revenues, which could materially adversely affect our operating results

We offer our analytics platform in the form of a product license or a cloud subscription. Given that it is relatively easy for customers to migrate on and off our cloud subscription platform, as we continue to shift our customers toward our cloud platform, we could face higher future rates of attrition among our customers. In addition, the payment streams and revenue recognition timing for our product licenses are different from those for our cloud subscriptions. For product licenses, customers typically pay us a lump sum soon after entering into a license agreement, and we typically recognize product licenses revenue when control of the license is transferred to the customer. For cloud subscriptions, customers typically make periodic payments over the subscription period and we recognize subscription services revenues ratably over the subscription period. As a result, as our customers increasingly 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. Additionally, our ability to accelerate our cloud strategy could be negatively impacted by any inability to provide necessary sales and sales engineering support, including the support of channel partners, our internal sales team, and digital marketing. Finally, if we are not able to successfully grow sales of our cloud subscription platform, we may not be able to achieve the scale necessary to achieve increased operating margins.

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 three months ended March 31, 2024, transactions by channel partners for which we recognized revenue accounted for 45.3% 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 \$222.4 million as of March 31, 2024. 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 \$115.7 million of other remaining performance obligations as of March 31, 2024, consisting of the portions of multi-year contracts that will be invoiced in the future that are not reflected on our balance sheet. As with deferred revenue and advance payments, these other remaining performance obligations at any particular date may not be representative of actual revenue for any succeeding period.

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

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

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

Larger, enterprise-level transactions often require considerably more resources, are often more complex to implement, and typically require additional management approval, which may result in a lengthier, more complex, and less predictable sales cycle and may increase the risk that an order is delayed or not brought to completion. We may also encounter greater competition and pricing pressure on these larger transactions, and our sales and delivery efforts may be more costly. The presence or absence of one or more large transactions in a particular period may have a material effect on our revenues and operating results for that period and may result in lower estimated revenues and earnings in future periods. For the three months ended March 31, 2024, our top three product licenses transactions with recognized revenue totaled \$3.0 million, or 23.4% of total product licenses revenues, compared to \$4.0 million, or 22.9% of total product licenses revenues, for the three months ended March 31, 2023.

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 and market conditions. For enterprise analytics, we compete with global ISVs, such as IBM, Microsoft, Oracle, Salesforce, and SAP. Our ability to compete successfully depends on a number of factors within and outside of our control. Some of these factors include software quality, performance and reliability; the quality of our service and support teams; marketing and prospecting effectiveness, the ability to incorporate artificial intelligence ("AI") and other technically advanced features; and our ability to differentiate our products. Failure to perform in these or other areas may reduce the demand for our offerings and materially adversely affect our revenue from both existing and prospective customers.

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

Increased competition may lead to price cuts, reduced gross margins, and loss of market share. The failure to compete successfully and meet the competitive pressures we face may have a material adverse effect on our business, operating results, and financial condition.

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

Integration of artificial intelligence into our enterprise analytics product offerings and our use of artificial intelligence in our operations could result in reputational or competitive harm, legal liability, and other adverse effects on our business

We have integrated, and plan to further integrate, AI capabilities into certain components of our enterprise analytics product offerings and we expect to use AI in our operations. Such integration and use of AI may become more important in our product offerings and operations over time. These AI-related initiatives, whether successful or not, could cause us to incur substantial costs and could result in delays in our software release cadence. Our competitors or other third parties may incorporate AI into their products or operations more quickly or more successfully than we do, which could impair our ability to compete effectively. Additionally, AI algorithms may be flawed and datasets underlying AI algorithms may be insufficient or contain biased information. If the AI tools integrated into our products or that we use in our operations produce analyses or recommendations that are or are alleged to be deficient, inaccurate, or biased, our reputation, business, financial condition, and results of operations may be adversely affected.

Other companies have experienced cybersecurity incidents that implicate confidential and proprietary company data and/or the personal data of end users of AI applications integrated into their software offerings or used in their operations. If we were to experience a cybersecurity incident, whether related to the integration of AI capabilities into our product offerings or our use of AI applications in our operations, our business and results of operations could be adversely affected. AI also presents various emerging legal, regulatory and ethical issues, and the incorporation of AI into our product offerings and our use of AI applications in our operations could require us to expend significant resources in developing, testing and maintaining our product offerings and may cause us to experience brand, reputational, or competitive harm, or incur legal liability. On October 30, 2023, the Biden administration issued an Executive Order to, among other things, establish extensive new standards for AI safety and security. Additionally, in March 2024, the European Commission passed the Artificial Intelligence Act. Other jurisdictions may decide to adopt similar or more restrictive legislation that may render the use of such technologies challenging. These restrictions may make it harder for us to conduct our business using AI, lead to regulatory fines or penalties, require us to change our product offerings or business practices, or prevent or limit our use of AI.

Risks Related to Our Technology and Intellectual Property

If we are unable to develop and release new software product offerings or enhancements to our existing offerings in a timely and cost-effective manner, our business, operating results, and financial condition could be materially adversely affected

The software market is characterized by frequent new offerings and 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 rapidly develop new and innovative product offerings and enhancements to our existing offerings that achieve market acceptance, maintain and improve our current offerings, support popular operating systems and databases, maintain technological competitiveness, and meet an expanding range of customer requirements.

Analytics applications, and applications that leverage the Bitcoin blockchain and Lightning Network, can be complex, and research and development for these types of applications can be costly and time consuming. In addition, customers may delay their purchasing decisions because they anticipate that new or enhanced versions of our offerings will soon become available or because of concerns regarding the complexity of migration or performance issues related to new offerings. We cannot be sure that we will succeed in developing, marketing, and delivering, on a timely and cost-effective basis, new or enhanced offerings that will achieve market acceptance. Moreover, even if our new offerings achieve market acceptance, we may experience a decline in revenues of our existing offerings that is not fully matched by the new offering's revenue. This could result in a temporary or permanent revenue shortfall and materially adversely affect our business, operating results, and financial condition.

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

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

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

The functionalities of our software depend in part on the ability of our software to interface with our customers' information technology ("IT") infrastructure and cloud environments, including software applications, network infrastructure, and end user devices, which are supplied to our customers by various other vendors. When new or updated versions of these third-party software or systems are introduced, or new industry standards in related fields emerge, we may be required to develop updated versions of or enhancements to

our software to help ensure that it continues to effectively interoperate with our customers' IT infrastructure and cloud environments. If new or modified operating systems are introduced or new web standards and technologies or new standards in the field of database access technology emerge that are incompatible with our software, development efforts to maintain the interoperability of our software with our customers' IT infrastructure and cloud environments could require substantial capital investment and employee resources. If we are unable to update our software in a timely manner, cost-effectively, or at all, the ability of our software to perform key functions could be impaired, which may impact our customers' satisfaction with our software, potentially result in breach of warranty or other claims, and materially adversely affect demand for our software.

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

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

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

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

Unauthorized third parties may try to copy or reverse engineer portions of our software or otherwise obtain and use our intellectual property. Copyrights, patents, trademarks, trade secrets, confidentiality procedures, and contractual commitments can only provide limited protection. Any intellectual property owned by us may be invalidated, circumvented, or challenged. Any of our pending or future intellectual property applications, whether or not currently being challenged, may not be issued with the scope we seek, if at all. Moreover, amendments to and developing jurisprudence regarding U.S. and international law may affect our ability to protect our intellectual property and defend against claims of infringement. In addition, although we generally enter into confidentiality agreements with our employees and contractors, the confidential nature of our intellectual property may not be maintained. Furthermore, the laws of some countries do not provide the same level of protection of our intellectual property as do the laws of the United States. If we cannot protect our intellectual property against unauthorized copying or use, we may not remain competitive.

We may be obligated to disclose our proprietary source code to our customers, which may limit our ability to protect our intellectual property and could reduce the renewals of our support services

Certain of our customer agreements contain provisions permitting the customer to become a party to, or a beneficiary of, a source code escrow agreement under which we place the proprietary source code for our applicable services and products in escrow with a third party. Under these escrow agreements, the source code to the applicable product may be released to the customer, typically for its use to maintain, modify, and enhance the product, upon the occurrence of specified events, such as our filing for bankruptcy, discontinuance of our support services, and/or ceasing our business operations generally.

Disclosing the content of our source code may limit the intellectual property protection we can obtain or maintain for that source code or the services and products containing that source code. It also could permit a customer to which a product's source code is disclosed to support and maintain that software product without being required to purchase our support services. Each of these could harm our business, results of operations, and financial condition.

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 frequency 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 become subject 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

Business disruptions, including interruptions, delays, or failures of our systems, third-party data center hosting facility, or other third-party services, as a result of geopolitical tensions, acts of terrorism, natural disasters, pandemics (like the COVID-19 pandemic), and similar events, 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, Argentina, 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, Google, and other cloud services. Any disruptions or failures of our systems or the third-party hosting facility or other services that we use, including as a result of a natural disaster, fire, cyberattack (including the potential increase in risk for such attacks due to cyberwarfare in connection with the ongoing Russia-Ukraine and Israel-Hamas conflicts), act of terrorism, geopolitical conflict (including due to the ongoing Russia-Ukraine and Israel-Hamas conflicts and any potential conflict involving China and Taiwan), pandemic (including the 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 our systems or 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 44.1% and 42.8% of our total revenues for the three months ended March 31, 2024 and 2023, 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 (including risks relating to the ongoing conflict between Russia and Ukraine, a potential broadening of the Israel-Hamas conflict to other countries in the Middle East, and any potential conflict involving China and Taiwan), terrorism, or pandemics (including the COVID-19 pandemic); and
- political instability and security risks in the countries where we are doing business, including, without limitation, political and economic instability caused by the current conflict between Russia and Ukraine and economic sanctions adopted in response to the conflict, and a potential broadening of the Israel-Hamas conflict to other countries in the Middle East.

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. The United States has put in place higher tariffs and other restrictions on trade with China, the European Union, Canada, and Mexico, among other countries, including limiting trade and/or imposing tariffs on imports from such countries. In addition, China, the European Union, Canada, and Mexico, among others, have either threatened or put into place retaliatory tariffs of their own. These tariffs and any further escalation of protectionist trade measures could adversely affect the markets in which we sell our offerings and, in turn, our business, financial condition, operating results, and cash flows. It is unclear whether and to what extent such measures will be reversed in the future or whether the Biden administration will make additional changes to U.S. trade policy that may result in further impacts on our business.

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

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

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

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

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

Procurement. Contracting with public sector customers is highly competitive and can be time-consuming and expensive, requiring us to incur significant up-front time and expense without any assurance that we will win a contract. Further, even if we win a contract, it may be placed on hold, or reversed, due to a post-award protest.

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 the customer's 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 our 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, treble damages, and suspensions or debarment from future government business and we may suffer harm to our reputation.

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

If we are unable to recruit or retain skilled personnel, or if we lose the services of Michael J. Saylor, our business, operating results, and financial condition could be materially adversely affected

Our future success depends on our continuing ability to attract, train, assimilate, and retain highly skilled personnel. There has historically been significant competition for qualified employees in the technology industry, and such competition may be further amplified by evolving restrictions on immigration, travel, or availability of visas for skilled technology workers. 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 and Executive Chairman. If we lose the services of Mr. Saylor, or if we are unable to attract, train, assimilate, and retain the highly skilled personnel we need, our business, operating results, and financial condition could be materially adversely affected.

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

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

In addition to potential enforcement by the United States Department of Health and Human Services for potential HIPAA violations, we are also potentially subject to privacy enforcement from the Federal Trade Commission ("FTC.") The FTC has been particularly focused on certain activities related to the processing of sensitive data, including the unpermitted processing of health and genetic data through its recent enforcement actions and is expanding the types of privacy violations that it interprets to be "unfair" under Section 5 of the FTC Act, as well as the types of activities it views to trigger the Health Breach Notification Rule (which the FTC also has the authority to enforce). The agency is also in the process of developing rules related to commercial surveillance and data security that may impact our business. We will need to account for the FTC's evolving rules and guidance for proper privacy and data security practices in order to mitigate our risk for a potential enforcement action, which may be costly. If we are subject to a potential FTC enforcement action, we may be subject to a settlement order that requires us to adhere to very specific privacy and data security practices, which may impact our business. We may also be required to pay fines as part of a settlement (depending on the nature of the alleged violations). If we violate any consent order that we reach with the FTC, we may be subject to additional fines and compliance requirements. We face risks of similar enforcement from State Attorneys General and, potentially, other regulatory agencies.

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. In July 2020, the Court of Justice of the European Union (“CJEU”) invalidated the U.S.-EU Privacy Shield, which 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 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 CJEU decision also drew into question the long-term viability of the SCCs for transfers of personal data from the EU and European Economic Area to the U.S. As a result, in October 2022, President Biden signed an executive order to implement the EU-U.S. Data Privacy Framework, which would serve as a replacement to the EU-U.S. Privacy Shield. The European Union initiated the process to adopt an adequacy decision for the EU-U.S. Data Privacy Framework in December 2022 and the European Commission adopted the adequacy decision on July 10, 2023. The adequacy decision will permit U.S. companies who self-certify to the EU-U.S. Data Privacy Framework to rely on it as a valid data transfer mechanism for data transfers from the EU to the U.S. and will also provide support for the use of standard contractual clauses. However, some privacy advocacy groups have already suggested that they will be challenging the EU-U.S. Data Privacy Framework. If these challenges are successful, they may not only impact the EU-U.S. Data Privacy Framework, but they may also further limit the viability of the standard contractual clauses and other data transfer mechanisms. The uncertainty around this issue has the potential to impact our business internationally. Because the rules involving this data transfer mechanism are also undergoing revision and this transfer mechanism may also be declared invalid (or require us to change our business practices) in the future, these developments may require us to provide an alternative means of data transfer. In addition, the required terms for contracts containing SCCs along with recommended supplemental provisions are changing and may require us to assume additional obligations, otherwise inhibit or restrict our ability to undertake certain activities, or incur additional costs related to data protection.

In addition, in June 2021, the European Data Protection Board (“EDPB”) issued a new set of SCCs and formal recommendations on measures to ensure compliance with the EU data protection requirements when transferring personal data outside of the European Economic Area (the “EDPB Recommendations”). The new SCCs were required to be in place for new transfers of personal data as of September 27, 2021 and to replace those being used for existing transfers of personal data by December 27, 2022. The new SCCs place obligations on us in relation to government authorities’ access requests in respect of personal data transferred under the SCCs, and other obligations to bring the SCCs in line with the requirements of the GDPR. The EDPB Recommendations are designed to be read in tandem with the new SCCs and set out new requirements for organizations to assess third countries and identify appropriate supplementary data protection and security measures to be implemented on a case-by-case basis where needed.

Moreover, due to Brexit, the SCCs issued by the European Commission are no longer automatically adopted in the United Kingdom post-Brexit. In response, the UK’s Information Commissioner’s Office (“ICO”) published a template Addendum to the new EU SCCs which adapts the new EU SCCs for UK use. In the alternative, the ICO also published the international data transfer agreement (“IDTA”). The IDTA replaces the current set of SCCs being used in the UK. The UK SCCs Addendum and IDTA, after having been put before UK parliament, have been in force as of March 2022 and UK-based organizations were required to start using the UK IDTA or Addendum for new data transfer arrangements starting in September 2022. The UK and the U.S. also agreed to a U.S.-UK “data bridge,” which went into effect on October 12, 2023. This functions similarly to the EU-U.S. Data Privacy Framework and provides an additional legal mechanism for companies to transfer data from the UK to the U.S.

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

Similar requirements are also coming into force in other countries. Brazil enacted the Lei Geral de Proteção de Dados (the “Brazilian General Data Protection Law”), which became effective in August 2020 and imposes requirements largely similar to GDPR on products and services offered to users in Brazil. In China, we may also be subject to the Cybersecurity Law that went into effect in June 2017 and the revision of the Personal Information Security Specification that went into effect in October 2020, which have broad but uncertain application and impose a number of new privacy and data security obligations. China also adopted new legislation on the protection of privacy and personal data in November 2021, including the Personal Information Protection Law (“PIPL and Data Security Law”) that impose new data processing obligations on us. Under these new regulations, if an entity operating in China violates the law, regulators

may order it to take corrective actions, issue warnings, confiscate illegal income, suspend services, revoke operating permits or business licenses, or issue a fine. The fine can be up to ¥50 million or 5 percent of an organization's annual revenue for the prior financial year.

Further, in connection with cross-border transfer of personal information under the PIPL in China, China regulators published the Draft Rules on Standard Contracts Regarding Export of Personal Information and, under the PIPL, the adoption of standard contractual clauses between the data controller (the entity which transfers personal information to a location outside the PRC) and the offshore recipient is required to lawfully facilitate the offshore transfer of personal information from China. These requirements apply to companies operating in China and seeking to transfer personal data outside of China and organizations which do not satisfy these conditions may be required to satisfy additional regulatory requirements and/or be subject to penalties or fines.

Other countries are considering new or expanded laws governing privacy and data security that may impact our business practices. These developments, including in Brazil and China, may impact our activities with our customers, other MicroStrategy entities and vendors, and require us to take additional and appropriate steps in light of data transfers between the U.S. and the EU (and the UK), as well as transfers and onward transfers of personal data from the EU to other non-EU countries.

State privacy laws in the United States also may impact our business operations. The state of California has adopted a comprehensive privacy law, the California Consumer Privacy Act ("CCPA"), which took effect in January 2020 and became enforceable in July 2020. We have been required to devote substantial resources to implement and maintain compliance with the CCPA, and noncompliance could result in regulatory investigations and fines or private litigation. Moreover, in November 2020, California voters approved a privacy law, the California Privacy Rights Act, which amends the CCPA to create additional privacy rights and obligations in California, and went into effect on January 1, 2023. Numerous other states have passed laws similar to the CCPA, which will go into effect in 2023 and beyond. More states may follow. These laws may impose additional costs and obligations on us. Similarly, in March 2022, the U.S. federal government also passed the Cyber Incident Reporting for Critical Infrastructure Act of 2022, which will require companies deemed to be part of U.S. critical infrastructure to report any substantial cybersecurity incidents or ransompayments to the federal government within 72 and 24 hours, respectively. The implementing regulations are not expected for another two-to-three years. The Securities and Exchange Commission also has issued new regulations related to cybersecurity that may require additional reporting and other compliance obligations, as well as creating additional risks related to public notifications concerning cyber incidents.

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 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 usernames or passwords, and employee, customer, or channel partner error or malfeasance. A security breach could result in unauthorized access to or disclosure, modification, misuse, loss, or destruction of our customers', prospects', vendors', or channel partners' data, our data (including our proprietary information, intellectual property, or trade secrets), our networks or other systems, or the cloud environments we manage. Third parties may also conduct attacks designed to prevent access to critical data or systems through ransomware or temporarily deny customers access to our cloud environments.

We, and our service providers, have experienced and may in the future experience 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 actions, 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. Our insurance policies may not be adequate to compensate us for the potential losses arising from any cybersecurity breach or incident. In addition, such insurance may not be available to us in the future on economically reasonable terms, or at all. Further, our insurance may not cover all claims made against us and could have high deductibles in any event, and defending a suit, regardless of its merit, could be costly and divert management attention.

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, as remote working conditions have led businesses to increasingly rely on virtual environments and communication systems, there has been an increase in cyberattacks and other malicious activities.

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

We have entered into an indemnification agreement with Michael J. Saylor, our Chairman of the Board of Directors and Executive Chairman, pursuant to which Mr. Saylor has agreed to personally indemnify our directors and officers with respect to certain claims and expenses excluded from the insurance coverage provided by our commercial director and officer insurance carriers, for which we agreed to pay Mr. Saylor an applicable annual fee. Our having entered into this indemnification agreement with Mr. Saylor could have adverse effects on our business, including making it more difficult to attract and retain qualified directors and officers due to the unconventional nature of the arrangement and potential concerns that the indemnification arrangement might not provide the same level of protection that might otherwise be provided by coverage obtained entirely through conventional director and officer insurance. In addition, our indemnification arrangement with Mr. Saylor may result in some investors perceiving that our independent directors are not sufficiently independent from Mr. Saylor due to their entitlement to personal indemnification from him, which may have an adverse effect on the market price of our class A common stock.

Volatile and significantly weakened global economic conditions have in the past and may in the future adversely affect our industry, business and results of operations

Our overall performance depends in part on worldwide economic and geopolitical conditions. The United States and other key international economies have experienced significant economic and market downturns in recent periods, which have been characterized by restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, inflation, bank failures, bankruptcies and overall uncertainty with respect to the economy. In addition, geopolitical and domestic political developments, such as existing and potential trade wars and other events beyond our control, including the conflicts in Ukraine and the Middle East, can increase levels of political and economic unpredictability globally and increase the volatility of global financial markets. Moreover, these conditions have affected and may continue to affect the rate of IT spending; could adversely affect our customers' ability or willingness to attend our events or to purchase our software and service offerings; have delayed and may delay customer purchasing decisions; have reduced and may in the future reduce the value and duration of customer subscription contracts; and we expect these conditions will adversely affect our customer attrition rates. All of these risks and conditions could materially adversely affect our future sales and operating results.

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 \$1,282.38 as of April 26, 2024. The market price of our class A common stock may fluctuate widely in response to various factors, some of which are beyond our control. These factors include, but are not limited to:

- fluctuations in the price of bitcoin, of which we have significant holdings, and in which we expect we will continue to make significant purchases and announcements about our transactions in bitcoin;
- changes to our bitcoin acquisition strategy;

- announcement of additional capital raising transactions;
- regulatory, commercial and technical developments related to bitcoin or the Bitcoin blockchain;
- quarterly variations in our results of operations or those of our competitors;
- announcements about our earnings that are not in line with analyst expectations, the likelihood of which may be enhanced because it is our policy not to give guidance relating to our anticipated financial performance in future periods;
- announcements by us or our competitors of acquisitions, dispositions, new offerings, significant contracts, commercial relationships, or capital commitments;
- our ability to develop, market, and deliver new and enhanced offerings on a timely basis;
- commencement of, or our involvement in, litigation;
- recommendations by securities analysts or changes in earnings estimates and our ability to meet those estimates;
- investor perception of our Company, including as compared to investment vehicles that are designed to track the price of bitcoin, such as spot bitcoin ETPs;
- 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 equity incentive plan; and
- general economic conditions and slow or negative growth of related markets, including as a result of war, terrorism, infectious diseases (such as COVID-19), natural disasters and other global events, and government responses to such events.

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 April 24, 2024, there are 1,964,025 shares of class B common stock outstanding, which accounts for approximately 55.5% of the total voting power of our outstanding common stock. As of April 24, 2024, Mr. Saylor, our Chairman of the Board of Directors and Executive Chairman, beneficially owned 1,961,668 shares of class B common stock, or 55.4% 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 and Executive Chairman. However, our Board of Directors has authorized our Chief Executive Officer to determine the compensation of executive officers other than himself and the Executive Chairman, except that equity-based compensation is determined by the Compensation Committee. Awards made to directors and officers subject to Section 16 of the Exchange Act under the 2023 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 Executive Chairman's and 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, since January 1, 2024, we have issued and sold (i) \$137.8 million of shares of class A common stock through at-the-market equity offering programs, (ii) \$800 million aggregate principal amount of 2030 Convertible Notes and (iii) \$603.75 million aggregate principal amount of 2031 Convertible Notes. We cannot predict:

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

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

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

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

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

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

Risks Related to Our Outstanding and Potential Future Indebtedness

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

As of March 31, 2024, we had \$3.614 billion aggregate indebtedness, consisting of \$650.0 million aggregate principal amount of 2025 Convertible Notes, \$1.05 billion aggregate principal amount of 2027 Convertible Notes, \$800.0 million aggregate principal amount of 2030 Convertible Notes, \$603.8 million aggregate principal amount of 2031 Convertible Notes, \$500.0 million aggregate principal amount of 2028 Secured Notes and \$10.2 million of other long-term indebtedness. We refer herein to the 2025 Convertible Notes, 2027 Convertible Notes, 2030 Convertible Notes, 2031 Convertible Notes and 2028 Secured Notes, collectively, as the "Outstanding 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.

Upon the occurrence of an event of default under any of MicroStrategy's 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 MicroStrategy's assets and the assets of our subsidiary guarantors, but excluding bitcoins that are currently owned by MacroStrategy, a wholly-owned subsidiary of MicroStrategy, or acquired by MacroStrategy in future periods in transactions permitted by the terms of the 2028 Secured Notes. 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 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 (as defined in the indenture for the 2028 Secured Notes). 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, the liquidation of our assets serving as collateral and/or potential insolvency proceedings. If we are forced to refinance these borrowings on less favorable terms or if we 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 (i) 91 days prior to the existing maturity date of the 2025 Convertible Notes (which is September 15, 2025), (ii) 91 days prior to the existing maturity date of the 2027 Convertible Notes (which is November 16, 2026), or (iii) the maturity date of any future convertible debt that we may issue that is then outstanding, unless on such dates we meet specified liquidity requirements or less than \$100,000,000 of aggregate principal amount of the 2025 Convertible Notes, the 2027 Convertible Notes, or such future convertible debt, as applicable, remains outstanding. If such springing maturity feature is triggered, we will be required to pay all amounts outstanding under the 2028 Secured Notes sooner than they would otherwise be due, we may not have sufficient funds available to pay such amounts at that time, and we may not be able to raise additional funds to pay such amounts on a timely basis, on terms we find acceptable, or at all.

We may not have the ability to raise the funds necessary to settle in cash conversions of the Convertible Notes or to repurchase the Outstanding Notes for cash upon a fundamental change or to repurchase the 2030 Convertible Notes or the 2031 Convertible Notes on September 15, 2028, and the 2028 Secured Notes contain, and any future debt may contain, limitations on our ability to engage in cash-settled conversions or repurchases of Outstanding Notes

In connection with any conversion of the Convertible Notes, unless we elect (or have previously irrevocably elected) to deliver solely shares of our class A common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Convertible Notes being converted. However, the 2028 Secured Notes contain, and any future debt may contain, limitations on our ability to pay cash upon conversion of the Convertible Notes, which may require us to elect to deliver solely shares of our class A common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share). Upon a change of control or a fundamental change as defined in the indentures governing the Outstanding 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. Moreover, the exercise by holders of the Outstanding Notes of their right to require us to repurchase such Outstanding 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. In order to

obtain sufficient funds to pay the purchase price of such notes, we expect that we would have to refinance the Outstanding Notes or obtain a waiver from the applicable holders of Outstanding Notes and we may not be able to refinance the Outstanding Notes on reasonable terms, if at all. Absent a waiver from the applicable holders of Outstanding Notes, our failure to offer to purchase all applicable Outstanding Notes or to purchase all validly tendered Outstanding Notes would be an event of default under the indentures governing the Outstanding Notes. In addition, holders of the 2030 Convertible Notes and the 2031 Convertible Notes have the right to require us to repurchase all or a portion of their notes on September 15, 2028 at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, if any.

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 the 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 Outstanding Notes and our other long-term indebtedness, 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 Outstanding Notes, and our other long-term indebtedness, 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 Outstanding Notes, and our other long-term indebtedness. Our wholly-owned subsidiary, MacroStrategy, which holds the bitcoin that we owned prior to the issuance of the 2028 Secured Notes, the bitcoin that MacroStrategy acquired using the proceeds from the 2025 Secured Term Loan, and the bitcoin that MacroStrategy acquired from the proceeds of the sale of our class A shares pursuant to the sales agreements with various sales agents, is not obligated to provide and may in the future be prohibited from providing any dividends, distributions, or other payments to us to fund our obligations and meet our cash needs under such indebtedness. MacroStrategy holds approximately 175,721 bitcoins that, as of March 31, 2024, had a carrying value of \$3.468 billion on our Consolidated Balance Sheet, representing 54.7% 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, which 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, Use of Proceeds, and Issuer Purchases of Equity Securities

During the three months ended March 31, 2024, certain holders of the 2025 Convertible Notes elected to convert \$37,000 in aggregate principal amount of the 2025 Convertible Notes and the Company elected combination settlement for \$10,000 of such notes and share settlement for \$27,000 of such notes. The settlement provisions of the 2025 Convertible Notes provided for the settlement of such notes to be effected during the three months ended June 30, 2024. No shares of class A common stock were issued in respect of such conversions during the three months ended March 31, 2024.

Item 5. Other Information

Rule 10b5-1 Information

None of our directors or officers adopted or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K) during the quarterly period covered by this report.

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	<u>Second Restated Certificate of Incorporation of the registrant (incorporated herein by reference to Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2003 (File No. 000-24435)).</u>
3.2	<u>Amended and Restated By-Laws of the registrant (incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed with the SEC on January 30, 2015 (File No. 000-24435)).</u>
4.1	<u>Form of Certificate of Class A Common Stock of the registrant (incorporated herein by reference to Exhibit 4.1 to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2003 (File No. 000-24435)).</u>
4.2	<u>Indenture, dated as of December 11, 2020, by and between the registrant and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on December 11, 2020 (File No. 000-24435)).</u>
4.3	<u>Form of 0.750% Convertible Senior Note due 2025 (included within Exhibit 4.2 incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on December 11, 2020 (File No. 000-24435)).</u>
4.4	<u>Indenture, dated as of February 19, 2021, by and between the registrant and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on February 19, 2021 (File No. 000-24435)).</u>
4.5	<u>Form of 0% Convertible Senior Note due 2027 (included within Exhibit 4.4 incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on February 19, 2021 (File No. 000-24435)).</u>
4.6	<u>Indenture, dated as of June 14, 2021, by and among the registrant, as issuer, MicroStrategy Services Corporation, as a guarantor, and U.S. Bank National Association, as trustee and notes collateral agent (incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on June 14, 2021 (File No. 000-24435)).</u>
4.7	<u>Form of 6.125% Senior Secured Note due 2028 (included within Exhibit 4.6 incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on June 14, 2021 (File No. 000-24435)).</u>
4.8	<u>Indenture, dated as of March 8, 2024, by and between the registrant and U.S. Bank Trust Company, 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 March 11, 2024 (File No. 000-24435)).</u>
4.9	<u>Form of 0.625% Convertible Senior Note due 2030 (included within Exhibit 4.8 incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on March 11, 2024 (File No. 000-24435)).</u>
4.10	<u>Indenture, dated as of March 18, 2024, by and between the registrant and U.S. Bank Trust Company, 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 March 19, 2024 (File No. 000-24435)).</u>
4.11	<u>Form of 0.875% Convertible Senior Note due 2031 (included within Exhibit 4.10 incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the SEC on March 19, 2024 (File No. 000-24435)).</u>
10.1†	<u>China Form of RSU Agreement.</u>
10.2†	<u>Summary of Perquisites and Associated Other Compensation Arrangements for Named Executive Officers.</u>
31.1	<u>Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Principal Executive Officer.</u>
31.2	<u>Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Principal Financial Officer.</u>
32.1	<u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
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 with Embedded Linkbases Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

† Management contracts and compensatory plans or arrangements.

SIGNATURES

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

MICROSTRATEGY INCORPORATED

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

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

Date: May 1, 2024

